MAGNAT
real estate opportunities

Turning Inefficiencies into Opportunities.

Annual Report
2007/2008

01 April 2007 - 31 März 2008

# CONTENT

## KEY PERFORMANCE INDICATORS (MARCH 31, 2008)

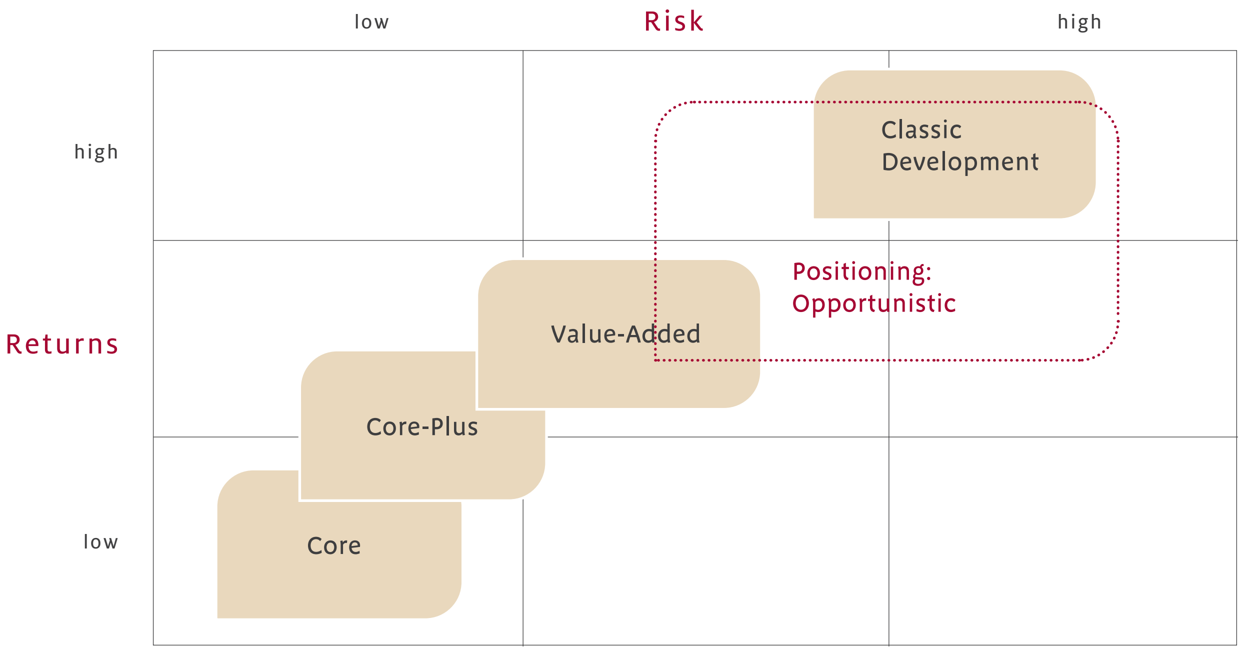
| | 2007/2008 | 2006/2007 |
|---|---|---|
| ***Corporate Figures in EUR '000*** | | |
| Rental income | 2,040.90 | 93.82 |
| Income from the sale of real estate companies | 17.66 | 344.03 |
| Income from investments reported „at equity" | 10,599.66 | -19.17 |
| EBIT | 7,123.96 | -314.63 |
| EBT | 8,088.12 | 352.46 |
| Consolidated income | 8,654.48 | 335.82 |
| Shareholders' equity | 104,208.74 | 45,449.98 |
| Balance sheet total | 141,035.23 | 49,994.07 |
| Equity ratio | 73.9 % | 90.9 % |
| Cashflow from ongoing business activities | -62,224 | -3,815 |
| Cashflow from investment activities | -52,382 | -9,597 |
| Cashflow from financing activities | 89, 271 | 43,574 |
| Cash and cash equivalents | 4,827 | 30,162 |
| ***Key stock market indicators*** | | |
| Number of shares | 52,900,000 | 32,200,000 |
| Share price at the end of financial year | 1.10 | 2.42 |
| Market capitalization | 58,190.00 | 77,924.00 |
| Profit per share | 0.17 | 0.01 |
| P/E ratio | 6.47 | 242 |
| NAV per share | 1.89 | 0.97 |
| Freefloat (shareholders < 5%) | 57.58 % | n.a. |

## OTHER INFORMATION

| | |
|---|---|
| Name | Magnat Real Estate Opportunities GmbH & Co. KGaA |
| ISIN | DE000A0J3CH0 |
| WKN | A0J3CH |
| Code | M5R (Bloomberg: M5R GR, Reuters: M5RG.DE) |
| Market segment | General Standard |
| Open Market | Berlin, Düsseldorf and Stuttgart |
| General Standard (regulated market) | Frankfurt Stock Exchange (Frankfurt und Xetra) |

## STRATEGY

- *The MAGNAT business model covers the complete value creation chain ranging from purchase via development to sale of projects and land for construction.*
- *MAGNAT focuses on real estate development projects as well as ad-hoc property trading and seizing special opportunities.*
- *Depending on opportunities arising, MAGNAT pursues a develop & sell and/or buy & sell strategy. The length of time assets are held by MAGNAT is based on maximising developer returns.*
- *MAGNAT's target regions are selected metropolitan areas in growth markets in the CEE/SEE/CIS region.*
- *This strategic focus is also known as 'Real Estate Opportunities' concept and underscores the opportunistic positioning in an above-average risk/return segment. Backed by an excellent network, MAGNAT is able to rapidly develop new promising markets.*




Segment characteristics

- Stable income
- High to medium qualitiy of real estate
- Low risk of vacancy

- Increased value, restructuring
- Repositioning
- Unsatisfactory property management to date

- New construction -/- development
- Repositioning
- Properties unprofitable to date
- Distressed

## Mission Statement

MAGNAT Real Estate Opportunities is a project developer listed in Germany on the Regulated Market, specializing in Eastern European real estate. In its activities, MAGNAT pursues a ''develop & sell'' or ''buy & sell'' strategy, depending upon the particular opportunity, and in 2007/2008 (31/03) generated EBIT of EUR 7.1 million.

MAGNAT's objective is the continuous expansion and ongoing exploitation of a stable, high-yield project portfolio.

Starting in fiscal year 2008/2009, MAGNAT will increase its focus on highly profitable population centres of Eastern and Southeastern Europe as well as in the Commonwealth of Independent States (CIS).

IPO

**APRIL 2006**
Founded

04
06

**JULY 2006**
Sadko Cottage
Village (Russia)

07
06

Entry Standard

**OCTOBER 2006**
Trading Center
Chmelnitzkij I.
(Ukraine)

10
06

**NOVEMBER 2006**
Nasze Katy
(Poland)

11
06

**DECEMBER 2006**
Alexander
Land
(Ukraine)

Mogosoaia
(Romania)

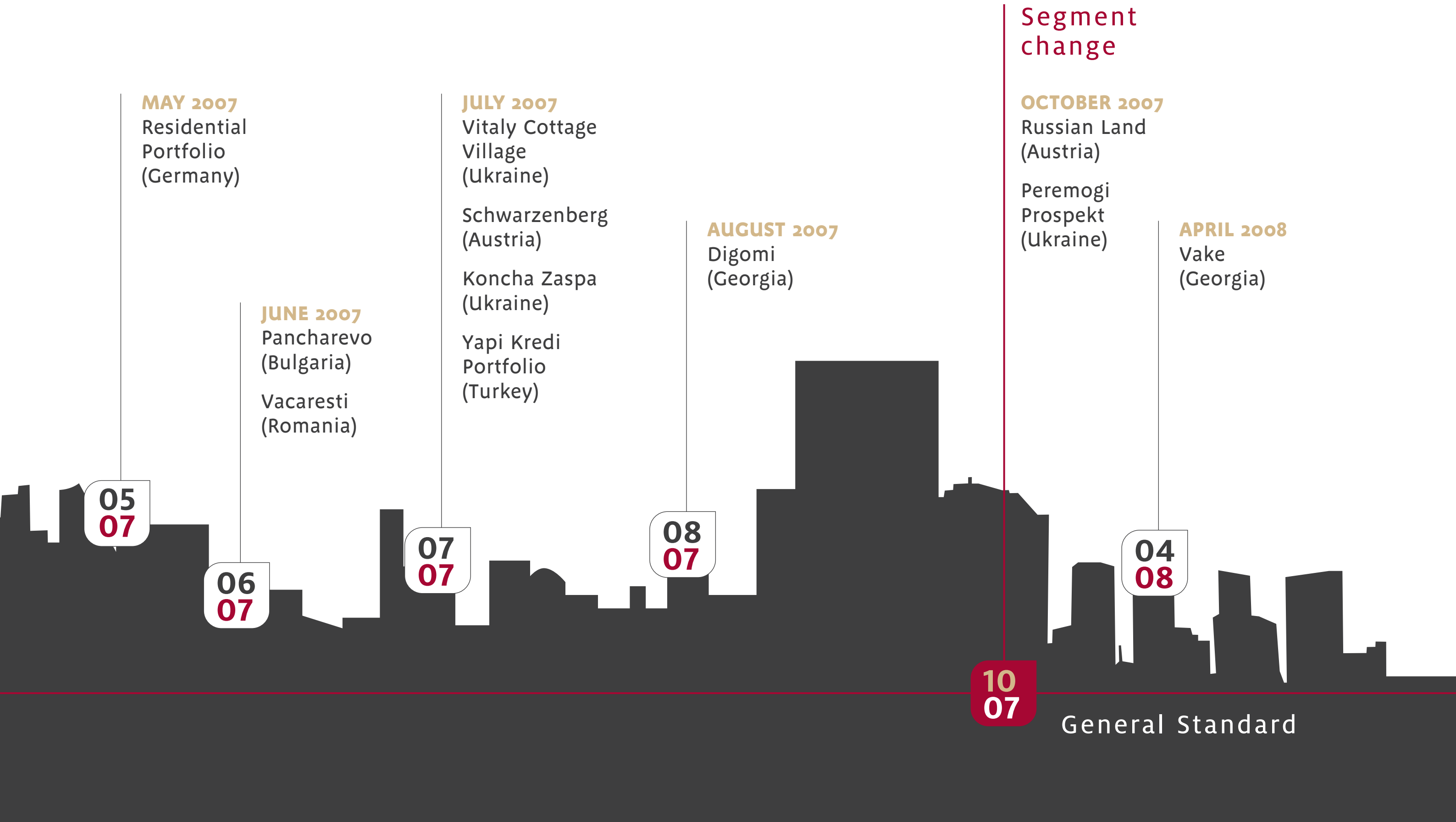
12
06

**JANUARY 2007**
Office
Portfolio
(Germany)

01
07

## HIGHLIGHTS

- *MAGNAT realises Group net income for the 2007/2008 fiscal year of EUR 8.65 million*
- *Consolidated equity as of 31/03/2008 was EUR 104.2 million, corresponding to an equity ratio of about 74%*
- *Consolidated balance sheet total as of 31/03/2008 is approximately EUR 141.0 million*
- *Increase in NAV to EUR 1.89/share – not including the reserves in the development portfolio, MAGNAT's core business*
- *Funds from capital injected in the 2007/2008 fiscal year and from the April 2007 capital increase were fully invested in high-yielding projects*
- *Liquidity assured as of the end of the fiscal year through liquid funds in the amount of EUR 4.8 million and available credits*
- *Regardless of the tense situation in the credit markets since mid-2007, provision of financing for all investments on attractive terms*
- *Maintaining comfortable liquidity – at the close of the fiscal year liquid assets of EUR 4.8 million and additional lines of credit were available*
- *Expansion of portfolio diversification with respect to regions, types of use and investment strategies*



## Foreword of the Executive Board

Dear shareholders,
Ladies and Gentlemen,

MAGNAT Real Estate Opportunities GmbH & Co. KGaA ("MAGNAT") is looking back on a satisfying financial year. Our operational performance is reflected in consolidated income of EUR 8.65 million. Our consolidated equity capital has more than doubled, to EUR 104.2 million, and the balance sheet total has almost tripled, to EUR 141 million.

All this gives us confidence and spurs us on to raise our operating performance still higher over the coming years.

We were successful in making attractive investments, above all in Eastern and Southeastern Europe as well as in the Commonwealth of Independent States. We have thus created a valuable base from which we can profit in the current and in future financial years.

### We will continue to sharpen our profile toward second- and third- wave growth markets

Another important strategic decision has been the already initiated sharpening of our profile: We are now focusing even more on growth markets in Central, Eastern and Southeastern Europe, as well as in the Commonwealth of Independent States. Through scheduled liquidation of previous investments, we shall reduce the German portion of our portfolio within the next two fiscal years. MAGNAT thus clearly stands for real estate development and obtaining attractive developer returns in the growth markets of Eastern and Southeastern Europe.

A central component of our strategy continues to be risk diversification through a balanced mix of assets: We are spread out geographically and invest in several countries. We invest in residential and commercial real estate and, in addition to our emphasis on real estate development (including land banking), we also invest in existing properties.

Unfortunately, MAGNAT's operating success contrasted with significant declines in the price of MAGNAT shares over this past financial year. That our stock since its I.P.O. has performed better than the EPRA Germany, an index of German real estate stocks, is of course no consolation in the face of the price declines. We shall therefore be communicating our successes and our strategy more clearly than ever to investors, analysts, specialists and the financial press. MAGNAT has excellent opportunities for generating high earnings in the growth markets of Eastern and Southeastern Europe as well as Commonwealth of Independent States (CIS). Management has committed its own money to MAGNAT shares and is convinced that MAGNAT – especially at the current price level – represents a very promising investment.

The value of our shares is made clear by their Net Asset Value (NAV), which is conservatively calculated at EUR 1.89 per share. That we have invested our money in an advantageous manner and that our projects overall have gained in value is evident in the NAV, which is why it, first and foremost, is an appropriate standard for valuing our shares. That our NAV is roughly 135 percent more than the price of our stock (EUR 0.80 according to the XETRA closing price on 31 July 2008) attests to the current massive undervaluation of MAGNAT stock.

An important milestone in the 2007/2008 financial year was MAGNAT stock's being switched to the regulated market. The listing in the General Standard took place on 31 October 2007. Our stock is hence traded in a recognized and regulated stock market segment that offers investors a high degree of transparency.
In the course of applying for the segment switch, we created a detailed prospectus that was approved by BaFin, the German regulatory agency, and provides information regarding all opportunities and risks.

Another important milestone for MAGNAT was the capital increase carried out in the early part of 2007, which prompted great demand amongst institutional investors. As a result of this capital measure, which was completed on 13 April 2007, there was an inflow of roughly EUR 45.5 million into our company. Our capitalization program is thus for the time being concluded. We now have a solid capital base of more than EUR 100 million and can invest more than EUR 200 million (taking into account project-related debt financing) in real estate and real estate projects.
That we are very well capitalized and have sufficient capital stands us in good stead in view of the effects of the Subprime crisis. Liquidity has tightened worldwide since the real estate crisis erupted in the U.S. in mid-July 2007. Because of our high equity ratio, our comfortable leeway in liquidity and our good market access, we we are still able to acquire new outside financing on attractive terms.

The markets on which we are active have in any case barely suffered any direct effects of the Subprime crisis. Anyway, prices for real estate meeting western standards in the growth markets of Eastern and Southeastern Europe on which we focus are continuing to rise. For example, Moscow, the thriving capital of Russia, is turning into a second London – with corresponding rates of increase in the price of real estate. And in the Ukrainian capital of Kiev as well, the prime segment is characterized by scarcity. The Turkish real estate market is likewise posting consistent growth rates and heightened demand for real estate that meets western standards. These data and facts clearly show that we are pursuing the right strategy with MAGNAT.

## Enormous investment program implemented

First, in the 2007/2008 financial year we successfully implemented our investment program. Second, we realized initial sales from the portfolios of investments made in the 2006/2007 financial year. We have made new investments in the "Development" business segment, above all in "second- and third-wave" growth markets, i.e. countries whose real estate markets are still offering high returns. For example, in the past financial year we invested in projects in the Ukrainian capital of Kiev. One of these investments is our Trophy Investment „Peremogi Prospekt 67". Our residential portfolio in Germany has grown and we were able to significantly reduce vacancies there and thus significantly increase values, which are not reflected in our annual statements because we do not include upward valuations.

Selling prices for new, single-family homes gradually increased in already existing development projects in Sadko near Moscow. Properties in the Ukrainian capital of Kiev and in the Romanian capital of Bucharest also rose in value.

In the "Mid-Term-Portfolio" business segment in the past financial year, together with our well-known project partners Adama Holding Public Ltd. and Immoeast AG, we acquired from the Turkish bank Yapi ve Kredit Bankasi A.S. a portfolio consisting of approximately 400 properties, from which we can now report our first profit-making sales. MAGNAT also holds an equity

*Jan Oliver Rüster*

*Jürgen Georg Faè*

interest in SQUADRA, founded in August 2007. SQUADRA, which focuses on the German real estate market, has acquired the “Blue Towers” property in Frankfurt am Main and thus for the medium term owns a property that generates above-average returns.

## Our exit strategies are oriented exclusively toward shareholder value

At this juncture, let us once again briefly describe our strategy: Unlike conventional real estate companies, MAGNAT profits primarily from attractive developer returns as well as from exploiting the potential for added value in special situations. The investment holding period we strive for is generally from two to three years. In order to maximize increases in value for our shareholders, we are very flexible in terms of the holding period because a longer holding period can be useful when additional growth in value is highly likely. For example when vacancy rates continue to drop and the properties thus increases. The crucial factor for us is that we are invested in promising projects in growth markets and are thus realizing increases in value over the medium term.

We are focusing on continued profitable and sustained growth in the current 2008/09 financial year. We will invest funds that are freed up by sales in promising projects in the growth markets of Eastern and Southeastern Europe as well as commonwealth of independent states (CIS). At the same time, we will focus in particular on second- and third-wave countries whose real estate markets are expected to greatly increase in value. Our desire is to continue to grow and to create value in highly attractive growth markets.

We thank the shareholders for the trust they have placed in our company, and look forward to our many successes together.

**Jan Oliver Rüster (CEO)** **Jürgen Georg Faè (CFO)**

## Report of the Supervisory Board

In the fiscal year 2007/2008, the Supervisory Board duly performed the tasks and duties to which it is obligated in accordance with law and the articles of association and monitored and advised the management of the Company carefully and on a regular basis. It received on an ongoing basis oral and written reports from the personally liable partner of the Company as well as from the limited partner with special obligations, R-QUADRAT Immobilien Beratungs GmbH, concerning the course of business, the results of operations and the financial condition as well as the risk management of MAGNAT Real Estate Opportunities GmbH & Co. KGaA. It examined all relevant transactions and discussed strategy and basic matters of business policy as well as important events in the Company in regular meetings with the management. Matters that under the law and the articles of association require the participation of the Supervisory Board were attended to by it.

In the reporting year, the Supervisory Board held six ordinary meetings, including the constitutive meeting following the election of the new Supervisory Board at the ordinary General Meeting of Shareholders of 30 August 2007. In addition, meetings were held by way of telephone conferences, and other decisions were made through the circular polling procedure. An investment committee was set up through November 2007 which came together for one meeting.

Outside of the meetings as well, consultation took place on a regular basis. Beyond the regularly occurring meetings, the chairman of the Supervisory Board was in frequent personal contact with the management of the general partner and informed himself concerning the current state of business and the significant transactions.

### Changes in the composition of the Supervisory Board

The ordinary General Meeting of Shareholders of 30 August 2007 appointed a new Supervisory Board, and following the recording with the commercial court of the amendments to the articles of association, the Supervisory Board was reduced to three members. The Supervisory Board expresses its appreciation to the members who left the board, Dr. Steindl, Dr. Mensching and Mr. Quirchmayr, for the successful work together. In the constitutive meeting of the new Supervisory Board on 12 November 2007, Dr. Schaffer was unanimously – with the abstention of Dr. Schaffer – elected as its new chairman. Dr. Strohdeicher was elected as vice chairman. In the new, smaller Supervisory Board, no investment committee was formed since by law each committee must have at least three members and in addition there would be a danger that specifically in these particularly important or complex matters, the professional knowledge of all members of the Supervisory Board would not be available.

### Topics of attention of the Supervisory Board

Items of the regular deliberation and counsel were, in particular, basic matters of strategy and of Company policy, the approval of investments in real estate properties and projects, the carrying out of the measures for a capital increase and above all the monitoring of existing investments and of the risk management system.

Material decisions of the Supervisory Board or the Investment Committee in the reporting period were as follows:

- *Election for the appointment of the chairman and the vice chairman of the Supervisory Board in the framework of the organisational meeting and the passing of a resolution concerning the bylaws of the Supervisory Board*

- *The passing of resolutions concerning real estate investments of the Company and sales and loans, pursuant to the provisions of § 14 para. 2 of the articles of association (approval limits).*

MAGNAT Real Estate Opportunities GmbH & Co. KGaA looks back on an eventful fiscal year. The reporting year was characterised by the last capital increase and the associated doubling of the equity capital of the Company, as well as by the segment shift into the regulated market in Frankfurt. The funds available to the Company at the beginning of the year, along with the funds from the capital increase, were successfully invested over the course of the reporting year in real estate projects. Significant progress was made on real estate projects that were purchased or begun in the year just ended or in the preceding year. Externally, MAGNAT and MAGNAT shares were challenged by the Subprime crisis and the resulting tightening of liquidity.

For the Supervisory Board and the management of the general partner, the principles of corporate governance form a conceptual framework for responsible corporate management oriented toward success for the enterprise. The Corporate Governance Report for the 2007/2008 fiscal year is included as a part of this financial report. The declaration of compliance was at the same time made permanently available to the shareholders on the company's Internet site.

The management of the personally liable partner of the company informed the Supervisory Board that no Dependence Report needed to be prepared for the fiscal year 2007/2008.

## Corporate and Consolidated Financial Statements as of 31/03/2008

The financial statements of MAGNAT Real Estate Opportunities GmbH & Co. KGaA and the Management Report were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch or HGB). The consolidated financial statements and consolidated management report were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) as they are to be applied in the EU and with the supplementing provisions under commercial law in accordance with HGB § 315a para. 1.

Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, Eschborn office, was elected by the General Meeting of Shareholders as the auditor and was engaged by the Supervisory Board. The auditor examined the financial statements and the management report of MAGNAT Real Estate Opportunities GmbH & Co. KGaA and the consolidated financial statements and consolidated management report and gave them unqualified audit opinions.

The financial statements, consolidated financial statements, management report and consolidated management report as well as the recommendation of the management for the use of net income were presented to the Supervisory Board along with the audit reports of the auditor in a timely manner. The Supervisory Board carefully examined the financial statements and consolidated financial statements and the corresponding management reports and took note of the auditor's results with approval. The financial statements, consolidated financial statements, the management report and the consolidated management report were discussed in particular at the financial statements review meeting on 31 July 2008. The auditors also participated in this meeting and reported on the audit. After the final results of its own examination, the Supervisory Board has no objections to raise and consequently approves the financial statements and management report prepared by the management as well as the consolidated financial statements and consolidated management report. The Supervisory Board therefore recommends that the financial statements be presented to the shareholders' meeting for adoption.

## Changes in the management of the general partner

In its meeting on 15 February 2008, the Supervisory Board was informed of the separation of Mr. Waldner for personal reasons and thus of a change in the management of the managing partner MAGNAT Management GmbH. The Supervisory Board took note of this with great regret and expressed its appreciation for his outstanding, faithful and successful service. With Mr. Faè as the new CFO of the Company, it was possible for an experienced and highly qualified successor to be found and thus for continuity and a smooth, effective transition in the management to be ensured.

The Supervisory Board expresses its appreciation to the management and the employees of the personally liable partner as well as to R-QUADRAT Immobilien Beratungs GmbH, the limited partner with special duties, for their work and their commitment as well as for the constructive and successful work in the fiscal year 2007/2008.

Frankfurt am Main, 31 July 2008

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

# Corporate Governance

For MAGNAT Real Estate Opportunities GmbH & Co. KGaA, the principles of corporate governance form a conceptual framework for responsible corporate management oriented toward success for the enterprise. We place a high value on transparency, both in corporate management and in communications. Therefore we communicate on a regular, current basis on the situation of our Company as well as concerning significant business developments.

We provide information essentially through our quarterly and annual reports, press releases and meetings with financial analysts in Germany and abroad. With our financial calendar, we provide information in advance concerning the dates of our regular reporting. In addition to our periodic reporting, we use ad hoc reports to publish circumstances, which can significantly influence the stock exchange price of our Company. Our new homepage, which will be under the clear mandate for transparency and provision of a wide variety of meaningful information, attests to the fact that, for MAGNAT, corporate governance is not just a matter of theory.

## Joint report of the Management and the Supervisory Board in accordance with No. 3.10 of the German Code of Corporate Governance

In order to achieve the greatest possible transparency, comprehensibility and comparability with corresponding circumstances of other enterprises, MAGNAT Real Estate Opportunities GmbH & Co. KGaA, following an intensive investigation, has decided to utilise the German Code of Corporate Governance (in the version of 14 June 2007) as adapted to a limited partnership with shares (Kommanditgesellschaft auf Aktien or KGaA) and thus to waive having a code of its own, which would also be permissible. Under the framework of MAGNAT's corporate governance, the code commission's behaviour recommendations for management and supervision, apart from a few exceptions, have been complied with in the past and will continue to be complied with in the future.

For improved comprehensibility, we will explain below the KGaA form of company in general and then the specific situation of MAGNAT.

**The entity "Kommanditgesellschaft auf Aktien"**
"A Kommanditgesellschaft auf Aktien (KGaA) is a partnership with its own legal personality in which at least one partner is liable without limitation to the creditors of the partnership (general partner) and the remaining partners participate in the original capital, which is split into shares, without being personally liable for the liabilities of the partnership (limited-liability shareholders)" (§ 278 para. 1 of the German Stock Corporation Act (AktG)).

Thus the KGaA is a hybrid form with elements of the stock corporation and of the limited partnership. On the one hand it is a legal entity with original capital (Grundkapital) split into shares which represents the interest of the limited shareholders; on the other hand it also has a personally liable partner for which the provisions concerning a limited partnership (Kommanditgesellschaft) are for the most part applicable (§ 278 para. 2 of the German Stock Corporation Act). The KGaA as a legal entity can act only through its executive bodies. Like the stock corporation (AG), it has a supervisory board (§ 287 AktG) and a shareholders' meeting (§ 285 AktG), but it does not have a management board. The functions of a management board are exercised by the personally liable partners. The personally liable partners under § 283 AktG have a position that corresponds to that of the management board of an AG. The corresponding regulations under corporate law are applicable mutatis mutandis. The personally liable partner therefore is entitled to manage and represent the KGaA. The supervisory board of the KGaA has a double function. On the one hand it is a monitoring body and monitors the management of the company. On the other hand, however, it is also a representative body that carries out the resolutions of the limited shareholders (§ 287 para. 1 AktG) and represents them in the event of legal disputes with the personally liable partner (§ 287 para. 2 AktG). Only the limited shareholders are represented in the shareholders' meeting (§ 285 para. 1 AktG). The personally liable partners thus have the right to vote only if and to the extent they are at the same time limited shareholders. All important resolutions of the shareholders' meeting, however, require the approval of the personally liable partners (§ 285 para. 2 AktG).

The general partners have a stronger position than does the management board of an AG: their approval is fundamentally required in all extraordinary management measures and transactions. In comparison with the shareholders of an AG, the limited shareholders do not have indirect personnel competence for management since the supervisory board can neither appoint nor dismiss the general partners. In comparison with an AG, the supervisory board lacks still other powers: the control body in the KGaA is not entitled to participate in management; § 111 para. 4 sentence 2 AktG is not applicable (privilege of the KGaA with respect to codetermination law).

Some of the behaviour recommendations of the Codex, which is tailored to stock corporations, therefore are in general applicable to a KGaA only mutatis mutandis.

**MAGNAT Real Estate Opportunities GmbH & Co. KGaA**
The Company is a KGaA, the general partner of which under German law exercises the functions of management and representation. The personally liable partner (general partner) of the Company is MAGNAT Management GmbH, Frankfurt. The transactions of the Company are carried out by MAGNAT Management GmbH, which can be dismissed only by a resolution of the Supervisory Board and only for cause and with the approval of the General Meeting of Shareholders with a majority of 75 percent of the original capital. MAGNAT Management GmbH in this connection assumes – with authoritative consultative support of the limited partner with special rights and duties, R-QUADRAT Immobilien Beratungs GmbH – the management of the portfolio as well as the execution of the current transactions of MAGNAT. As holder of registered limited shares subject to transfer restrictions, R-QUADRAT Immobilien Beratungs GmbH, Vienna, is responsible for the special shareholder duty of comprehensive advisement and support of the general partner of the Company in exercising its tasks in connection with the acquisition, development, ongoing management and leasing, and disposition of direct and indirect real estate investments. R-QUADRAT Immobilien GmbH, Vienna, holds a 100 percent interest in the capital stock of the general partner (MAGNAT Management GmbH) and a 100 percent interest in the capital stock of the limited partner with special obligations (R-QUADRAT Immobilien Beratungs GmbH).

**Declaration of compliance in accordance with § 161 AktG**
The management of the personally liable partner (MAGNAT Management GmbH) and the Supervisory Board of MAGNAT Real Estate Opportunities GmbH & Co. KGaA (also referred to below as the "Company") hereby declare that the recommendations of the "Regierungskommission Deutscher Corporate Governance Kodex" (Governmental Commission for the German Code of Corporate Governance) in the version of 14 June 2007, published by the Federal Ministry of Justice in the official portion of the electronic Federal Gazette, were complied with in the fiscal year 2007/2008 (since the change to the General Standard on 30 October 2007) and will be complied with in the future, other than the following deviations, some of which are due to the legal peculiarities of a KGaA and its configuration in the articles of association, and state in what follows which recommendations are not or were not applied.

› ***Section 1***
*The preamble was complied with mutatis mutandis.*

› ***Section 2***
*The recommendations were complied with mutatis mutandis.*

› ***Section 3***
*The majority of the recommendations were complied with mutatis mutandis. A deductible in the D&O insurance in accordance with No. 3.8 is not provided.*

› ***Section 4***
*Due to its legal form as a KGaA, the management of which is provided by a general partner company, the recommendations of Section 4 cannot be complied with verbatim. The sense of the recommendations, however, is complied with except for No. 4.2.3 (compensation arrangement of management provides only a fixed component; the compensation of the managing general partner company is governed by § 8 para. 2 of the articles of association of the Company) and No. 4.3.1 and 4.3.5 (for the compensation report, see Management Report).*

› ***Section 5***
*As in the case of Section 4, the recommendations of Section 5 can only be complied with mutatis mutandis, with the exception of No. 5.3 (the Supervisory Board of the Company is composed of 3 members; if a still smaller committee was formed from this body, there would be a danger that specifically for especially important or complex matters, the expert knowledge of all of the members of the Supervisory Board would not be available; therefore the handling of matters in the*

*Supervisory Board as a whole appears to be preferable), No. 5.4.6 (the currently appointed members of the Supervisory Board are appointed for the same period) and No. 5.4.7 (the members of the Supervisory Board do not receive any results-based compensation).*

› ***Section 6***
*The recommendations of Section 6 are complied with mutatis mutandis.*

› ***Section 7***
*The recommendations of Section 7 are complied with mutatis mutandis with the exception of No. 7.1.2 (the Company until further notice will follow the statutory publication deadlines, but through an ongoing improvement of processes and reporting will strive in the future to orient itself to the shorter deadlines of the Code of Corporate Governance).*

This declaration is made available to the shareholders through its inclusion in the 2007/2008 Annual Report as well as through direct reproduction on the new homepage  HYPERLINK „http://www.magnat-reop.com“ www.magnat-reop.com.

Frankfurt am Main, 31 July 2008
MAGNAT Real Estate Opportunities GmbH & Co. KGaA

For the Supervisory Board
**Prof. Dr. Werner Schaffer**

For the Management
**Jan Oliver Rüster** **Jürgen Georg Faè**

## Strategy and added value

MAGNAT Real Estate Opportunities GmbH & Co. KGaA (hereinafter "MAGNAT") is Germany's first listed real estate company that focuses on real estate development in Eastern Europe. Its investment strategy is augmented by special situations in its home market, Germany. In contrast to classic investment strategies, MAGNAT's business model is based primarily on the principle of generating returns through the developer returns ("develop & sell") concept and generating gains by exploiting the potential for added value in special situations ("buy & sell"). The desired holding period for individual investments is between two and three years.

MAGNAT concentrates on real estate markets that have attractive development cycles: undervalued markets ("countercyclical investing") and markets with high economic growth. In Central, Eastern and Southeastern Europe – this target region is also referred to in what follows as the CEE/SEE/CIS region – MAGNAT invests above all in "second-wave" countries. The main markets are Ukraine, Russia and Turkey; additional investments during the reporting period were in Poland, Romania, Bulgaria and Georgia. This development portfolio in the CEE/SEE/CIS region is augmented by a residential portfolio and a commercial portfolio in Germany generating ongoing rental income, as well as by investments in Austria.

With this strategic orientation, MAGNAT is positioned in a segment that offers an above-average risk/return profile. The central element of its investment policy is risk diversification through a balanced mix of assets, indeed in several respects:

- ***Geographical mix*** *through investments in the CEE/SEE/CIS region, augmented by special situations in Germany*
- ***Functional mix*** *through residential and commercial real estate*
- ***Yield mix*** *through real estate development (opportunity for high developer returns in the CEE/SEE/CIS region) and existing properties held in the trading portfolio (special situations in Germany with above-average rental returns and also potential appreciation)*

This deliberately broad strategic orientation requires the targeted outsourcing of all essential real estate activities, with a corresponding effect on the construction and work sequence. As asset manager, R-QUADRAT Immobilien Beratungs GmbH, Vienna ("R-QUADRAT"), as part of its special duties under its bylaws, provides services to MAGNAT largely spanning the entire value-creation chain of real estate activities. This outsourcing is especially important for activities in the CEE/SEE/CIS region because it would not be possible for MAGNAT to build up its own resources for developing these markets with sufficient speed and quality and at reasonable cost.

## "Develop & sell" and "buy & sell" instead of "buy & hold"

In its real estate development projects but also in its property dealings, the company seeks to resell the properties after a brief to moderate holding period ("develop & sell" and "buy & sell"). Profitable sales within the short to medium term following the acquisition and possibly development of the individual investments are intended to realize the potential for earnings and appreciation.

Empirically speaking, with real estate development the time period between initial investment (purchase of the property or entry into a development project) and sale is approximately two to three years. This is only meant as a rough guideline since time periods greatly depend on the individual case. It is not impossible that individual investments, especially in the area of real estate development, will have a longer holding period (e.g. because of the size of the project or because of project delays).

## Geographical bias toward markets in attractive development cycles

In contrast to "classic" real estate investment strategies, the company deliberately invests in "second-wave" countries because the company believes above-average returns can be generated in these markets and market segments. Examples of this approach include investing in undervalued markets or markets with attractive development cycles ("countercyclical investing") and investing in regions with high economic growth or pent-up demand.

In implementing this approach, since it was founded the company has invested in real estate development projects in Poland, Ukraine, Russia, Romania and Bulgaria. In terms of land and real estate trading, the company has invested in projects in Romania, Ukraine, Turkey and Germany.

In the future the company intends to become even more active in the CEE/SEE/CIS region. Accordingly, the Germany portion of the portfolio will be reduced over the short to medium term by the scheduled liquidation of existing investments. The company regularly reviews and, if necessary, adjusts this investment strategy.

## Taking advantage of special situations

The company tries to find attractive investment properties in the markets identified by it as especially attractive geographically by taking advantage of special situations. For example, these situations might involve non-performing or problem properties that could be resold after restructuring, development, subdividing, re-zoning or other value-enhancing measures. The company also invests in existing development projects for which the initiator of the project – for various reasons – is looking for a partner or puts the projects up for sale.

› **Project** Nasze Katy (Poland)

## Growth market Eastern Europe

In the last few years, the countries of Eastern and Southeastern Europe, i.e. the CEE (Central and Eastern Europe), SEE (South Eastern Europe) and CIS (Commonwealth of Independent States) markets have risen from emerging markets to dynamic growth markets. Bolstered by the European Union's opening to the East, low labor costs, a highly educated population and also, above all, the clear, free-market policies of the governments of the region, the former communist states, in particular, have set in motion a sustained process of convergence. In addition, the economic development of Russia, a country with large stores of raw materials, is further benefited, most of all, from the steeply rising price of oil and the increase in the prices of raw materials. Turkey benefits from a young population, its move closer to the West and to the European Union, and a free-market policy combined with increased stability.

### On the "second" and "third" wave

The so-called "second-wave" and "third-wave" countries, i.e. countries that do not already belong to the EU and which have not yet completed the convergence process with regard to the EU, have the highest growth potential. These second- and third-wave countries are a particular focus of MAGNAT's.

The numbers speak for themselves: In the last few years, the growth rates of the countries of Eastern and Southeastern Europe have been significantly above the growth rates of the Euro Area and Western Europe, as well as markedly above the growth of the global economy as a whole. For example, according to the IMF (International Monetary Fund), the gross domestic product (GDP) in the CEE countries rose at an above-average rate in the 2006 and 2007 (6.6 percent and 6.7 percent, respectively). Turkey also posted high growth rates (5.9 percent and 4.7 percent, respectively). Russia's GDP even rose 7.4 percent in 2006 and 8.1 percent in 2007.

According to the IMF, the Commonwealth of Independent States that emerged from the former Soviet Union, including Russia, reported GDP growth of 8.2 percent for 2006 and 8.5 percent for 2007. Without Russia, real growth rates at times even reached double-digit territory, at 10.1 percent and 9.6 percent. The CIS, the Commonwealth of Independent States, consists of 11 countries: Armenia, Azerbaidjan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine and Uzbekistan; Turkmenistan since 26 August 2005 has been only an associate member.

In the last few years, growth in Eastern and Southeastern Europe has been significantly higher than growth in the industrialized nations of the West. For example, the euro area only managed to come up with growth rates of 2.8 percent and 2.6 percent for 2006 and 2007, respectively. In addition, in the last few years the global economy too grew at a significantly slower pace than the countries of eastern Europe, namely at only 5 percent in 2006 and 4.9 percent in 2007.

### Forecast: Above-average growth rates

The outlook for Eastern Europe remains favorable for the coming years as well. Almost all economists continue to forecast above-average growth rates in Eastern Europe. For example, the International Monetary Fund expects GDP growth in the CEE region and the CIS of 4.4 percent and 7 percent, respectively, in 2008 and 4.3 percent and 6.5 percent, respectively in 2009. According to forecasts, at 4 to 5 percent in 2008 and 2009, Turkey too will grow much faster than Western Europe and the global economy.

There are good reasons to believe that the "catch-up" process of Eastern and Southeastern Europe will continue with above-average growth rates. The Economist Intelligence Unit (part of the well-known business journal "The Economist") lists some of the reasons: growth which is now self-sustaining, political stability, Eastern European countries' accession to the EU, relatively low inflation, a good and solid level of productivity, as well as significant improvements in the banking sector.

Similar to Germany after World War II or Spain in the 1980's, today the countries of Eastern and Southeastern Europe have the potential to catch up to the West in the next few years and decades. Politically, the outlook is exceedingly positive that the process of convergence will continue in the coming years – with corresponding opportunities in the real estate markets, in particular in the „second" and „third" wave countries. The nations of Eastern Europe are still far from achieving Western levels of prosperity and wages, however. In light of this, Eastern and Southeastern Europe promises to remain a market with above-average growth rates.

## Convergence: Growth ensures demand for real estate

A comparison of the current per-capita gross domestic product makes this clear. The per-capita GDP of Ukraine is almost USD 2,000, Turkey's is around USD 5,500 and Russia's is approximately USD 7,000. Germany's per-capital GDP is approximately USD 35,000, while France comes in at USD 37,000 and the United States at USD 44,000.

Investments in the up and coming nations of the „second" and „third" wave are favored because of their relatively low labor costs, which in Russia average EUR 1.91 per hour and EUR 2.86 in Ukraine. As a comparison, the European Union comes in at EUR 21.20 and Germany at EUR 26.43.

The real estate markets in the transitional economies of Eastern Europe benefit from above-average high and sustained growth. It is not only the economic growth that points to real estate prices in Eastern Europe continuing to climb and very good opportunities in the region continuing to be offered to real-estate developers with the necessary local expertise. Besides that, in almost all of the transitional economies a productive banking system has developed, making it possible to finance real estate through mortgages. As a result, the middle class that is establishing itself in these countries now has access to property of its own – as, naturally, do companies and entrepreneurs.

## People need places to live

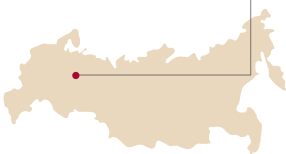
The demand for a Western standard of housing in these countries is very high. In the decades prior to the opening up of the East, infrastructure projects were ignored. No quality housing was created for the population, and virtually no high-quality commercial real estate such as office space was developed. The potential to catch up is clear from the per capita space allocation. In the United States, each citizen currently inhabits, on average, 70 square meters of living space; in Germany it is 50 square meters, in China 27 square meters. On the other hand, in Ukraine the per-capita living space is only 22 square meters and in Russia it is as little as 21 square meters. At the same time, 60 percent of Russia's existing housing requires renovation. The condition of 15 percent of its housing is considered critical and 12 percent is officially classified as quite simply uninhabitable.

## Businesses need commercial space

The surplus demand in the area of commercial real estate is just as great. According to a study by Jones Lang LaSalle, for example, demand for office space in Kiev, the capital of Ukraine, will exceed supply until the year 2010. The big cities of Russia (above all Moscow, of course) are also prospering. Experts believe that in ten years Moscow will be, along with London, the most expensive city in Europe. Accordingly, people are already talking about the "Russian Revolution" in the real estate market. More and more international investors are now beginning to discover the region. Most in demand for those seeking residential and commercial real estate are Western-style properties, of which there are very few.

All in all, therefore, it must be assumed that the growth trend in the real estate markets of Eastern and Southeastern Europe will continue, especially in the population centers – with corresponding opportunities for "first movers" and "early movers."

## FOCUS ON POPULATION CENTERS IN SELECTED GROWTH MARKETS

| *Country* | *Region* | *Status / MAGNAT Strategy* | *Opinions of Outside Experts* |
|---|---|---|---|
| Ukraine  | Kiev | 1. Very low vacancy rates in the office segment | "... Ukrainian property market has recorded remarkable rises in all its segments. ... |
| | | 2. Strong growth in all areas | Demand for office space is constantly growing, surpassing the most optimistic expectations ... |
| | | 3. Early market entry | Kiev's market will not reach its saturation point before 2011"[1] |
| Russia  | Moscow | 1. Strongly increasing demand accompanied by a lack of supply | "The Nominal GDP like the private consumption per capita are expected to double until 2010. Russia's economy keeps on growing and is already the 7th largest economy in the world. |
| | | 2. Concentration on the medium price segment in the surrounding area | That the Russian real estate is one of the most powerful markets in Europe shouldn't surprise.... |
| | | 3. Residential development bolstered by land banking | ...the Russian real estate market is one of the most promising in the world. ..."[2] |
| Turkey  | Istanbul | 1. Opportunistic market entry at the relevant order of magnitude | "Since a few years, indicators have been generally very favourable for Turkey. The economic growth remains around an average of 5.6 percent over the last four years. |
| | | 2. Broad asset base with several exit alternatives | ...economy could expand by up to six per cent in the next two years...the purchasing power keeps on increasing and the demand for real estate is booming... |
| | | 3. Joint venture with strong partners (Immoeast, ADAMA) | ...the market is about to take off...big cities like Istanbul, Antalya, Bodrum are now cities with a favourable investment climate."[3] |

[1] Property Magazine International, Februar 2008
[2] Economist Intelligence Unit, 2008
[3] The Guardian, April 2008

# Portfolio of countries

## CIS/Ukraine

As the second largest country of Europe by area, Ukraine has developed in recent years into one of the most important economic factors in Eastern Europe. Growth in 2007 was 7.2 percent; for 2008, growth of 5.5 percent is forecasted. With its 2.7 million residents, Kiev, the capital city, is the social, cultural and economic hub of the country.

Kiev's real estate market is managing to post rapid growth in all segments – both in the commercial sector and in residential construction. The demand for modern commercial space to Western standards has not abated, exceeding even the optimistic expectations. Saturation of the market is not expected before 2011.

Hence, Colliers International in the Real Estate Review (2008) makes the following assessment:

**"Strong prospects for development drive the Ukraine property market that vastly lacks products in every sector."**[1]

In this most attractive market environment, MAGNAT is developing the Peremogi 67 Office Centre Project, which was acquired in the fourth quarter of 2007. The property is situated in the western part of the city, directly on the most important traffic axis of Kiev, Peremogi Prospect. Here, just under 30,000 square meters of office and retail space, along with 360 parking places, are being developed.

The Peremogi 67 Project was structured as a co-investment, with MAGNAT holding a 45 percent share of the total project volume.

***Other MAGNAT projects in CIS/Ukraine:***

| | | |
|---|---|---|
| › *Kiev* | *Koncha-Zaspa* | *Land banking* |
| › *Kiev* | *Cottage Village Vitaly* | *Residential* |
| › *Kiev* | *The "Alexander" parcel* | *Land banking* |
| › *Moscow* | *Sadko* | *Residential* |

[1] Ukraine, Real Estate Review 2008

## CEE/SEE regions

In the past 20 years, the countries of Eastern and South-eastern Europe have undergone an extreme transformation and today are the driving economic engine of Europe. The average economic growth in CEE countries was 5.5 percent in 2007, while by contrast in the EU the average was 2.8 percent and in the euro-zone only 2.3 percent.

A particularly dynamic market in this region is Turkey. With 70 million inhabitants, of which 65 percent are under 35 years of age, Turkey is the largest and most important market in the SEE region. GDP doubled in only four years, from USD 305 billion in 2003 to USD 658.8 billion in 2007. The active efforts of Turkey for admission to the EU give this development a still greater impetus. Against this backdrop, the Turkish real estate market in recent years has been transformed into an attractive investment for foreign investors. Above all, strong demand on the part of the financial services sector is animating the Istanbul office market on a continuing basis.

In its current analysis of the Turkish real estate market (2008), King Sturge states:

**"Turkey is rapidly emerging as one of the key high growth property development and investment markets."[2]**

With all signs pointing in this direction, acquisition of the Yapi Kredi portfolio took place in the third quarter of 2007. It was acquired from Yapı ve Kredı Bankası A.S. (YKB), a leading Turkish bank and a member of the UniCredit Group. Two-thirds of the broadly diversified portfolio is made up of real estate in the greater Istanbul area. Mixed-use properties represent 33 percent of the portfolio, apartments 30 percent and commercial real estate 26 percent. In addition there are niche segments. In total, the transaction encompasses 400 properties, a large proportion of which are leased under long-term lease agreements to YKB and its branches.

MAGNAT holds a 33.3 percent interest in the YKB portfolio and well-known project partners Adama Holding Ltd. and Immoeast AG also hold interests of 33.3 percent each.

***Other MAGNAT projects in the CEE/SEE regions:***

| | | |
|---|---|---|
| › *Bucharest* | *Mogosoaia Village* | *Land banking* |
| › *Bucharest* | *Vacaresti* | *Residential* |
| › *Sofia* | *Pancharevo* | *Residential* |
| › *Poland* | *Nasze Katy* | *Residential* |

## Germany

Alongside the core markets of the CEE/SEE/CIS regions, another important market of MAGNAT is its home market of Germany. Here the Company focuses in particular on special situations, so-called "distressed real estate." In these investments, reduction of the vacancy level through professional turn-around management acts as the critical lever of value.

DEGI Research:

**"Real estate Germany continues to be on the path of growth."[3]**

The Eberswalde-Rostock-Saalfeld residential portfolio was acquired in the second quarter of 2007 and is held 75 percent by MAGNAT. The portfolio comprises 1,497 residential units in Eberswalde bei Berlin, in Saalfeld (Thuringia) and in Rostock. In addition, 1,000 square meters of commercial space is contained in the portfolio. The total leasable area of the residential portfolio is more than 85,000 square meters.

In the first quarter of 2007, MAGNAT acquired another very attractive commercial portfolio. This con-sists of a building in Halle-Peisen leased by Deutsche Telekom, labour offices in Parchim and Worms, and a medical centre in Delitzsch. The lease agreements are long-term, through 2011 and 2013, with options for extension of the contracts. The medical center Delitzsch leases small sections to a number of different users. The total floor space of the portfolio is 10,120 square meters.

The Company intends to be even more active in the CEE/SEE/CIS regions in the future. Accordingly the share of the portfolio in Germany is to be reduced in the short to middle term through scheduled disposition of past investments.

2 Turkey, Property Market 2008
3 Neue Perspektiven – Marktreport Deutschand 2008, DECI Research

# Investor Relations

### A turbulent year on the financial markets

Beginning in mid-2007, the stock markets in fiscal year 2007/2008 were dominated by the international turbulence on the financial markets. In addition to holders of U.S. real estate, it was primarily national and international banks that were affected by the so-called Subprime crisis.

In some cases, the Subprime crisis led to significant price drops on the stock markets, with bank stocks especially suffering high losses. Even real estate securities, whose business – like that of MAGNAT – was not directly affected by the Subprime crisis, were hit across the board. Real estate stocks across a wide front were forced to surrender a large part of the price gains of the prior years. Thus, MAGNAT shares were not able to escape the negative environment for real estate stocks. The EPRA European Index, which tracks price changes in the 70 largest European real estate issues, fell almost 34 percent in 2007. The EPRA Germany Index lost around 41 percent in 2007 and between the time of MAGNAT's initial listing on 26 July 2006 and 31 March 2008, the index lost exactly 44.6 percent of its value.

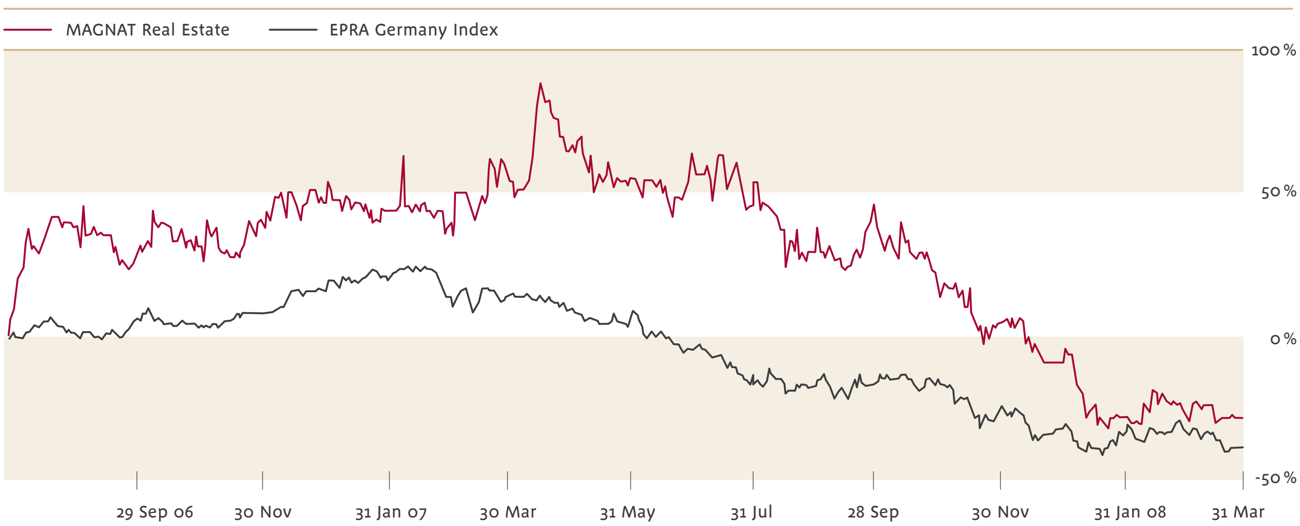
Against this background, it is noteworthy that at 32.5 percent, MAGNAT shares had a significantly smaller price drop since they first began trading.

### Capital increase successfully concluded

MAGNAT's most recent capital increase was met with great demand in the spring of 2007, in particular amongst institutional investors. Thus, Company management and the Supervisory Board, in addition to the capital increase of 4.6 million shares decided on at the General Meeting of Shareholders on 13 February 2007, opted to make full use of the entire approved capital, amounting to an additional EUR 16.1 million value of shares. In total then, existing shareholders were offered 20.7 million new shares for subscription. Shares not taken were subscribed to by institutional investors within the framework of a private placement. The issue price for the new shares was EUR 2.20 per share. Hence a gross amount of EUR 45.5 million in proceeds from the issue flowed to MAGNAT as a consequence of the capital increase, which was concluded on 13 April 2007. These proceeds were used for promising real estate investments. Following the successful capital increase, MAGNAT's total share capital stands at EUR 52.9 million, divided into EUR 52.9 million in shares.

### Greater attractiveness of the MAGNAT share as a result of segment switch

With the issuance of the securities prospectus and the switchover at the end of October 2007 into a stock market segment with heightened transparency requirements, MAGNAT was able to record another




Source: Bloomberg

important milestone in the capital market. On 30 October 2007, MAGNAT shares were admitted for trading on the General Standard of the Frankfurt Stock Exchange. In July 2006, the listing on the stock exchange was initially in the Open Market. As a result of the change of segment, MAGNAT is subject to the strict transparency requirements of the regulated market, applying through-out the EU. Through this segment shift, MAGNAT makes itself available to a large group of investors, since many institutional investors, based on their investing guide-lines, can only invest in shares traded in a regulated stock segment. Against this background, the segment shift appreciably increases the attractiveness of MAGNAT shares.

As a result of the segment shift, the volume of trading in MAGNAT shares also increased significantly. Thus in the first five months of 2008, on average around 150,000 shares a day were traded, while in the second half of 2006, an average of around 50,000 shares a day were traded. In January 2008 in particular, trading in MAGNAT stock was brisk, at more than 200,000 shares per day. From admission to the stock exchange in July 2006 through the middle of 2008, the average daily volume of MAGNAT shares has been around 77,000 shares.

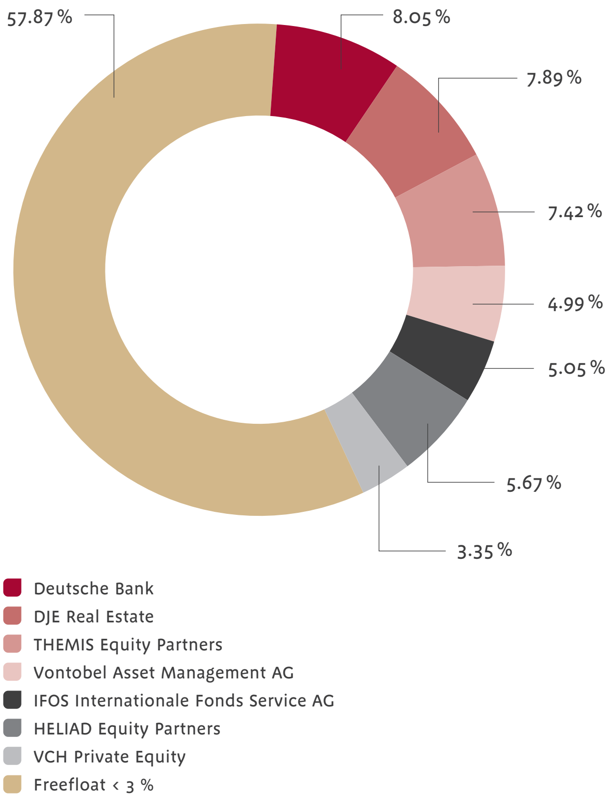
Well-known institutional investors have consistently kept holdings in MAGNAT shares. As of 31 March 2008, Deutsche Bank held 8.05 percent of MAGNAT.

| | |
|---|---|
| Name | MAGNAT Real Estate Opportunities GmbH & Co. KGaA |
| Number of outstanding shares | 52.9 million |
| Subscribed capital | EUR 52.9 million |
| Ticker / ISIN | M5R / DE000A0J3CH0 |
| Security code (WKN) | A0J3CH |
| Bloomberg | M5R GR |
| Reuters | M5RG.DE |
| General Standard (regulated market) | Frankfurt Stock Exchange (Frankfurt und Xetra) |
| Over the counter | Berlin, Düsseldorf and Stuttgart |
| Free float (shareholders < 3%) | ~57.58 % * |

* To the Company's knowledge, based on voting rights announcements and Bloomberg

| | *2007/2008* | *2006/2007* |
|---|---|---|
| Number of shares as of 31/03 | 52,900,000 | 32,200,000 |
| Price at start of fiscal year | 2.35 | n.a. |
| Price at end of fiscal year | 1.10 | 2.42 |
| Highest price | 2.85 | 2.49 |
| Lowest price | 1.08 | 1.53 |
| Market capitalisation as of 31/03 | 58,190,000 | 77,924,000 |
| Earnings per share | 0.17 | 0.01 |
| NAV per share | 1.89 | 0.97 |
| Price/earnings ratio | 6.47 | 242 |

## Shareholder structure MAGNAT as of March 31, 2008




Dr. Jens Erhardt (DJE) Real Estate held 7.89 percent. THEMIS Equity Partners have an interest of 7.42 percent, while the Swiss banking firm Vontobel holds 4.99 percent. MAGNAT's management also holds shares, thereby underscoring its conviction that MAGNAT stock represents a rewarding investment. Free float in the MAGNAT share is more than 57 percent, so that there is adequate liquidity available for investors.

### Transparent capital market communications

It is an express goal of MAGNAT management to convey a transparent image of the Company through continuous, active communication with the capital market. Therefore in the 2007/2008 fiscal year, MAGNAT intensified communications with the press and with investors. Only if the capital market is given timely and comprehensive information regarding MAGNAT's fundamentals as well as the opportunities and risks on Eastern European real estate markets will the result be an appropriate valuation of the enterprise.

In the 2007/2008 fiscal year, well-known financial and trade media like Börsen-Zeitung, Immobilien Zeitung, Börse Online, Focus Money, Platow Börse, Prior Börse, Capital Depesche, Nebenwerte-Journal and Real Estate Magazin have reported on MAGNAT. In addition, Bloomberg TV and Deutsche Anleger Fernsehen DAF carry reports on MAGNAT and the opportunities on the Eastern European real estate markets.

Thus, MAGNAT stock has been discussed in investor media, happily generally along with a buy recommendation. Thus in May 2008, in a detailed article entitled "Golden Concrete in the East", the newspaper Focus-Money advised its readers to buy MAGNAT shares.

MAGNAT places very great value on communication with shareholders, institutional investors and analysts. Thus during the 2007/2008 fiscal year, the Company held several capital market conferences, for example at the Real Estate Conference of the DVFA analysts' association on 12 February 2008 in Frankfurt. In addition, MAGNAT management discussed the equity story and the Company's fundamental data, pointing out the opportunities in Eastern Europe to many international investors at several road shows, including in Kuwait and the United Arab Emirates.

Also in the current 2008/2009 fiscal year, MAGNAT will be represented at several investor conferences and will address international institutional investors in particular in road shows. Shareholders and interested persons can receive a current overview of the most important conferences and financial dates on our new website.

**www.magnat-reop.com**

# Interview

with Jan Oliver Rüster, CEO, and Jürgen Faè, CFO, MAGNAT Real Estate Opportunities GmbH & Co. KGaA

***Mr. Rüster, what is special about MAGNAT?***

**› Jan Oliver Rüster**
We focus on real estate development in promising growth markets in Eastern and Southeastern Europe as well as CIS. In contrast to classic investment strategies (buy and hold), MAGNAT thus not only generates income from property leasing, but primarily profits from attractive project development returns, above all in Eastern and Southeastern Europe. MAGNAT has an excellent network and outstanding expertise in CEE, CIS and SEE countries. This allows us to make investments with very good risk/return profiles in promising markets.

***Are you now listed in a higher segment on the stock exchange?***

**› Jan Oliver Rüster**
Yes, we are a German real estate company that is now listed on the regulated market in the General Standard of the Frankfurt Stock Exchange, i.e. in a recognized, regulated stock market segment that offers investors the highest level of transparency. All institutional investors can therefore invest in our stock. With our combination of investments in Eastern Europe and our market listing in a strictly regulated segment in Germany, we enjoy “the best of both worlds.”

***As a developer, how long do you hold properties in the portfolio?***

**› Jan Oliver Rüster**
In order to optimize our developer returns, we are flexible in this regard. MAGNAT’s goal in holding properties is to maximize developer returns. If we can realize a high rate of developer returns over the short term and the selling price is in line with the market, then we sell. A holding period of up to three years is thus not unusual for us. We also do forward deals; i.e. we sell properties as of a certain date in the future and thereby realize gains ahead of time. In other cases it is once again making sense to continue holding onto real estate or properties in order to realize their earnings potential.

***Are you satisfied with the 2007/2008 financial year?***

**› Jan Oliver Rüster**
We are satisfied with MAGNAT’s operational development. We have been able to invest in attractive projects and to create valuable assets that we will profit from in the current financial year and in the coming years. And we achieved our goal of showing a satisfactory profit in the past financial year.

***The returns on real estate in countries like Hungary or the Czech Republic have for the most part almost reached already the level in Western Europe. Are there still major opportunities to be found in these countries?***

**› Jan Oliver Rüster**
Because the returns there are now less attractive, we are not active in those countries. Rather, we are active in selected regions in the growth markets of Eastern and Southeastern Europe as well as CIS. We invest above all in promising “second-wave” countries and are also focusing on “third-wave” countries, where we are interested in fast-growing population centers. Our main markets are currently Ukraine, Russia and Turkey. These investment locations also continue to offer prospects for high, above-average returns. As a result of strong and consistent economic growth in these countries, there is an enormous demand for new, high-quality properties, both for housing and for offices. Most in demand are properties that meet Western standards. This process of convergence is a long-term trend that will last for several more years. We also have the network and the expertise to develop new markets in our target region relatively quickly.

***What are your biggest projects at this time?***

**› Jan Oliver Rüster**
Two prominent examples from our portfolio are the YKB portfolio in Turkey and the Peremogi 67 office development in Ukraine (Kiev). As part of a consortium with Immoeast and Adama,  MAGNAT has acquired from Turkey’s Yapi ve Kredi Bankasi A.S. an extensive real estate portfolio with a transaction volume of EUR 136.5 million (MAGNAT’s share: 33 percent). There are 400 properties with a total of 250,000 square meters, approximately 70 percent of which are located in the

population center of Istanbul. The consortium is currently working on implementing our goals: I could already list many promising opportunities to realize profits. This joint venture demonstrates the value of MAGNAT's portfolio. Along with Adama and Immoeast, we decided to report the portfolio at its market value.

In Kiev, Ukraine's capital, MAGNAT was able to invest in an attractive development project with office and commercial space measuring 32,000 square meters. This office project, Peremogi 67, reflects the implementation of MAGNAT's strategy: investing in a project with already existing building permits in a population center with high surplus demand. Construction has already started; completion is planned for 2010.

***Keyword subprime: Hasn't the crisis in the financial markets significantly worsened the terms of your financing?***

**› Jürgen Georg Faè**
Not at all. It first needs to be clearly stated: The Eastern European real estate markets have not been directly affected by the American subprime crisis. Even so, the subprime [crisis] has since mid-2007 led to a global tightening of the credit markets. Despite this situation, MAGNAT has been able to secure financing for all investments in the Germany portfolio, as well as for all currently pending financing of development projects. We have a solid financing structure with a consistently high equity ratio of more than 70 percent and an adequate leeway in liquidity. The environment in the credit markets has of course changed and there are some real estate companies that because of their financing structure have been massively affected by the subprime crisis. That is not the case with us. Because of our very good market access, as well as the selection and broad diversification of our projects, we have no problems on the financing side.

***How do you typically obtain your projects? And how do you ensure you have the necessary on-site expertise in each instance?***

**› Jan Oliver Rüster**
In each individual country we have our own network that uncovers attractive and lucrative projects for us. Local expertise is precisely one of our strengths: Project leaders of our asset manager R-QUADRAT work with local teams on site. This approach is of crucial significance for our activities in the CEE/SEE/CIS region because it is especially important here to implement and to follow standards which are at Western levels.

***What is the current Net Asset Value (NAV) of your shares and how is it calculated?***

**› Jürgen Georg Faè**
We are deliberately very conservative in the calculation of our NAV. The pure Net Asset Value is EUR 1.89 per share, without taking into account the substantial potential of the development portfolio. It is based solely on the housing and office portfolio in Germany, which is valued higher than its cost of acquisition because of its attractive rental income and active asset management, as well as on the increased value of undeveloped property reserves (resulting from dynamic market development and preparatory development steps), and does not involve any other projects in the portfolio. However, the greatest potential for added value lies in MAGNAT's core business, real estate development, which these figures do not take into account. Development projects contribute to earnings after their completion and sale; we deliberately did not increase the values in the balance sheet or take the current market value of the development projects into account in the Net Asset Value.

***Who assesses the value of the properties?***

**› Jürgen Georg Faè**
The value of MAGNAT's real estate is always assessed by independent and acknowledged experts like, for example, the TÜV or Colliers International.

***Why is the price of MAGNAT stock significantly less than the Net Asset Value?***

**› Jürgen Georg Faè**
The valuation of real estate stocks on the capital markets has changed greatly since the beginning of the credit crisis in the summer of 2007. Like the entire segment, MAGNAT's stock was unable to buck this trend. In the opinion of many analysts and commentators, the drop in prices has in many cases now led to the sector being undervalued. Many industry experts believe the reduced valuations are not justified in light of the fundamental data. MAGNAT's management will be fighting this with two strategies: even more detailed and open communication with existing and potential

investors, and a continuing full focus on implementing MAGNAT's strategy.

***How about the general challenges for MAGNAT?***

**›Jürgen Georg Faè:**
We have to cope with two challenges: first we have to reach a critical mass and secondly our development business model is a challenge as well. In comparison to inventory keepers MAGNAT does not have any significant recurring Cash-Flows. The challenge is thr timing of exits and the investment into high margin projects to broaden the source of returns. It is the objective for MAGNAT to manage a portfolio which delivers 3-5 significant exits each year.

***When can MAGNAT investors expect the first exits?***

**› Jan Oliver Rüster**
In the last few months, MAGNAT has invested the capital it has taken in a sensible and promising way, which will result in profitable exit scenarios. The timing of the exits is geared towards the maximization of the earnings of our shareholders.

***What are your plans for the new financial year and beyond?***

**› Jan Oliver Rüster**
MAGNAT's goals are: a) profitable growth; b) consistent optimization of our management processes; and, of course, c) a fair valuation of MAGNAT–shares. That is what we want to be measured by. Our business model works and our operations are successful. We are already in the liquidation phase with several projects. Because high, above-average returns are forecast to continue, we are increasingly reinvesting our sales profits in the CEE and CIS region, thereby significantly broadening our asset base. In combination with a bulging project pipeline and a comfortable liquidity situation, we have a solid basis for achieving the goals we have set on behalf of our shareholders.

***Thank you very much for the interview***

# Management Report

For the Fiscal Year
from 1 April 2007 to 31 March 2008

**This management report contains future-oriented statements and information regarding expected developments. Such forward-looking statements are based on our present expectations and estimates and on certain assumptions. Naturally, they include inherent risks and uncertainties. Actual events, results and performance can therefore deviate significantly. MAGNAT does not assume liabilities of any kind, and does not plan to update such future-oriented statements in view of new information or future events.**

## 1. Business Segments and General Environment

### *a) General Environment*

#### Economic developments

The real estate crisis in the United States and the resulting worldwide tightening of liquidity (key word "credit crunch", chiefly due to the drying up of most securitisation markets), led to a sharp correction on the exchanges starting in mid-July 2007, which is significantly influencing the behaviour of market participants down to today. The central banks of the United States and Europe have ensured that the markets have liquidity to prevent any squeezes from occurring, and interest rate policy has been oriented towards the changed situation. Despite these measures, the result was increased write-offs at financial institutions and further tightening, primarily when making loans. While the European Central Bank (ECB) initially stopped the interest rate escalation cycle up to March 2008, and put through interest rate increases after the balance sheet reporting date, the U.S. central bank lowered interest rates for the first time in four years. Forecasts for a continuation of the economic growth of recent years in Europe remain positive, but grew significantly more restrained, along with with a slight reduction in the growth forecasts for 2008.

MAGNAT Real Estate Opportunities GmbH & Co. KGaA (hereinafter also "MAGNAT") is not active in the U.S. real estate market, neither through direct investment nor through investments in securitizations. Thus, MAGNAT is not subject to any direct effects of the problems in the U.S. But owing to the consequences and remote effects of the developments on the credit, real state and equities markets since the summer of last year, MAGNAT too is required to adjust itself to the changed environment.

As a result of the substantial curtailment of available liquidity on the credit markets, the financing landscape for real estate transactions has changed. The debt ratios obtainable for property-related borrowing have been lowered, while the cost of credit, in the form of higher interest rates and incidental fees, has increased. In this changed environment, MAGNAT was able to secure the following bank financing:

- *The short-time acquisition financing obtained in the past fiscal year for the Eberswalde and Rostock German residential properties, in the amount of EUR 15 million (with a debt ratio of 60 percent of the acquisition cost), was replaced, in June 2008, by long-term debt financing for Eberswalde, in the amount of EUR 20.8 million (and thus with a significantly debt ratio) on more favourable terms.*
- *Construction financing in the amount of PLN 83 million (approx. EUR 23.5 million) for the Nasze Katy residential construction project in Wroclaw, Poland*
- *Construction financing in the amount of RUR 167 million (approx. EUR 4.6 million) for the Sadko I project in Moscow*
- *Lease financing in the amount of EUR 59 million for the Hotel Schwarzenberg development project in Vienna (co-investment in the form of a minority holding by MAGNAT)*
- *Operating line of credit in the amount of EUR 5 million for MAGNAT Real Estate Opportunities GmbH & Co. KGaA*

#### Real estate markets

In the European real estate sector, the crisis in the housing market in the United States has led to the credit tightening alluded to. Signs of problems comparable to those in the Untied States are also evident in some

European countries (England, Ireland, Spain). But overall, the Western European real estate market continues to be robust in view of the tightened liquidity and the existing uncertainties. Initially, Eastern European real estate markets were even less influenced by the turbulence. In general, the economic effects have led to investors becoming more hesitant, and securing financing on the buyer side increasingly becoming an issue.

The Company invests in selected markets within the European Economic Area, and also outside of the European Economic Area, particularly in Central and Eastern Europe (hereinafter "CEE"), Southeastern Europe (hereinafter "SEE"), the Commonwealth of Independent States (hereinafter "CIS" or, along with CEE and SEE, the "CEE/SEE/CIS-Region"), as well as in special situations in its home market of Germany.

### Central and Eastern Europe (CEE) und Southeastern Europe (SEE)

The abbreviation CEE stands for "Central and Eastern Europe". It includes Central and Eastern European countries. Southeastern Europe (in German often abbreviated as SOE, in English SEE) includes the countries in the Southeast of Europe.

The countries of Central and Eastern Europe and Southeastern Europe have risen from emerging countries to growth markets in recent years. The process of transition in these countries is moving faster than expected and the region is increasingly gaining in political and economic importance. Thus, economic growth of 4.9 percent in 2008 is expected for Turkey. By way of comparison, growth is expected to be 5.6 percent in Ukraine, with Russia holding first place, with 6.7 percent growth, and Hungary last place, with expected growth of 2.8 percent.

For MAGNAT, the Turkish economic region is of major significance. After the economic crisis in 2001, the Turkish economy has stabilized and is on a robust growth path. Turkey's prospects as a growth market are shown, for example, by its relatively young work force, stable population growth and advancing reforms as part of Turkey's efforts to join the European Union. The Turkish real estate market posted a significant increase in the year 2007, with the greatest growth in its residential market. The continually rising standard of living and easier access to loans for residential construction led to significant price increases. The real

estate sector is expected to have a similarly good year in 2008. Rental prices continue to rise by double digits. Top rentals for grade A+ property in Istanbul show a rising trend and in 2006 reached USD 24 square meter/month in the European portion of the city, and USD 16 square meter/month in the Asian portion. Based on a decline in average office space vacancies, achieved by rising demand and a constant supply, the vacancy rate in grade B buildings went down more than for grade A real estate. Thus, a trend can be seen in the 2008 office space market similar to that in the residential market. In attractive Istanbul locations, rental prices for office space rose by a total of 25 percent in 2007. At the end of 2006, yields ranged between 7.5 percent and 8.0 percent, and are thus attractive when an international comparison
is made.

## Commonwealth of Independent States (CIS)

Commonwealth of Independent States (in short: CIS) is the name of the federation of various successor states of the Soviet Union (USSR) after its collapse. The commonwealth consists of 11 states: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine und Uzbekistan, with Turkmenistan since 26 August 2005 only continuing to be an associated member. Since the establishment of CIS, various economic, defence and foreign policy agreements were signed.

Ukraine, particularly the region of Greater Kiev, is of interest to MAGNAT, given the focus of its projects. According to a 2006 Jones Lang LaSalle study, demand for office space exceeds existing supply, which is why the office space vacancy rate is estimated at below 4 percent and falling.

In 2006, there were approximately 540,000 square meters of modern office space in Kiev. At that time, the market was still controlled by local project developers, but with foreigners planning to enter the market. At the end of 2007, office space in this metropolis of 2.7 million people still stood at a very low 690,000 square meters. Class A offices continue to be the exception and are very high-priced.

The current market environment is a landlord's market in which three to seven year lease agreements are normal. Top rental rates of USD 60 per square meter per month have been reached in that market. The rental price per square meter of class B office space was between EUR 25-50 at the end of 2007. The quality of the space is generally to be estimated as being lower, for example, than in Moscow or in comparable locations. Currently, most office space is situated in or close to the centre city.

Experts assume that Kiev needs at least 2 million square meters of office space to come close to covering current demand.

A significant increase of available space from new project developments is expected in the future, primarily in the outskirts. However, development may be threatened by the scarcity of land.

According to a 2007 Raiffeisen RESEARCH study, Kiev will continue to develop positively, namely to the same extent as the overall development of the Ukraine moves forward. It appears that due to the planned European soccer championship in 2012, a solution to infrastructure problems is being forcefully worked on.

## Germany

According to data from the Federal Statistical Office, the German economy was in robust condition in 2007. Gross domestic product rose by 2.5 percent in 2007 and lagged only slightly behind the prior year's 2.9 percent. Domestic contribution to GDP rose 1.1 percent in 2007, while net exports rose by 1.4 percent. The construction industry achieved a 1.7 percent increase in gross value added. In real terms, private consumption expenditures went down 0.3 percent.

The moderate prices for commercial as well as residential real estate are attracting not only German companies to make investments delayed up to now. Increasingly, more and more foreign companies are directing their attention to the German real estate market. Along with the recovery in demand on the market for office space, a decisive factor in stemming the rise in vacancy rates has mainly been the slowdown in the new construction activity.

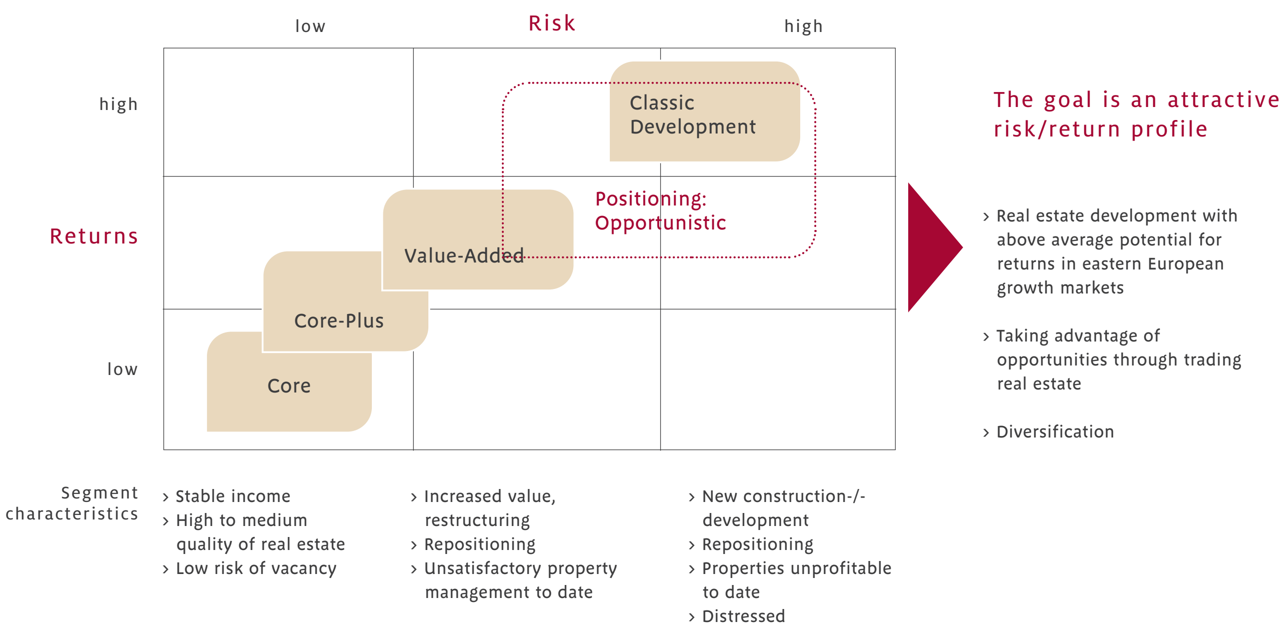
The price structure in the residential market remains stable to slightly declining in Western as well as Eastern Germany. In spite of the cautious market development – as a result of the tightening of liquidity on the financial markets, the number of buyers has declined – foreign opportunity funds are increasingly pushing onto the German residential real estate market as investors. Consequently, the areas of high population density, along with the surrounding areas, being economically strong, have better prospects for positive developments on the real estate markets particularly in Southern Germany. In the former East Germany, away from the major cities and transportation corridors a below average development is to be expected. Only for the federal capital, with its interwoven surrounding area, is there testimony to a market of above-average attractiveness – other Eastern German population centres such as Leipzig and Dresden are average performers.

## *b) Business Operations*

MAGNAT Real Estate Opportunities GmbH & Co. KGaA, Frankfurt am Main, is Germany's first listed real estate company focusing on real estate development in Eastern Europe. That investment strategy is supplemented by special positions in its home market of Germany. Unlike traditional investment strategies, MAGNAT's business model is principally based on obtaining developer returns ("develop & sell") and on profits resulting from exploiting the potential for added value in special situations ("buy & sell"). The desired holding period of individual investments is between two and three years.

MAGNAT concentrates on real estate markets showing interesting development cycles: undervalued markets ("countercyclical investing") and markets with high economic grown ("growth markets"). In Central, Eastern, and Southeastern Europe – hereinafter this target region is also referred to as the CEE/SEE/CIS-Region[1] - MAGNAT invests chiefly in "second wave" countries, and again in selected population centres there. The main markets are Ukraine, Russia and Turkey. In the reporting period, additional investments were also made in Romania, Bulgaria and Georgia. This development portfolio in the CEE/SEE/CIS-Region is supplemented by a trading portfolio (residential and commercial) in Germany, as well as by two investments in Austria.

With this strategic orientation (opportunistic approach), MAGNAT is positioned in a segment that offers an above-average opportunity/risk profile.



Risk diversification is a central element of the investment policy. It is provided by a balanced asset mix, and indeed in several respects:

› *Geographical mix through investments in the CEE/SEE/CIS region, supplemented by special situations in Germany*

› *Functional mix through residential and commercial real estate*

› *Yield mix through real estate development (opportunity for high developer returns in the CEE/SEE/CIS region) and existing properties held in the trading portfolio (special situations in Germany with above-average rental returns and also potential appreciation)*

This deliberately broad strategic orientation requires the targeted outsourcing of all essential real estate activities, with a corresponding effect on the construction and work sequence. As asset manager, R-QUADRAT Immobilien Beratungs GmbH, Vienna ("R-QUADRAT"), as part of its special duties under its bylaws, provides services to MAGNAT largely spanning the entire value-creation chain of real estate activities. This outsourcing is especially important for activities in the CEE/SEE/CIS region because it would not be possible for MAGNAT to build up its own resources for developing these markets with sufficient speed and quality and at reasonable cost.

With the issuance of a security prospectus and the switch to a stock exchange segment with increased transparency demands at the end of October 2007, MAGNAT was able to announce an additional important milestone. On 30 October 2007, MAGNAT shares were admitted for trading at the Frankfurt Security Exchange in the General Standard. The July 2006 exchange listing was initially on the Open Market. As a result of the segment change, MAGNAT is subject to the strict transparency requirements applying to regulated markets throughout the European Union.

## *Business Segments*

### "Portfolio" Business Segment

This segment includes direct and indirect investments in real estate and real estate companies with medium-term holding periods and a strategic fit with MAGNAT.

› ***YKB Portfolio (Turkey)***
*acquisition of an extensive inventory of properties from the Turkish bank Yapı ve Kredı Bankası A.S. ("YKB"), consisting of a total of approximately 400 properties with a variety of uses, with a regional concentration in the greater Istanbul area, in a consortium with project partners Adama Holding Public Ltd. (lead manager) and Immoeast AG. The purchase price for the entire portfolio was originally EUR 136.5 million plus incidental expenses. One of the consortium partners provided a bridge loan for EUR 100 million with a one-year term. The disbursement of a bank loan to repay a portion of the bridge loan took place in July 2008, with the rest will be paid off from the sale of non-strategic real estate, which has largely already taken place. Consequently, MAGNAT's equity share corresponds to a 33.3 percent share, or EUR 13.3 million. In the reporting period, the first sales brought in sales revenue of EUR 27.0 million and have already generated gross profit of EUR 5.6 million. A significant development in the last calendar month of the fiscal year gone by was the decline in the Turkish Lira. The YBK portfolio is considered to be a Euro portfolio because of its large dependence on the Euro. But the functional currency is the local currency, which is why there was a currency loss on balance sheet date due to currency translations.*

› ***SQUADRA Immobilien GmbH & Co. KGaA***
*In August 2007 "SQUADRA" was founded, with share capital of EUR 25.1 million. Of that amount, MAGNAT took on EUR 4 million. SQUADRA will concentrate on investments on the German real estate market. In the reporting period, the company acquired the "Blue Towers" office property in Frankfurt am Main.*
*After a restructuring, the two high rises will have approximately 23.500 square meters of modern office space including a conference centre and a food and beverage area. As a result of this investment, SQUADRA owns a property over the medium term yielding an above-average return.*

› **Project** Yapi Kredi Levent Plaza (Turkey)

## Business Segment "Development"

This business segment comprises traditional project development, including acquisition of land and construction of one or more new buildings on previously unimproved land, reviving existing real estate through renovation, modernization and conversion, and entering into different phases of already existing real estate development projects. The goal – upon completion – is to sell the real estate either as a whole (perhaps also through the sale of shares in the form of "share deals") or in individual units (e.g., in the form of residential property). Additionally, the business segment includes the areas "land banking" and the "trading portfolio". The trading portfolio includes the acquisition and sale of already completed real estate projects, or projects shortly to be completed, which are already completely or partially rented out or are intended for rental. Typically, during its ownership, the Company takes steps to increase the value of a property, for example by optimisation of rental management, reduction of vacancy rates and exploitation of potential rent increases so as to optimise ongoing income. Construction improvements and targeted renovation measures are also undertaken to the extent the Company views such as contributing to value ("property upgrading "). Accordingly, in this segment, in addition to the ongoing returns from individual investments in the form of rent receipts, – lower in significance in terms of amount – what is particularly aimed for are gains on sales as a part of the selling process.

MAGNAT's aim is to optimise exploitation of the portfolio. From the portfolio of investments made in the abbreviated 2006/2007 fiscal year, as well as those made in the 2007/2008 fiscal year gone by, a series of sales activities were able to be commenced and sales were able to be made by the relevant project companies during the reporting period.

In the reporting period, one emphasis of business operations was on the implementation of the investment program. The development portfolio was expanded by the addition of the following new investments during the reporting period:

- ***"Vacaresti"/Bucharest (Romania)***
  *acquisition of approximately 6,600 square meters of land, for a total of EUR 8.4 million, with MAGNAT owning 75 percent of the project company (i.e., a EUR 6.3 million investment). Construction of approximately 400 medium-quality apartments, with a total living space of approximately 37,000 square meters, is planned for the property. The land has been zoned for residential construction. Currently, work is being done on preliminary planning and optimisation of the development opportunities. No building permit has yet been issued. Based on land price developments in Bucharest, discussions regarding the exploitation of this land have been commenced with interested parties. For this reason, construction work has been temporarily postponed.*

- ***"Pancharevo"/Sofia (Bulgaria)***
  *acquisition of a large parcel of approximately 7,800 square meters, for a total of EUR 1.8 million, with MAGNAT owing 75 percent of the project company (i.e., a EUR 1.4 million investment). Construction of approximately 100 high-quality apartments, with total living space of approximately 10,000 square meters, is planned for the property. The land has been zoned for residential construction. Preliminary planning is already well underway, and a significant improvement of development possibilities is possible relative to the assumptions made in the original calculations. The submissions for a building permit took place in the first quarter of 2008. The bank loan for the start of the construction phase is under discussion, with further construction to be additionally co-financed by the sale of apartments.*

- ***"Peremogi 67"/Kiev (Ukraine)***
  *a 45 percent interest in a Ukrainian project company which has the right to build on the corresponding property, with an existing building permit for construction of a "Class A" office and commercial building, with approximately 30,000 square meters of floor space and approximately 360 parking spaces. The costs of the investment amount to EUR 10.6 million, plus incidental expenses. A further capital increase by shareholders amounting to USD 5.0 million was contractually approved over the course of the acquisition. Construction operations have already commenced. An offer to finance the remaining construction costs has been received. To date, loan discussion have been positive. The credit check by the bank is still in process. Discussions concerning the entry into the project of a possible end purchaser are currently at an advanced stage.*

- ***"Koncha-Zaspa"/Kiev (Ukraine):***
  *acquisition of a large parcel of approximately 33,000 square meters, for a total of EUR 4.9 million, with MAGNAT owning a 75 percent interest in the project company (i.e., a EUR 3.7 million investment). The right to the parcel of land has been secured by contract; acquisition by the project company has not yet taken place. On the property – depending on the marketing possibilities, currently being reviewed – the construction of approximately 20 luxury detached houses or up to 300 apartments are planned. The land has been zoned for housing; a building permit has not yet been issued. The plan calls for construction costs to be financed by a bank loan and by the sale of apartments during the planning and construction phases.*

- ***"Digomi"/Tbilisi (Georgia)***
  *acquisition of a large parcel of approximately 20,000 square meters, for a total of EUR 2.1 million, with MAGNAT owning 56.25 percent of the project company. Construction of a retail centre is planned for the property. A construction study has been prepared; a building permit has not yet been issued. Based on advantageous developments in land prices, discussions regarding exploitation of the property have been commenced with interested parties.*

- ***"Schwarzenberg"/Vienna (Austria)***
  *acquisition of a 19 percent interest in an Austrian project company which holds the right to build on the "Hotel Schwarzenberg" property. The investment for MAGNAT's 19 percent interest in the project company amounts to EUR 3 million. Lease financing for the entire project has already been secured. An architectural competition was held to adapt the adjoining buildings to the historic Palais in one of the top location in Vienna. Based on market studies regarding room sizes and amenities, as well as the level of quality, the concept of a luxury hotel was once again significantly accented.*

- ***Russian Land AG, Vienna***
  *incorporated in August 2007, with original capital stock of EUR 5 million, of which MAGNAT took on EUR 2.5 million. Russian Land will focus on the land banking segment in the Greater Moscow area.*

- ***Residential Portfolio (Germany)***
  *The portfolio of which MAGNAT holds a 75 percent share, now includes (at the Eberswalde, Saalfeld and Rostock sites), approximately 1,500 apartments,*

*with leasable space of approximately 85,300 square meters. The rental return amounts to 9.2 percent (current actual rent relative to cost of acquisition, including incidental expenses); acquisition costs are at approximately EUR 420/square meter. Based on above-average rental returns and given the reduction in vacancy rates, there is significant potential for appreciation. Moreover, a price increase is expected in the German residential market, as the creation of new living space has fallen to a record low in recent years. In the medium term, this will lead to a tightening of the supply of apartments. For the Eberswalde and Rostock properties, the transfer of title took place during the reporting period (1 April 2007 – 31 March 2008). The corresponding purchase agreements had already been executed during the prior fiscal year. For the Saalfeld property, the contract was concluded and the beneficial transfer took place in the reporting period, namely in July 2007 or in January 2008, as the case may be. In the Eberswalde sub-portfolio and primarily in Rostock, the vacancy rate has already been successfully lowered.*

› ***Commercial Portfolio (Germany)***
*The portfolio, of which MAGNAT holds a 75 percent interest, has leasable space of approximately 10,100 square meters. Rental returns amount to 8.8 percent (actual rent relative to cost of acquisition plus incidental expenses); acquisition costs are approximately EUR 1,150/square meter. In the reporting period, the previously existing office portfolio (A&T Worms, Parchim and Halle portfolio) was supplemented by the Delitzsch medical centre. The purchase of the Delitzsch building complex, for approximately EUR 5.0 million, was contractually agreed to in July 2007. The beneficial transfer took place in December 2007. The occupancy rate for the entire commercial portfolio stands at 97 percent. After the end of the reporting period, a strategic additional acquisition of a neighbouring residential and commercial building took place to round out the Delitzsch group of buildings. This additional building, with usable space of approximately 310 square meters, is fully rented; the acquisition price was just under EUR 200,000.*

The investments in Poland, Russia and Romania that already existed as of the end of fiscal year 2006/2007 (as at 31 March 2007) developed as follows during the reporting period:

› ***"Nasze Katy Housing Estate"/Wroclaw (Poland):***
*construction of approximately 1,000 apartments in several construction phases on a parcel of 66,000 square meters, with MAGNAT holding a 50 percent interest in the Polish project company (MAGNAT's investment is in the form of an interest and a shareholder loan of EUR 2.8 million). All 67 completed phase 1 apartments were sold during the reporting period. Sales prices of PLN 4,000/square meter were approximately 25 percent above the originally calculated sales prices. As a result, the profit projection for the whole project was able to be raised relative to when first calculated. The start of the next construction phase has begun, with financing secured. The progress of construction for the corresponding construction phase is approximately four weeks ahead of schedule, and 20 apartments have been sold. Currently, the sale of an additional 26 apartments to the municipality is being negotiated; negotiations are almost complete. Because the construction company that was commissioned to perform the construction work has reached its capacity limits, obtaining back-up or re-tendering is being looked into.*

› ***"Cottage Village Sadko I and II" in/Moscow (Russia)***
*construction of a total of approx. 600 single-family homes in several phases on a 900,000 square meters lot in Greater Moscow. The transfer of the shares to MAGNAT for company-law purposes is under way; MAGNAT's total investment amounts to EUR 1.8 million. Sadko I is developing according to plan. The commencement of construction of Sadko II is planned after the completion of Sadko I.*

› ***"Alexander"/Kiev (Ukraine) and "Mogosoaia"/ Bucharest (Romania) properties***
*these properties have an area of approx. 200,000 square meters and 57,000 square meters, respectively, with MAGNAT's respective investments (75 percent interest in each of the project companies) amounting to EUR 3.2 million and EUR 3.0 million. Both properties already have been zoned for residential purposes. Rights to the Alexander property have been secured by contract, but acquisition by the project company has not yet taken place. In Kiev, just as in Bucharest, the dynamic development of the market has led to significant appreciation. Based on the continued high demand for modern living space, there is an increasing scarcity of land in good locations. Furthermore, in*

*Kiev, the moratorium on re-zoning of OSG land to development land in 2007, which was extended by an additional year through the end of 2008, contributed to the increase in value. With respect to the positive development of the real estate markets, it was decided, with the consent of the Supervisory Board, to put these lots up for sale.*

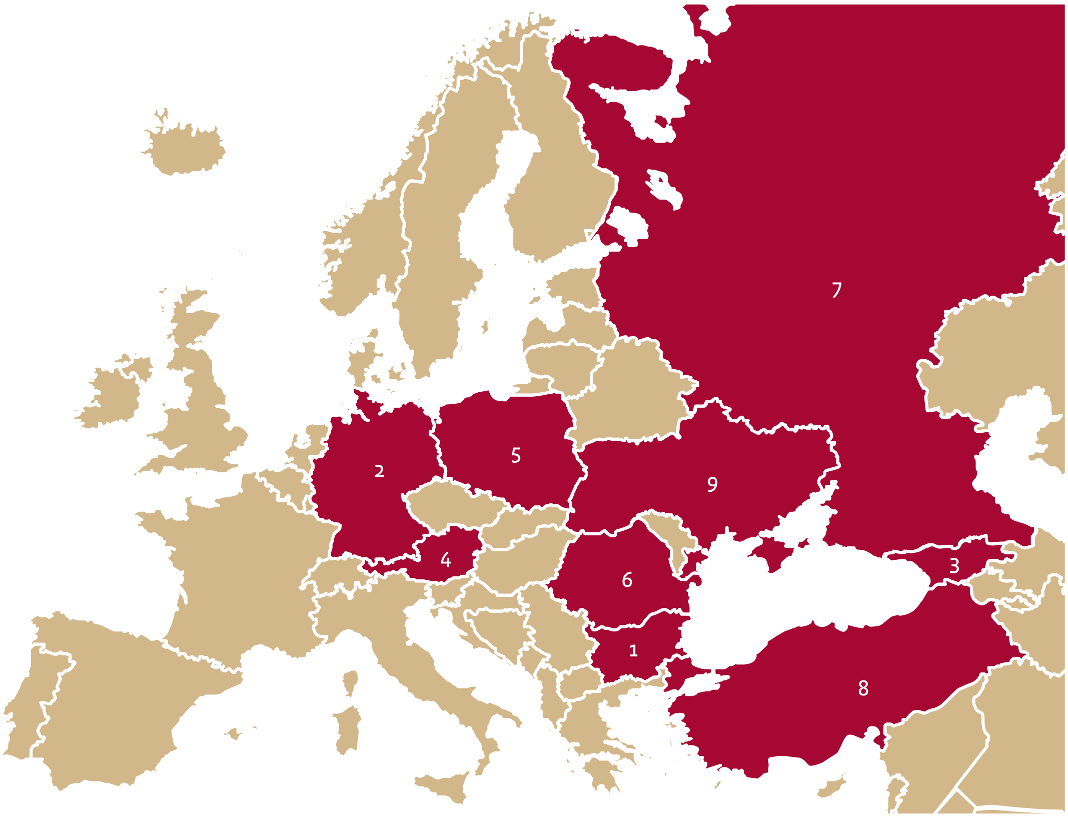
› ***"Cottage Village Vitaly"/Kiev, Ukraine***
*Investment of EUR 0.7 million with a contractual right to a pro rata share of profits from the overall project (construction of 57 luxury detached houses). The permit for the project had already been issued at the time of MAGNAT's investment in the project; four houses have been sold. The profit projection was lowered as a precaution due to the performance to date.*

› ***"Podillja"/Chmelnitzky (Ukraine)***
*With an investment of USD 2.6 million (EUR 2.0 million), MAGNAT financed the completion of phase 1 of the "Podillja" central market centre. With this investment, MAGNAT purchased a contractual claim to 500 commercial units. Phase 1 included a total of approximately 4,500 commercial units. These 500 commercial units were sold for USD 8 million, by way of a share deal, to a company that plans to exploit them. However, that company's payment of the purchase price has been delayed. The primary reason for this was that the end investor did not issue a payment clearance because the finishing work for the entire project was not completed in a timely fashion and therefore, official occupancy permits – the local project partner is responsible for both of these – for putting the market into operation were still outstanding. Before the end investor releases the purchase price, a use permit from the appropriate regional authority is also required, the granting of which was still dependent on increasing the capacity of the electricity connection to the grid by the installation of transformers. Financing of the transformers to increase the capacity of the electrical connection for the whole market was secured by R-QUADRAT, MAGNAT's asset manager. MAGNAT itself did not incur any costs for this or make any additional funds available for this purpose. Until payment of the purchase price, the shares in the project company remain pledged in favour of the seller MAGNAT. In October 2007, MAGNAT decided to make interim financing of USD 1 million (EUR 0.7 million) available to the local partner, against corresponding collateral in the form of an additional 100 commercial units. The purpose of this interim financing was to ensure financing and thus prompt performance of the finishing work. In the Chmelnitzky project, the following developments took place after balance sheet reporting date: Based on the use permit's not yet having been issued by the regional authority as of the beginning of June 2008, payment of the purchase price for phase 1 (USD 8 million for the sale of 500 commercial units) was extended to 30 September 2008. The official permit was finally granted on 27 June 2008. Management is proceeding on the assumption that the remaining preconditions have been satisfied and thus the payment will take place in accordance with the adapted agreement. The shares of the project company will remain pledged in favour of the seller until payment of the purchase price. The sale of the contractual rights for phase 2 that took place in the 4th quarter of the current fiscal year (but not taken into account in revenues because of conditions) and of the shares of the management company for the Chmelnitzky project, was, however, rolled back based on the unmet conditions. The reversal is earnings-neutral. The due date of the supplemental interim financing in October 2007, in the amount of USD 1 million, to the local project partner was extended to the end of September 2008, with the pledge of the additional 100 commercial units as security remaining in existence.*

In the future, the Company intends to concentrate even more on Central and Eastern Europe (hereinafter "CEE"), Southeastern Europe (hereinafter "SEE"), as well as the Commonwealth of Independent States (hereinafter "CIS" or together with CEE and SEE the "CEE/SEE/CIS-Region"). Correspondingly, the German share of the portfolio will be reduced in the short to medium term by a scheduled sell-off of previous investments. Although maintaining a German share in the portfolio is also planned for the medium term, in the future it is to be indirectly represented by the interest in SQUADRA, which concentrates on investments in Germany.

Since its founding, the Company has invested in real estate development in Poland, Ukraine, Germany, Bulgaria, Romania, Austria, Georgia, Turkey and Russia, and in land and real estate trading in projects in Romania, Ukraine, Turkey and Germany. In the medium term, the Company plans to achieve a stronger focus by pulling out of countries such as Bulgaria, Romania and Germany.

1 > Bulgaria
2 > Germany
3 > Georgia
4 > Austria
5 > Poland
6 > Romania
7 > Russia
8 > Turkey
9 > Ukraine




### *d) Research & Development*

The Company does not conduct its own research and development.

## 2. Disclosures under German Commercial Code (HGB) §289 par. 4 and/or §315 par. 4 and explanatory report

### Composition of Subscribed Capital

MAGNAT's capital stock stands at EUR 52,900,000. It is divided into 52,850,000 bearer shares, with a notional par value of EUR 1.00, and 50,000 registered shares, with a notional par value of EUR 1.00. All shares have been fully paid in. As per the Company's articles of association, each share guarantees the right to one vote at the General Meeting of Shareholders. All registered shares were taken up by R-QUADRAT Immobilien Beratungs GmbH, Vienna, Austria. R-QUADRAT Immobilien Beratungs GmbH has the special duty under Company Law of providing comprehensive advice and support to the General Partner in the performance of its responsibilities in connection with acquisitions, development, ongoing management and leasing, as well as the exploitation of direct and indirect real estate investments.

### Limitations Affecting Voting Rights or Share Transfers

The transfer of registered shares requires the consent of the General Meeting of the Company's shareholders. Majority approval by 75 percent of the Company's share capital is required.

To the knowledge of the management of the General Partner, there exist no other limitations on voting rights or stock transfer, or any resulting from agreements among shareholders.

### Direct or Indirect Interests in Capital Exceeding 10 percent of Voting Rights

No such interests exist.

### Bearers of Shares with Special Rights Granting Control Rights

No such shares exist.

### Type of Control over Voting Rights if Employees with an Interest in Capital do not Exercise their Controlling Rights Directly

No such interests exist.

### Legal Provisions and Specifications of the Articles of Association Concerning the Appointment and Removal of the General Partner and Changes to the Articles of Association

The general partner MAGNAT Management GmbH is responsible for an indefinite time period for managing the business of MAGNAT in accordance with the law and the Company's articles of association. It represents the Company with respect to third parties.

The partnership agreement does not include any stipulations governing the taking on additional general partners.

In accordance with the articles of association, the general partner shall withdraw as such from the Company only in the following cases:

- *On the basis of a separate written agreement between the General Partner and the Company in which the Company is represented by the Supervisory Board.*
- *Upon the dissolution of General Partner.*
- *In the event insolvency proceedings are instituted regarding the assets of the General Partner.*

› *When a private creditor of the General Partner – based on a not merely provisionally enforceable title – levies execution against the partnership share and/or the rights flowing therefrom.*

› *Based on a termination for cause by the General Partner or the Company, represented by its Supervisory Board. To be valid, a termination for cause by the Company requires the prior consent of the General Meeting of Shareholders, which must pass its resolution with a majority of 75 percent of the share capital. § 285 paragraph 1 of the German Stock Corporation Act (AktG) shall apply by analogy insofar as the General Partner is terminated for cause.*

Any change to the Articles of Association requires a resolution of the General Meeting of Shareholders, with a majority of at least three fourths of the share capital represented when the resolution was decided on. In addition, changes to the Articles of Association require the consent of the General Partner.

### Powers of General Partner to Issue or Repurchase Shares

The General Partner may only issue new shares on the basis of resolutions of the General Meeting of Shareholders.

With the consent of the Supervisory Board, the General Partner, until 30 June 2012, may increase the share capital of the Company to up to EUR 26,450,000, through the issuance, in partial amounts and on one or more occasions, of up to 26,450,000 new ordinary shares in the form of bearer shares, in exchange for contributions in cash or in kind (2007 Authorised Capital). In principle, limited partner shareholders shall have subscription rights, with exclusion of subscription rights being possible in particular cases defined in the resolution of the General Meeting of Shareholders of 30 August 2007.

Until 30 June 2012, the General Partner, with the consent of the Supervisory Board, is further authorised to issue, on one or more occasions, in bearer and/or registered form, convertible bonds and/or bonds with warrants attached ("Bonds"), for a total par value of up to EUR 100,000,000, with or without a term limitation, and to grant the bond holders and/or obligees warrants or conversion rights for new bearer shares of the Company with a pro-rata share of share capital of up to EUR 26,450,000, as more specifically described in the warrant and/or convertible bond terms defined in the resolution of the General Meeting of Shareholders of 30 August 2007.
In connection herewith, the Company's share capital is conditionally increased by up to EUR 26,450,000 through the issuance of up to 26,450,000 new bearer shares. The conditional capital increase will serve to grant subscription or conversion rights to the holders of warrant and/or convertible bonds issued by the Company or by subordinate companies within the Group pursuant to the above authorisation. The conditional capital increase shall only be implemented insofar as the holders or obligees of warrants or conversion rights make use of such rights or the holders under an obligation to convert fulfil such duty and no cash settlement is allowed or no treasury shares or shares created out of authorised capital are employed.

No use was made of these powers in fiscal year 2007/2008.

As of 31 March 2008, the General Partner did not have a right to acquire treasury shares.

### Material Company Agreements Subject to the Condition of a Change in Control Following a Takeover Bid, and Effects thereof

There are no company agreements are subject to the condition of a change in control as a result of a takeover bid.

### Company Indemnification Agreements Entered into with General Partner or Employees for the Event of a Takeover Bid

No corresponding indemnification agreements exist.

## 3. Results of Operations, Financial Position and Net Assets

### Revenue and earnings developments

In MAGNAT's first full fiscal year, 2007/2008, the Group achieved net operating earnings (EBIT) in the amount of EUR 7.1 million (prior year: minus EUR 0.3 million). Leases of investment properties contributed EUR 2.0 million (prior year: EUR 0.1 million) to earnings. The earnings derive mainly from the residential and commercial portfolio in Germany. Here, over the course of the year, it was possible for the rental income base to be expanded through acquisitions (Saalfeld, Eberswalde, Rostock and Delitzsch), and for rental receipts to be increased by reducing vacancy rates. Earnings from the sale of real estate companies, at EUR 0.02 million (prior year: EUR 0.3 million), was below expectations. On the one hand, there are technical reasons for this, since the sale of the Podillja (Chmelnitzky) project company, for example, is shown "at equity" in earnings. For another, the emphasis of the Company in the fiscal year gone by was on the investment of available funds – with the expected holding period being 2–3 years, the first significant returns from project sales can be expected in the next 12–24 months.

Results coming from at-equity companies in which interests were held, EUR 10.6 million (prior year: EUR – 0.02 million), contributed significantly to earnings. Earnings include a EUR 7.8 million component coming from the YKB portfolio acquired from the Turkish bank Yapı ve Kredı Bankası A.S. ("YKB") in a joint venture with project partners Adama Holding Public Ltd. (lead manager) and Immoeast AG, consisting of approximately 400 properties of various types of use, with a regional emphasis of Greater Istanbul. MAGNAT's equity investment in this portfolio, EUR 13.3 million, corresponds to approx. 12.7 percent of consolidated equity. The assets shown on the balance sheet as investment properties are valued at fair value in accordance with IAS 40. Underlying these fair values were outside valuations by an internationally recognized and neutral appraiser, prepared at the instance of a consortium partner, and in which a higher portfolio value was determined. The consequent increase in value amounted to EUR 42.2 million for the total portfolio. In this regard, MAGNAT made a decision for the Group as a whole – hence for the YKB portfolio and, to a significantly lesser extent, for SQUADRA – to retain the fair value of the IAS 40 investment properties in the relevant Group companies at the MAGNAT consolidated level. In the predominant case of additional investments and, above all, development projects, valuation continues to be based exclusively on historic acquisition costs.

In the fiscal year, general administrative costs stood at EUR 4.4 million (prior year: EUR 0.6 million). Material items here are the management fee paid to the Asset Manager, in the amount of EUR 2.2 million, legal and consulting costs amounting to EUR 1.4 million, and management fee paid to General Partner MAGNAT Management GmbH, in the amount of EUR 0.5 million.

The financial result in the past fiscal year was EUR 1.0 million (prior year: EUR 0.7 million). In particular, financial earnings at an amount of EUR 2.3 million (prior year: EUR 0.8 million) are the result of investing the funds received in connection with the capital increase and the pre-financing of projects for the co-investor. Financial expenses include interest expenses from the taking on of debt.

The result is earnings before tax (EBT) equal to EUR 8.1 million. Compared to the abbreviated 2006/2007 fiscal year, this represents an increase of EUR 7.7 million. The tax rate amounts to approximately 1.2 percent. The consolidated profit for the year increased by EUR 7.7 million, to EUR 8.0 million, with EUR 8.7 million of the annual profit being distributed to shareholders of the parent company and EUR -0.7 Mio to minority shareholders. Taking the results attributable to minority shareholders into account, this corresponds to earnings per share of EUR 0.17.

## Net Assets and Financial Position

For the Company, the 2007/2008 fiscal year was marked by the investment of funds raised. Negative cash flow resulting from ongoing business operations, in an amount of EUR 62.2 million, as well as from investment activity in an amount of EUR 52.4 million, reflects this use of funds. Details regarding individual investment activities were previously discussed at length in the report on business operations. In the consolidated cashflow statement, this is reflected in a EUR 46.7 million increase in investment properties, and a EUR 41.3 million acquisition of shares and increase of capital reserves at companies valued at equity. Financial receivables and other financial assets increased to EUR 6.4 million in the reporting period.

In the fiscal year gone by, the Company's share capital rose as a result of the issuance of 20.7 million new shares as part of the EUR 20.7 million capital increase in April 2007, to EUR 52.9 million. As a result, capital reserves also increased by EUR 24.8 million. Thus, as of the balance sheet reporting date, MAGNAT had consolidated equity of EUR 104.2 million (incl. EUR 14.5 million minority shares) and a solid equity ratio of 73.9 percent (prior year: 90.9 percent).

Furthermore, the Company took on debt in the reporting period in the amount of EUR 32.0 million. Almost all of these financing activities affected debt financing for the German portfolio.

The entire funds inflow from financing activities (incl. minority shares), in the amount of EUR 89.3 million, together with a portion of the available liquidity in the amount of EUR 25.3 million, was reinvested in the reporting period by acquiring new portfolios or shares of real estate companies.

As of the balance sheet reporting date, cash and cash equivalents amounted to EUR 4.8 million (prior year: EUR 30.2 million).

As of the balance sheet reporting date, 31 March 2008, the balance sheet total increased by EUR 91.0 million, from EUR 50.0 million to EUR 141.0 million.

Relative to 31 March 2007, long-term assets increased during the reporting period from EUR 4.8 million to EUR 56.5 million. The increase is primarily due to the investments in companies valued at equity. Within current assets, investment properties rose from EUR 12.1 million to EUR 68.4 million. In the opposite direction, liquidity fell by EUR 25.3 million, from EUR 30.2 million to EUR 4.8 million. In addition, the Company has a line of credit available in the amount of EUR 5.0 million for handling spikes in its liquidity needs.

Based on the capital increase and the profit for the year achieved, shareholders' equity increased by EUR 58.8 million, from EUR 45.4 million to EUR 104.2. Liabilities rose by 32.3 million, from EUR 4.5 million to EUR 36.8 million, resulting from the bank loans taken out.

### Summary

For the Company, fiscal year 2007/2008 was marked by the investment of the funds raised. MAGNAT's business operations were significantly expanded in the reporting period as a result of the funds inflow from the capital increase and the taking out of loans. On the balance sheet reporting date, the financial position of the Group is stable as a result of its high equity ratio of 73.9 percent. The funds inflow was invested in a variety of highly profitable projects. Positive results were able to be reported on parts of the portfolio during the reporting period, based on rental income and the revelation of market values. A solid liquidity position was ensured by the cash on hand as of the balance sheet reporting date, as well as the credit line available to the Company.

## 4. Significant Events Occurring After the Balance Sheet Reporting Date

The February 2008 decision to develop approx. 13,000 square meters residential space in the Vake 28 project in Tbilisi (Georgia), for a total equity investment of USD 1.0 million, with MAGNAT owning 37.5 percent of the project company, was implemented after the balance sheet reporting date. Only a shareholder loan, in an amount of USD 0.75 million, has been granted. Construction is progressing faster than planned, and it is a positive sign that in this early phase, the sale of six apartments can already be reported. The later construction phase is to be financed with a bank loan, which is already being negotiated, but based on the positive developments, will only be drawn down – if at all – to a smaller extent than planned.

Refer to the section on Business Operations regarding additional changes to existing projects.

## 5. Risk Report

### Risk Policy

Business operations of MAGNAT are – compared to traditional real estate investment strategies – geared toward generating above-average returns. This naturally also entails corresponding risks. This above-average risk/reward profile shows up in what the business operations focus on, both functionally – development and profiting from special situations – and geographically (CEE/SEE/CIS-Region). A central element of investment policy is risk diversification through a balanced mix of assets that follows rules relating to geography, function and yield.

Against this strategy background, risk policy cannot be directed towards a complete elimination or far-reaching avoidance of risk. Risk management concentrates on the ongoing identification and active management of risks typical for the business. As part of that policy, risks falling within certain ranges, risks, which are offset by corresponding opportunities for returns, are accepted. The goal is to cap peak risks so as to ensure that they do not threaten the continued existence of the Company.

### Principles of the Risk and Opportunity Management System

Risk management is intended to reduce potential threats, ensure the safety of the portfolio, and support successful further development. By dealing consciously with risks, advantage can be taken of their associated opportunities with a greater degree of safety.

Risk identification is a permanent responsibility, due to continually changing circumstances and demands. Central elements of the determination of risks are regularly scheduled meetings, control meetings, project discussions and individual meetings.

A very important role here is played by limited partner R-QUADRAT, which as part of its special duties under the articles of association performs services that largely span the value-creation chain of real estate activities. Project management is also one of its responsibilities, which is of high importance, primarily in the Development area. The entire risk management process has been documented in a risk management handbook. Risk management is being applied in the MAGNAT Group. R-QUADRAT, as Asset Manager is integrated into the system and into its further development. A critical review, and if necessary a revision, takes place every year.

### Organisational Implementation of the Risk Management System

Based on the structure given, management is directly involved in all important decisions. The flat hierarchy makes a risk management system with comparably simple and less complex structures possible.
The Supervisory Board is regularly informed regarding business developments and of the development of projects/investments, as well as of the status of the risk management system and its continued development.
The control activities of the Supervisory Board are an important element of MAGNAT's risk management system. The Supervisory Board also personally monitors individual projects on site.

### Risks

#### *a) Market and Sector Risks*

The real estate market is strongly affected and influenced by economic developments, which are in turn influenced by many other factors. Important factors within individual national economies and real estate markets, and sometimes market segments, are supply and demand by users, availability of capital, cost of capital (primarily the prevailing interest rate levels) and construction costs.

At the super-regional and global level, the demand of investors for investments in the Real Estate asset class and the relative attractiveness thereof when compared with other asset classes is of significance.

Risks in this connection can be seen in a possible further darkening of the economic situation affecting demand. This situation, combined with the further tightening and a rising cost of capital, could have negative effects on the Company's development. In terms of its strategy of taking advantage of opportunities, MAGNAT is active primarily in markets that, in management's opinion, show a high growth potential and thus are somewhat able to stand out from the general trend.

In the markets of the CEE/SEE/CIS-Region in which MAGNAT is active, there is a significantly higher country risk compared with Western industrialized nations. This country risk has various aspects, for example, political developments, instability of legal systems and the courts in general, as well as factual realities and business practices prevalent in property and land registry law in particular. Many of these risks can neither be eliminated nor completely controlled by the Company.

Risks can partly be offset by avoiding above-average asset allocations to individual projects or specific

countries, as well as by co-investments with well-established local project managers. In this connection, MAGNAT has set itself the goal of investing a maximum of 25 percent of its equity in one project and a maximum of 45 percent of its equity in one country.

Typical sector risks in the Development area are the issuance of building permits (here, risk is sought to be reduced on a project-specific basis by entering into projects which already have building permits), as well as timing and cost risks. Risks of rental losses are less pronounced based on MAGNAT's business model, which is not primarily targeted towards achieving rental income.

## *b) Financial Risks*

### Currency Risks

MAGNAT is active primarily in markets outside the Euro currency zone and is therefore exposed to the corresponding currency translation risks. Insofar as possible and feasible, projects are executed in the same currency (hence, for example debt financing in the same currency as the construction costs).

The remaining exchange rate risk, limited in the textbook case to the equity invested and the potential profit, is only partially hedged: In principle, preference is given to hedging individual project-related risks on an aggregate basis, and here, in turn, hedging is considered only when certain ranges of fluctuation are exceeded, and only for particular currencies and only for the equity invested (but not for the potential profit). This approach is based on a cost/benefit analysis, but also on the knowledge that currency risk as a whole cannot be entirely isolated, rather that many additional interdependencies outside of pure exchange rate fluctuations play a role. In sum, the management of currency risks is geared toward taking on such risks within a certain range of fluctuation. Hedging is merely sought to cap peak risk at the aggregate level and with certain currencies, to counteract developments that could threaten the existence of the Company. The currency hedging strategy is determined in close coordination with the Supervisory Board.

To hedge USD exposure, on 28 September 2007, a USD 25 million EUR Call/USD Put option was purchased at a strike price of 1.47. An option in the opposite direction with a strike price of 1.25 was sold to reduce the premium expense. This hedging strategy covers the Company's investments but not the earnings expected from the respective projects. A further weakening of the U.S. dollar would thus be investment-neutral, but it would have a negative effect on the earnings potential of these projects. A change in the value of the dollar by +/- 10 percent would lead to an increase or decrease of the market values of the derivatives mentioned above of approx. EUR 1.0 million.

Foreign currency exposures in Romania, Bulgaria and Poland are not hedged, as in the opinion of management, no serious devaluation threat exists as a result of these currencies' incremental convergence to the Euro. For the YKB investment in Turkey, a large portion of the significant cash flows are transacted in Euro. Financing with borrowed funds within the project companies is made in the same currency.

### Interest Rate Risk

The MAGNAT Group uses debt to finance real estate projects, in part with variable interest rates. This exposes MAGNAT Group to the risk of changing interest rates, as rises in interest rates increase financing costs. A change in interest rate levels by +/- 100 BP would mean an increase or decrease of the interest expense of the Group by approximately EUR 0.1 million.

Hedging of interest rate risk will take place only in particular cases. Management considers the assumption of this risk justifiable in view of cost/benefit considerations, particularly given the background that investments and the financing pertaining to them are not long-term. An evaluation of this policy is made at regular intervals, but at least every six months, and in close coordination with the Supervisory Board. In the event of a refinancing within the German portfolio a hedging of such is concretely reviewed.

### Liquidity risk

Liquidity developments are reviewed on an ongoing basis through the use of a rolling financial plan. In the Company's initial phase, liquidity risk was managed primarily by maintaining a liquidity reserve in the form of bank credit balances available at any time. This function has now in part been taken over by lines of credit that can be drawn down at any time.

### *c) Operating Risks*

MAGNAT's articles of association provide for the assignment of core processes to limited partner R-QUADRAT. Within the framework of the projects to be managed by R-QUADRAT, traditional project risks could occur. R-QUADRAT is responsible for managing these risks. In this connection, MAGNAT ensures that systemic requirements are observed.

When purchasing investment properties, an independent appraisal is made as part of due diligence, in order to validate or check the management estimate by outside matching.

In individual cases it may be necessary, in particular in the countries of the CEE/SEE/CIS-Region, for an acquisition of land or shares in project companies take place for MAGNAT through trustees or other contractual provisions. The goal in each case is to dissolve these provisions as soon as possible and obtain ownership under civil law. In the case of the Koncha-Zaspa and Alexander parcels of land and the interests in the Digomi and Sadko I and II project companies, this is still in progress.

In the area of real estate development, debt financing ordinarily cannot be negotiated with banks until after MAGNAT's decision regarding the investment has been made, since key elements in making a decision about the loan (e.g. project planning and building permit) do not exist until after the purchase of the property or entry into a project. If financing with borrowed funds cannot be obtained, or cannot be obtained as planned, there is a risk that the project timetable will be delayed and/or that more equity capital will be necessary for a project and/or that the costs of loan financing will be higher than planned. As of the balance sheet date, the Company was able to secure all required project financing.

In sum, all known facts and circumstances being taken into consideration, there are no known risks at present that could jeopardise the existence of the MAGNAT Group in the foreseeable future.

## 6. Compensation Report

### Basic Features of the Compensation System for Management

The compensation of the management company, the General Partner, is governed by § 8 paragraph 2 of the Company's articles of association. On 30 August 2007, the General Meeting of Shareholders of MAGNAT Real Estate Opportunities GmbH & Co. KGaA passed a resolution to amend the compensation provisions for the General Partner (MAGNAT Management GmbH, Frankfurt am Main). Compensation for fiscal year 2007/2008 amounted to:

Assumption of responsibility for business management activities: EUR 502,250
Assumption of personal liability: EUR 2,500

### Compensation of Supervisory Board

On 30 August 2007, the General Meeting of Shareholders of MAGNAT Real Estate Opportunities GmbH & Co. KGaA, passed a resolution for the basic compensation of the first Supervisory Board to be an amount of EUR 5,000 each. The Chairman of the Supervisory Board receives three times that amount. Beyond that, every member of the investment committee receives an attendance fee of EUR 6,000. For the remaining members of the Supervisory Board, the resolution provided for expense reimbursement of EUR 12,500 for fiscal year 2007/2008. The Chairman of the Supervisory Board receives three times that amount and the Vice Chairman of the Supervisory Board receives twice the aforesaid amount. Beyond that, the Company reimburses Board members for their expenses, including the statutory VAT incurred by them due to their Supervisory Board compensation.

In the fiscal year, a consulting relationship existed between MAGNAT Real Estate Opportunities GmbH & Co. KGaA and the company of Supervisory Board member Dr. Carsten Strohdeicher. The consulting agreement includes advice and brokering of debt financing for real estate projects in Germany. The honorariums agreed to therein are significantly below normal market terms. In the past fiscal year, the consulting services were extremely beneficial to the Company. Important financing plans were able to be executed quickly, even against market trends. The consulting agreement was approved by resolution of the Supervisory Board. For the consulting services provided, EUR 70,000, plus V.A.T., was paid out during the fiscal year. Other members of the Supervisory Board did not receive any additional compensation other than the compensation for membership on the Supervisory Board for services performed.

## 7. Forecast

### General Economic Environment and Credit Markets

Forecasts for the continuation of the economic growth of recent years in Europe continue to remain positive, but have become significantly more hesitant, in combination with a slight reduction of growth forecasts for 2008. Central questions such as, for example, the further development of the U.S. economy (primarily the effects of the problems in the U.S. real estate market on U.S. economic growth), oil price development, inflation risks and exchange rate developments, cannot be answered with sufficient clarity at this point and thus ensure uncertainty. In its most recent annual report, the Bank for International Settlements (BIS) warned of a “deeper and longer worldwide downturn than is apparently generally expected”. Particularly the strong rise in the rate of price increases is driving concerns over inflation. This puts the BIS in clear contrast to the statements of prominent international banks, which have already announced the end of the crisis in the financial markets. These contradictory statements make it clear that a stable basis for decisions has not yet been reached.

The growth dynamics of the CEE/SEE/CIS-Region continues to be sound and from today’s point of view, it is not experiencing lasting restrictions as a result of developments in the capital and credit markets. For the financing of development projects, the securitisation markets de facto have until now been inaccessible because of the special requirements. Bank financing for real estate developments in the CEE/SEE/CIS-Region continues to be available. Significant changes in the heretofore already relatively high credit margins and equity ratios are the additional rise in the cost of financing, as well as the even higher quality demands by the institutions providing capital. Rising oil prices are becoming an increasing concern, as is the accompanying rise in inflation. It remains to be seen what level this trend will stabilise at.

To a degree, the U.S. dollar is influencing MAGNAT’s activities. Management is assuming a stabilisation of the dollar at the current level and is counting on a strengthening of the U.S. dollar in 2009. An additional devaluation of the U.S. dollar with respect to the Euro could further cloud the economic outlook and would have a negative effect on the earnings potential of corresponding development projects.

| *Name* | *Function* | *Time Period* | *Compensation (excluding reimbursement of expenses)* |
|---|---|---|---|
| Prof. Dr. Werner Schaffer | Chairman | since 7 July 2006 | 32,130.00 |
| Dr. Oliver Mensching | Vice Chairman until resignation | from 7 July 2006 to 24.10.2007 | 6,517.32 |
| Dr. Carsten Strohdeicher | Vice Chairman | since 7 July 2006 | 20,230.00 |
| Dr. Walter Steindl | Member of the Supervisory Board | from 31 July 2006 to 24.10.2007 | 0.00 |
| Dr. Christoph Jeannée | Member of the Supervisory Board | since 31 July 2006 | 2,625.00 |
| Wolfgang Quirchmayr | Member of the Supervisory Board | from 31 July 2006 to 24.10.2007 | 5,000.00* |

*) before withholding tax as per § 50a German Income Tax Law (EStG)

However, real estate markets continue to profit in these regions from the overall economic dynamics in connection with the large pent-up demand in almost all segments. MAGNAT will continue to concentrate on these markets and in the medium term it plans an additional strengthening of its commitment.

As viewed today, in the commercial development portfolio of the CEE/SEE/CIS-Region, the potential for the sale of completed properties to institutional end investors does not appear to be significantly limited by the credit situation. It remains to be seen if forward sales to end investors – i.e. the sale of properties still in the construction phase – will be possible in the very early phases of development and can be financed by buyers.

There is no expectation of noticeable restrictions of the sale of apartments and residential houses to owner-occupiers in the CEE/SEE/CIS-Region. Rather, in the past it was not possible for private purchasers in most countries to take advantage of credit financing. Only recently were the legal prerequisites for this established, and now the corresponding financing is offered by local banks. This has led to a strong upturn of residential markets on these markets, from which MAGNAT is profiting accordingly.

With regard to exploitation of German real estate, the changed situation on the credit markets can have the effect for MAGNAT that the holding period will become longer. The interest of investors in the German real estate market, which is still one of the most promising in Western Europe, remains high. However, it has become more difficult for interested buyers to secure the corresponding financing. In the process, the opportunity-seeking investors who contributed to shaping the market in recent years are also pulling back. A significant plus factor in sales negotiations is the refinancing accomplished for portions of the German portfolio. For the potential buyer, this offers an attractive loan-to-value situation, coupled with favourable credit conditions and the possibility of assuming this financing. But a longer holding period should not lastingly impair the total returns achievable, for the following reasons: In the German residential market, a price increase is expected as – in addition to the relatively low rent and price level – the number of construction permits and hence the creation of new living space has hit a record low in recent years (with the consequence being the medium-term tightening of residential supply). Therefore, the appreciation potential is substantial,, primarily based on the residential portfolio's low acquisition costs of EUR 420 per square meter and with rent returns of approx 9 percent (actual rental relative to gross acquisition costs), with further upside from the reduction in vacancies.

## Strategic Priorities and Goals

MAGNAT's activities are based on a "buy & sell" and "develop & sell" strategy. Following the successful, but above-average intensive portfolio build-up in the first full fiscal year gone by , over the coming 24 months, development and sale activities will take centre stage. Required capital measures for additional acquisitions are not planned in the current environment. Possibilities to make better use of the above-average equity basis by the taking on of debt are being reviewed. Cash flows resulting from sales are to be reinvested.

In development, the degrees of completion of projects such as, Nasze-Katy, Sadko, Peremogi are being pushed ahead. In the YKB portfolio, promising development projects for further portfolio optimisation were identified in the existing portfolio. Further details of their planning and execution will be decided on over the course of the current fiscal year.

Sales efforts will be guided by the following principles in the current fiscal year and in the year following: Stronger concentration on growth markets, primarily in the CIS-Region, intensification of the ongoing sales efforts in the residential segment (e.g. Nasze-Katy) as well as the realisation of the appreciation achieved in land banking and the opportunely-timed sale of core projects. Within the framework of this country focus, a pullback from Romania is currently being discussed. A further important key point here is the sought-after sale, as described above, of the Germany portfolio over the next two fiscal years.

## CONSOLIDATED INCOME STATEMENT FROM 1 APRIL 2007 – 31 MARCH 2008 (in EUR)

| | Item No. | 01.04.2007 - 31.03.2008<br>EUR | 06.04.2006 - 31.03.2007<br>EUR |
|---|---|---|---|
| Rental income | D. 1 | 4,457,068 | 106,822 |
| Operating expenses to generate rental income | D. 2 | -2,416,161 | -12,998 |
| ***Income from leasing of portfolio properties*** | | ***2,040,907*** | ***93,824*** |
| Proceeds from sale of real estate companies | | 23,955 | 900,000 |
| Net assets from real estate companies (including selling costs) | | -6,300 | -555,971 |
| ***Income from the sale of real estate companies*** | ***D. 3*** | ***17,655*** | ***344,029*** |
| Profits from companies valued at equity | | 10,975,724 | 2,018 |
| Loss from companies valued at equity | | -376,061 | -21,185 |
| ***Income from companies valued at equity*** | ***D. 4*** | ***10,599,663*** | ***-19,167*** |
| Other operating income | | 76,192 | 0 |
| General administrative costs | D. 5 | -4,422,988 | -623,060 |
| Other operating expenses | D. 6 | -1,187,470 | -110,258 |
| ***Income before taxes and interest*** | | ***7,123,959*** | ***-314,633*** |
| Financial income | D. 7 | 2,280,687 | 777,578 |
| Financial expenses | D. 7 | -1,316,528 | -110,484 |
| ***Income before taxes*** | | ***8,088,118*** | ***352,461*** |
| Income tax | D. 8 | -98,766 | -16,233 |
| ***Income after taxes*** | | ***7,989,352*** | ***336,228*** |
| Of which alloted to: | | | |
| ***Minority shareholders*** | ***D. 10*** | ***-665,127*** | ***408*** |
| ***Parent company shareholders*** | | ***8,654,479*** | ***335,820*** |
| Undiluted earnings per share | D. 11 | 0.17 | 0.01 |
| Diluted earnings per share | D. 11 | 0.17 | 0.01 |

## CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2008 (in EUR)

| | Item No. | 31.03.2008 EUR | 31.03.2007 EUR |
|---|---|---|---|
| *ASSETS* | | | |
| ***Long-term assets*** | | | |
| Intangible assets | E. 1.1 | 102,840 | 0 |
| Tangible assets | | 7,256 | 0 |
| Shares in companies valued at equity | E. 1.2 | 48,802,591 | 2,000,650 |
| Loans to companies valued at equity | E. 1.3 | 4,583,300 | 2,824,369 |
| Advance payments on financial assets | E. 1.4 | 1,731,404 | 0 |
| Deferred tax claims | E. 4.1 | 30,375 | 0 |
| Derivative financial instruments | E. 1.5 | 1,260,653 | 0 |
| Total long-term assets | | 56,518,419 | 4,825,019 |
| ***Short-term assets*** | | | |
| Inventory | E. 2.1 | 68,448,501 | 12,052,357 |
| Trade receivables | E. 2.2 | 4,530,786 | 2,595,026 |
| Financial receivables and other financial assets | E. 2.3 | 6,710,343 | 215,000 |
| Derivative financial instruments | | 0 | 145,000 |
| Means of payment | E. 2.4 | 4,827,185 | 30,161,665 |
| Total short-term assets | | 84,516,815 | 45,169,048 |
| ***Total assets*** | | ***141,035,234*** | ***49,994,067*** |

| | Item No. | 31.03.2008 EUR | 31.03.2007 EUR |
|---|---|---|---|
| SHAREHOLDERS' EQUITY AND DEBTS | | | |
| ***Shareholders' equity*** | | | |
| Company capital | | 52,950,000 | 32,250,000 |
| Reserves | | 36,797,183 | 11,230,267 |
| Shareholders' equity | | 89,747,183 | 43,480,267 |
| Minority shares | | 14,461,556 | 1,969,715 |
| | | | |
| Total shareholders' equity | E. 3 | 104,208,739 | 45,449,983 |
| | | | |
| DEBTS | | | |
| ***Long-term debts*** | | | |
| Deferred tax liabilities | E. 4.1 | 52,344 | 13,528 |
| Derivative financial instruments | | 93,367 | 0 |
| Long-term financial debts | E. 4.2 | 13,759,629 | 0 |
| | | 13,905,340 | 13,528 |
| ***Short-term debts*** | | | |
| Deferred debts | E. 5.1 | 613,489 | 223,661 |
| Trade payables and other liabilities | E. 5.2 | 3,782,516 | 4,279,395 |
| Short-term financial debts | E. 5.3 | 18,525,150 | 27,500 |
| | | 22,921,155 | 4,530,556 |
| | | | |
| Total debts | | 36,826,495 | 4,544,085 |
| | | | |
| ***Total debts and shareholders' equity*** | | ***141,035,234*** | ***49,994,067*** |

## CONSOLIDATED CASHFLOW STATEMENT FROM 1 APRIL 2007 – 31 MARCH 2008 (in EUR '000)

| | Item No. | 01.04.2007 - 31.03.2008 EUR '000 | 06.04.2006 - 31.03.2007 EUR '000 |
|---|---|---|---|
| Consolidated income before taxes | | 8,088 | 352 |
| Change in portfolio properties | | (46,652) | (5,804) |
| Change in trade and other receivables | | (127) | (973) |
| Change in financial receivables and other financial assets | | (6,495) | (215) |
| Change in deferred tax liabilities | | 0 | 14 |
| Change in deferred debts | | 390 | 224 |
| Change in rade payables and other liabilities | | (4,302) | 2,713 |
| Change in derivative financial instruments | | (155) | (145) |
| Other items not affecting payments | | (12,971) | 19 |
| | | | |
| ***Cashflow from current business activities*** | ***F*** | ***(62,224)*** | ***(3,815)*** |
| | | | |
| Payments for investment in tangible assets | | (7) | 0 |
| Payments to acquire shares and to increase the capital reserve for companies valued at equity and other equity interests | | (41,278) | (1,418) |
| Payments from granting loans to companies valued at equity and to other equity interests | | (1,759) | (1,880) |
| Payments to acquire securities | | 0 | (56) |
| Payments to acquire subsidiaries (minus acquired cash) | | (9,338) | 7 |
| Payment to increase the capital reserve for subsidiaries | | 0 | (6,250) |
| | | | |
| ***Cashflow from investment activities*** | ***F*** | ***(52,382)*** | ***(9,597)*** |
| | | | |
| Cash proceeds from caital increases | | 57,315 | 43,546 |
| Cash proceeds from taking out financial debts | | 31,956 | 28 |
| | | | |
| ***Cashflow from financing activities*** | ***F*** | ***89,271*** | ***43,574*** |
| | | | |
| Change in payments funds not affecting liquidity | | (25,335) | 30,162 |
| Financial funds at the beginning of the period | | 30,162 | 0 |
| Financial funds at the end of the period | | 4,827 | 30,162 |

## STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE PERIOD FROM 1 APRIL 2007 – 31 MARCH 2008 (in EUR )

| | | *Company capital* | | *Reserves* | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *EUR* | *Item No.* | *Capital contributed by general partner* | *Subscribed capital* | *Capital reserve* | *Revenue reserve* | *Other reserves* | *Shareholders' equity* | *Minority shares* | ***Total shareholders' equity*** |
| **01.04.2007** | **G** | **50** | **32,200** | **10,894** | **336** | **0** | **43,480** | **1,970** | **45,450** |
| Capital increases | G | 0 | 20,700 | 24,840 | 0 | 0 | 45,540 | 13,963 | 59,503 |
| Capital procurement costs | G | 0 | 0 | -2,188 | 0 | 0 | -2,188 | 0 | -2,188 |
| Currency difference | G | 0 | 0 | 0 | 0 | -5,738 | -5,738 | -807 | -6,545 |
| ***Total income recorded directly in shareholders' equity*** | **G** | **0** | **0** | **0** | **0** | **-5,738** | **-5,738** | **-807** | **-6,545** |
| Income for the period under review | G | 0 | 0 | 0 | 8,654 | 0 | 8,654 | -665 | 7,989 |
| ***Total income for the period under review*** | | **0** | **0** | **0** | **8,654** | **-5,738** | **2,916** | **-1,472** | **1,444** |
| **31.03.2008** | **G** | **50** | **52,900** | **33,546** | **8,990** | **-5,738** | **89,748** | **14,461** | **104,209** |
| 06.04.2006 | | 50 | 16,500 | 0 | 0 | 0 | 16,550 | 0 | 16,550 |
| Capital increases | G | 0 | 15,700 | 12,125 | 0 | 0 | 27,825 | 0 | 27,825 |
| Capital procurement costs | G | 0 | 0 | -1,231 | 0 | 0 | -1,231 | 0 | -1,231 |
| Changes in scope of consolidation | | 0 | 0 | 0 | 0 | 0 | 0 | 1,970 | 1,970 |
| Income for the period under review | | 0 | 0 | 0 | 336 | 0 | 336 | 0 | 336 |
| **31.03.2007** | | **50** | **32,200** | **10,894** | **336** | **0** | **43,480** | **1,970** | **45,450** |

# Notes

to Consolidated Financial Statements
for the Fiscal Year from 1 April 2007
through 31 March 2008

## Organisation

## A. General Information

### *1) Corporate Information*

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

The Company was initially listed on the Open Market in July 2006. A change of segment took place on 30 October 2007. Since this time, Company shares have been listed in the General Standard of the Frankfurt Stock Exchange. Through this change of segment, MAGNAT is subject to the strict requirements of the regulated market with regard to the level of transparency applicable throughout the EU.

MAGNAT is a real estate company that focuses on real estate development in Eastern Europe. MAGNAT pursues a strategy oriented toward deliberate exploitation of opportunities from inefficiencies in the real estate markets. All such projects must meet the requirement of above-average yield.

Unlike traditional investment strategies, the MAGNAT business model is therefore primarily based on 'develop and sell' and 'buy & sell' strategies. MAGNAT concentrates on real estate markets with interesting development cycles: undervalued markets (countercyclical investing) and markets with strong economic growth (growth markets). The Group's activities currently focus on Central, Eastern and SoutheasternEurope, enhanced by the exploitation of special opportunities in its domestic market, Germany. In Central, Eastern and Southeastern Europe – hereinafter also referred to as the CEE/SEE/CIS region[1] – MAGNAT concentrates on the "second wave" countries, currently consisting of Russia, Ukraine, Poland, Romania, Bulgaria, Turkey and Georgia.

MAGNAT Real Estate Opportunities GmbH & Co. KGaA is the parent company of the MAGNAT Group. To date, the parent has not made investments in real estate or real estate projects itself. In principle, investments are transacted through project companies, and ownership interests in these project companies are held directly or indirectly by the parent (via intermediate holding companies). The majority of investments to date have been made with co-investors.

Extensive outsourcing, especially of real estate activities, is a central element of business policy, which has a corresponding impact on the company's organisational structure and work flow. As Asset Manager, limited shareholder R-QUADRAT Immobilien Beratungs GmbH, Vienna, Austria, (hereinafter also referred to as "R-QUADRAT"), as part of its special duties pursuant to the articles of association, provides services to MAGNAT largely spanning the entire value-creation chain of real estate activities.

### *2) Adoption of International Financial Reporting Standards (IFRS)*

According to Article 4 of EU Regulation No. 1606/2002 of the European Parliament and the Council of 19 July 2002 for the application of international accounting standards, MAGNAT prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements of the MAGNAT Group, prepared by the parent MAGNAT Real Estate Opportunities GmbH & Co. KGaA, are prepared in accordance with uniform accounting policies. All mandatory IFRS for the reporting period ending on 31 March 2008 – including those International Accounting Standards (IAS) still in effect – were applied, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – including those interpretations of the former Standing Interpretations Committee (SIC) remaining in force – as these are applicable in the European Union. Supplemental provisions of commercial law under § 315a (1) HGB [Handelsgesetzbuch: – German Commercial Code] were followed.

## *3) New Mandatory Accounting Standards*

As a rule, the accounting methods applied correspond to those methods applied in the prior year, with the following exceptions:

The International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC) have issued standards and interpretations (which have already gone through the EU recognition procedure), the application of which is first mandatory in the reporting period.

On 18 August 2005, the International Accounting Standards Board (IASB) issued the IFRS 7, "Financial Instruments: Disclosures". Initial application of IFRS 7 is mandatory for the fiscal year beginning on 1 January 2007. This standard requires disclosure of data making it possible for those to whom financial statements are addressed to evaluate the significance of financial instruments for the Group's financial position and earnings ability, as well as the type and extent of the risks resulting from these financial instruments. The new disclosures resulting herefrom can be found throughout the financial statements. There are no effects on consolidated net assets, financial position or the results of operations from the application of this standard. The relevant comparative data have been adjusted.

The initial application of the IFRIC 8, IFRIC 9, IFRIC 10 and IFRIC 11 interpretations in the reporting period from 1 April 2007 through 31 March 2008 had no material effect on the Company's consolidated financial statements.

## *4) Future Changes in Accounting Policies*

The IASB and IFRIC have adopted standards and interpretations which were not yet mandatory in the reporting period. In principle, voluntary early adoption presupposes EU recognition, which, in part, has yet to occur. The Group has made no use of the option for voluntary early adoption. Only those standards and interpretations which could possibly have an effect on the consolidated financial statements are described in what follows.

### IAS 1 "Presentation of Financial Statements"

In September 2007, the IASB published a revised version of IAS 1. The revised standard includes significant changes to the presentation and disclosure of financial information in financial statements. Changes include, in particular, the introduction of comprehensive accounting encompassing both the earnings generated during the current period and the as yet unrealised gains and losses previously disclosed as equity, and replaces the income statement in its prior form. From now on, in addition to a balance sheet as of the balance sheet reporting date and the balance sheet as of the prior balance sheet reporting date, a balance sheet as of the beginning of the comparative period must also be prepared insofar as the Company applies accounting and valuation methods retroactively, corrects an error or reclassifies a balance sheet item.

The new standard will have an impact on the manner in which consolidated financial information is disclosed, but not, however, on the recognition and the valuation of assets and liabilities on the consolidated financial statements. The revised standard is to be applied for fiscal years beginning on or after 1 January 2009. The standard has yet to be accepted by the EU as European law.

### IAS 23 "Borrowing Costs"

In March 2007, the IASB issued revised standard IAS 23, "Borrowing Costs". IAS 23 abolishes the former option to immediately recognise as an expense interest on debt directly attributable to the acquisition or production of so-called qualifying assets. Application of the revised IAS 23 requires capitalisation of these borrowing costs. The revised standard applies to borrowing costs for qualifying assets the capitalisation of which begins on or after 1 January 2009. The standard has yet to be accepted by the EU as European law.

### IAS 27 "Consolidated and Separate Financial Statements"

As part of the "Business Combinations II" project, in January 2008 the IASB issued a revised version of IAS 27, "Consolidated and Separate Financial Statements", which contains rules relating to consolidation. Addressed for the first time here, in particular, were transactions in which shares of a (subsidiary) company are bought or sold with no resulting change of control in the company. Compared with the former version, significant changes also arise, in particular, from the recognition and valuation of a retained investment in the event of a loss of control over a former subsidiary and from the recognition of losses incurred by minority interests. Changes pursuant to the revised standard are to be applied for the fiscal years beginning on or after 1 July 2009. The standard has yet to be accepted by the EU as European law. Going forward, only future transactions of this type will be affected.

### IAS 32 – Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements

In February 2008, changes to IAS 32 and IAS 1 were published, with initial application intended for fiscal years beginning on or after 1 January 2009. The change relates to the classification of puttable contributions of capital by a shareholder or partner as equity or borrowed capital. According to the former provision, companies were at times forced to disclose shareholders' or partners' capital contributions as a financial liability due to statutorily established termination rights of the shareholder or partner. In the future, these contributions of capital by a shareholder or partner are generally to be classified as equity to the extent that they are puttable at an agreed fair value amount, and the contributions made represent the most junior claim against the net assets of the business.

Due to the legal structure of the parent and subsidiaries, as well as the relevant statutory and company-law provisions, the revised rule will not have an effect on the classification, valuation and presentation on the consolidated financial statements of capital contributions made by a partner or shareholder.

### IFRS 2 "Share-based Payment"

In January 2008, the IASB published additions to IFRS 2, "Share-Based Payment" which go into effect on 1 January 2009. The changes make it clear that payment conditions are to be interpreted as being conditions of exercise. Furthermore, it is clarified that the termination of an agreement for share-based payment either by an employee or another party is to be given the same treatment. The standard has yet to be accepted by the EU as European law. Since no share-based payments have been granted at the present time, the Company does not expect any effects from the changes to this standard.

### IFRS 3 “Business Combinations“

As part of the “Business Combinations II“ project, in January 2008 the IASB published a new version of IFRS 3, “Business Combinations“. Compared to the old version, significant changes result, in particular, with regard to the recognition and valuation of assets and liabilities acquired in a combination, the valuation of minority interests, the determination of goodwill and the portrayal of transactions with variable purchase prices. The revised standard is to be applied to transactions taking place in fiscal years beginning on or after 1 July 2009. The standard has yet to be accepted by the EU as European law. Effects will only exist for business combinations occurring in the future.

### IFRS 8 “Operating Segments“

In November 2007, the IASB issued IFRS 8, “Operating Segments“, which defines requirements for reporting the financial results of the operating segments of an entity. IFRS 8 replaces IAS 14 “Segment Reporting“. It follows the so-called management approach under which the determination of operating segments is based on the internal reports used regularly by the so-called “chief operating decision maker“ in making decisions regarding the allocation of resources to a segment and evaluating the performance of that segment. IFRS 8 applies to fiscal years beginning on or after 1 January 2009. The EU recognition process has already been completed so that, in principle, voluntary early application is possible. For the fiscal year 2007/2008, the segment reporting continued to be prepared in accordance with IAS 14.

Interpretations IFRIC 12, IFRIC 13 and IFRIC 14 were issued by the IFRIC prior to 31 March 2008. After 31 March 2008, interpretations IFRIC 15 and IFRIC 16 were issued by the IFRIC. The Company does not expect that these interpretations will have a material effect on the consolidated financial statements. All the interpretations listed have yet to be accepted as European law by the EU.

## *5) Significant Discretionary Decisions and Estimates*

### Discretionary Decisions

In applying accounting and valuation policies, the Company has made the following discretionary decisions which have a material effect on the amounts in the consolidated financial statements. These decisions do not include those which include estimates:

***Operating lease commitments – Group as lessor***
The Group has entered into commercial property leasing agreements on its investment property portfolio. In them, it was agreed that the Group is to retain all the significant risks and rewards of ownership of the properties leased thereunder, and, in accordance therewith, the Group will carry them as operating leases on its balance sheet.

***Land held by the Company***
Land reported as investment property is held for sale in the ordinary course of business and is not held for long-term appreciation.

### Estimates and Assumptions

Discussed below are the most important assumptions relative to the future, as are other material sources of uncertainty when making estimates which existed as of the balance sheet reporting date, based on which there is a risk that a material adjustment to the book value of assets and liabilities will be required to be made during the next fiscal year.

### Properties held as financial investments

For the first time, the Company valued at fair value properties held by the Group as financial investments. In the comparable period, no properties were held as financial investments by companies within the scope of consolidation. During the reporting period, properties held as financial investments within the Group were held only by Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, a company valued at equity, and by companies valued at equity of subgroup GAIA Real Estate Holding S.A., Luxembourg. The fair value amounts were determined based on a valuation by an outside, independent appraiser. In calculating fair value, assumptions were made with respect to changes in rents, vacancy rates, revenue reductions and maintenance costs, as well as discount rates. Due to their long-term orientation, these valuation assumptions are subject to uncertainty, which can result in both positive and negative changes of value in the future.

### Investment properties

Investment property is reported under IAS 2. In accordance herewith, investment properties are reported at the lower of cost or net realisable value.

Estimates of net realisable value are based on the most reliable, substantive information available at the time of the estimate of the amount expected to be realised on the property. These estimates take into account price or cost changes directly related to events subsequent to the reporting period insofar as these events shed light on circumstances which already existed at the end of the reporting period. Estimates of net realisable value also take into account the purpose for which the investment properties are held.

Net realisable value is recalculated in each subsequent period. When circumstances which previously resulted in an impairment of the property's value to a level below its cost no longer exist, or when, due to altered economic circumstances, there is a substantial indication of an increase in net realisable value, the amount of the impairment is reversed insofar as necessary to make the new book value equal to the lower of cost or adjusted net realisable value (i.e. the reversal is limited to the amount of the original impairment). This is the case, for example, when properties which, due to a decline in their selling price, are reported at net realisable value are still in the portfolio in a subsequent period and their selling price has gone back up.

### Deferred tax assets

Deferred tax assets are recognised for all unused tax loss carry-forwards to the extent that it is probable that taxable income will be available against which the unused tax loss carry-forwards can be offset. The calculation of the amount of the deferred tax assets requires the use of estimates on the part of management based on the amount and timing of future taxable income as well as future tax planning strategies.

Reference is made to item D.8 in the notes to the consolidated financial statements for further explanation.

### 6) Auditor

The auditor of MKGaA is Ernst & Young AG Wirtscha ftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Eschborn office, Mergenthalerallee 3-5, 65760 Eschborn, Germany (hereinafter referred to as "E&Y"). E&Y audited the consolidated financial statements of MKGaA for the period ending 31 March 2007 in accordance with the IFRS, as applicable in the EU, and the supplemental provisions of § 315a (1) HGB [Handelsgesetzbuch – German Commercial Code], issuing an unqualified opinion.

In the reporting year, costs for the auditor incurred within the MAGNAT Group amounted to EUR 351,000 including VAT (prior year: EUR 90,000) for expenses related to the audit of the annual financial statements and EUR 45,000 for other services related to the issuance of a comfort letter in connection with the Company's listing in the Regulated Market (General Standard).

## B. Scope of Consolidation and Consolidation Methods

### 1) Scope of Consolidation

Presented in what follows are the major subsidiaries included on the consolidated financial statements, as are the joint ventures and affiliates valued at equity (hereinafter referred to as the "MAGNAT Group" or the "Group").

Despite a percentage holding of less than 20 percent, Squadra Immobilien GmbH & Co. KGaA was classified as an affiliate of the MAGNAT Group since the management bodies of MAGNAT Real Estate Opportunities GmbH & Co. KGaA and Squadra Immobilien GmbH & Co. KGaA are made up of the same persons.

GAIA Real Estate Holding S.A. is classified as a joint venture since, in accordance with agreements under the articles of association, strategic financial and business policies connected with business activities can only be determined by all three partner companies jointly.

| Group company | | | Share of voting rights | Date founded / acquired | Cost [1] EUR '000 |
|---|---|---|---|---|---|
| **Directly held shares** | | | | | |
| **Germany** | | | | | |
| Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, Germany | Affiliated | Founded | 15.93% | 03.08.2007 | 4,000 |
| **Other countries** | | | | | |
| MAGNAT Investment I B.V., Hardinxveld Giessendam, Netherlands | Subsidiary | Acquired | 75.00% | 09.11.2006 | 19 |
| MAGNAT Investment II B.V., Hardinxveld Giessendam, Netherlands | Joint Venture | Acquired | 50.00% | 22.01.2007 | 9 |
| R-QUADRAT Polska Alpha Sp. Z. o.o., Warsaw, Poland | Joint Venture | Acquired | 50.00% | 26.03.2007 | 7 |
| GAIA Real Estate Holding S.A. (formerly: SOFA Holdings S.A.), Luxembourg | Joint Venture | Acquired | 33.33% | 16.08.2007 | 13,275 |
| Russian Land AG, Vienna, Austria | Affiliate | Founded | 49.99% | 02.10.2007 | 2,525 |

[1] Acquisition costs are represented as a percentage according to the respective share of the voting right held directly or indirectly by the parent company. Aggregate acquisition costs are in each case derived by extrapolating them to 100 percent.

| Group company | | | Share of voting rights | Date founded / acquired | Cost [2] EUR '000 |
|---|---|---|---|---|---|
| ***Indirectly held shares*** | | | | | |
| ***Germany*** | | | | | |
| Erste MAGNAT Immobiliengesellschaft mbH, Frankfurt am Main, Germany | Subsidiary | Acquired | 75.00 % [1] | 15.11.2006 | 21 |
| Zweite MAGNAT Immobiliengesellschaft mbH, Frankfurt am Main, Germany | Subsidiary | Acquired | 75.00 % [1] | 10.11.2006 | 19 |
| Dritte MAGNAT Immobiliengesellschaft, Frankfurt am Main, Germany | Subsidiary | Acquired | 75.00 % [1] | 01.02.2007 | 21 |
| Vierte MAGNAT Immobiliengesellschaft mbH, Frankfurt am Main, Germany | Subsidiary | Acquired | 75.00 % [1] | 03.04.2007 | 19 |
| Fünfte MAGNAT Immobiliengesellschaft mbH, Frankfurt am Main, Germany | Subsidiary | Founded | 75.00 % [1] | 02.04.2007 | 19 |

| Group company | | | Share of voting rights | Date founded / acquired | Cost [2] EUR '000 |
|---|---|---|---|---|---|
| ***Other countries*** | | | | | |
| MAGNAT Real Estate UA III B.V., Hardinxveld Giessendam, Netherlands | Subsidiary | Founded | 75.00 % [1] | 18.01.2007 | 14 |
| JJW Hotel Palais Schwarzenberg Betriebs-gesellschaft mbH, Vienna, Austria | Affiliate | Founded | 18.75 % [1] | 21.08.2007 | 3,094 |
| MAGNAT Real Estate UA VI B.V., Hardinxveld Giesendam, Netherlands | Subsidiary | Founded | 75.00 % [1] | 15.05.2007 | 14 |
| SC TEO Impex s.r.l., Bucharest, Romania | Subsidiary | Acquired | 75.00 % [1] | 01.06.2007 | 0 |
| R-QUADRAT Bulgaria EOOD, Sofia, Bulgaria | Subsidiary | Founded | 75.00 % [1] | 07.06.2007 | 2 |
| SC Victory International Consulting s.r.l., Bucharest, Romania | Subsidiary | Acquired | 75.00 % [1] | 01.06.2007 | 0 |
| OXELTON ENTERPRISES Limited, Nicosia, Cyprus | Joint Venture | Acquired | 45.00 % [1] | 05.07.2007 | 10,875 |
| Irao MAGNAT Digomi LLC, Tbilisi, Georgia | Subsidiary | Founded | 56.25 % [1] | 29.06.2007 | 0 |
| R-QUADRAT Ukraine Alpha Ltd., Kiev, Ukraine | Subsidiary | Acquired | 75.00 % [1] | 31.08.2007 | 3,529 |
| R-QUADRAT Ukraine Beta Ltd., Kiev, Ukraine | Subsidiary | Acquired | 75.00 % [1] | 31.08.2007 | 3,677 |

[1] Units are held indirectly through MAGNAT Investment I B.V., Hardinxveld Giessendam, Netherlands.

[2] Acquisition costs are shown as a pecentage according to the respective share of voting rights held directly or indirectly by the parent company. In each case, extrapolation to 100 percent yields the total acquisition costs.

## Information related to the Acquisition of Subsidiaries

Five subsidiaries were acquired during the fiscal year. Viewed on an individual basis, the acquisitions of these companies are not material. The disclosures required under IFRS 3.67(f) are therefore presented below in summary form:

| *Name* | *Book value of assets and liabilities EUR '000* | *Market value of assets and liabilities EUR '000* |
|---|---|---|
| Investment properties | 3,782 | 3,782 |
| Receivables and other assets | 1,802 | 1,802 |
| Securities | 7,758 | 7,758 |
| Cash on hand, Bundesbank credit balances, bank deposits and checks | 299 | 299 |
| ***Total assets*** | ***13,641*** | ***13,641*** |
| Shareholders' equity | 9,534 | 9,534 |
| Liabilities | 4,107 | 4,107 |
| ***Total liabilities and shareholders' equity*** | ***13,641*** | ***13,641*** |

The disbursements for acquisition of the subsidiaries, less liquid assets acquired, amount to EUR 9,338,000. This amount includes Incidental expenses related to the acquisition of subsidiaries amounting to EUR 135,000.

Sales revenues and annual profit or loss of the new subsidiaries required to be disclosed in accordance with IFRS 3.70 are shown in the following table:

| *Name* | *Sales revenues 01.04.07 - 31.03.08 EUR '000* | *Profit/loss for the period 01.04.07 - 31.03.08 EUR '000* |
|---|---|---|
| ***Germany*** | | |
| Vierte MAGNAT Immobiliengesellschaft mbH | 175 | -216 |
| | 175 | -216 |
| ***Other countries*** | | |
| SC TEO Imprex s.r.l. | 0 | -482 |
| R-QUADRAT Ukraine Alpha Ltd. | 0 | -153 |
| R-QUADRAT Ukraine Beta Ltd. | 0 | -179 |
| SC Victory International Consulting s.r.l. | 1 | -1,409 |
| | 1 | -2,223 |
| | ***176*** | ***-2,439*** |

## *2) Consolidation Methods*

### Consolidation Methods

The consolidated financial statements include the financial statements of MAGNAT and its subsidiaries as of March 31 of the fiscal year of each. The financial statements or interim financial statements of the subsidiaries are prepared as of the same closing date as the parent company's, using uniform accounting and valuation policies.

The consolidation of investments in the subsidiaries was carried out using the purchase method, allocating the cost of the shares of the subsidiaries to the pro rata amount of the revalued equity represented by the subsidiaries at the date of acquisition. Any differences resulting herefrom are allocated to the subsidiary's assets and liabilities insofar as their fair values differ from the book values shown on the financial statements. Hidden reserves discovered will be amortised in subsequent consolidations, in line with the corresponding assets and liabilities. Intercompany sales revenues, expenses and income, and all intercompany receivables and liabilities, were eliminated.

Affiliates and joint ventures were included in the Group at equity.

### Currency Translation

The concept of functional currency was applied to the financial statements of consolidated entities prepared in foreign currencies. Under IAS 21 (Effects of Changes in Foreign Exchange Rates), foreign currency assets and liabilities are translated into the reporting currency, euros, at the rate prevailing on the reporting date, and expenses and income are translated at annual average rates.

The Group's currency is the euro. For subsidiaries or companies valued at equity which report in foreign currencies, the functional currency is determined based on the primary economic environment in which the respective company operates.

In Ukraine, for example, only transactions in the national currency are permitted. The national currency is that in which the majority of sales revenues and costs are processed. To a large extent, companies operate independently on their local markets.

During the reporting period, the financial statements of some companies valued at equity were not prepared in the reporting currency, the euro. To the extent that these companies were included in the consolidated financial statements at equity, the Group's interest in that company's equity was converted to the reporting currency in accordance with the functional currency concept. Conversion of the Group's pro rata share of their results is carried out using annual average rates.

Currency translation differences are recognised in equity with no impact on earnings (EUR 6,545,000, of which EUR 807,000 in minority interests). These include currency translation differences from monetary items under IAS 21.32 or IAS 21.45, amounting to EUR 1,403,000 (of which EUR 351,000 going to minority interests).

## C. Accounting and Valuation Principles

The consolidated financial statements were prepared on the assumption of a going concern. Assets and liabilities are broken down by maturity (more than/less than one year). Deferred taxes are reported 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 May 2008.

The reporting currency is the euro. Insofar as figures have been rounded to thousands of euro, this has been stated.

The consolidated financial statements are prepared, in principle, in accordance with the cost method. This does not apply to derivative financial instruments such as securities, which are valued at fair value. For purposes of initial recognition, real property held as a financial investment is valued at cost including incidental expenses. In subsequent valuations, real property held as a financial investment is valued at fair value (IAS 40).

### Intangible Assets

Licenses, industrial property rights and similar rights and assets, as well as licenses of such rights and assets, are shown at cost. Intangible assets include goodwill in the amount of EUR 103,000.

A so-called impairment test is carried out at least once a year in accordance with IAS 36, under which the impairment of the book value must be proven ("impairment only approach"). This scheduled impairment test is always carried out during the third quarter on the basis of mid-year data. To the extent that indications of impairment do exist, new tests are to be performed regardless of the mandatory annual impairment test.

### Fixed Assets

Fixed assets are shown at cost, less scheduled straightline depreciation.

### Impairment of Non-Financial Assets

Assets within the meaning of IAS 36.1 are to be tested for impairment in the event that factors or changed circumstances indicate that an asset's book amount may not be recoverable. As soon as an asset's book amount exceeds the amount recoverable, an impairment is recognised, with effect on the income statement. The recoverable amount is the higher of net selling price and the utility value of an asset. The net selling price is the amount recoverable from the sale of an asset under current market conditions, less the cost of sale. The utility value is the present value of the estimated future cash flows which can be expected from continued use of an asset and the disposal of that asset at the end of its useful life. The recoverable amount is calculated for each asset individually or, in the event that this is not possible, for the cash-generating unit to which the asset belongs.

A write-up of previously impaired assets is mandatory when the reason for the impairment has disappeared. The only exceptions to this rule are impairments to goodwill, for which a write-up is specifically prohibited.

### Financial Assets

Financial assets and liabilities are classified when acquired in accordance with the categories of IAS 39. The Company mainly holds financial instruments of the category loans and receivables, derivatives of financial investments held for trading and financial liabilities at amortised cost.

Loans, receivables and other assets are assigned to the category "loans and receivables" and, at the time of initial recognition, are recognised at cost, taking into account any transaction costs incurred. In subsequent periods, these are to be valued at amortised cost. Default risks are taken into account through write-downs to the extent not covered by insurance. Non-interest-bearing or low-interest receivables are carried at present value.

Derivative financial instruments are classified in their entirety as "held for trade" and are carried at fair value at the time of purchase as well at the balance sheet reporting date Recognition occurs on the trade date. Derivative financial instruments are recognised as assets when their fair value is positive and as liabilities when their fair value is negative. At the time of purchase, their fair value equals the cost of purchase. Changes to fair value between the time of purchase and the balance sheet reporting date were recognised in full directly on the income statement – to the extent that they do not meet the criteria for reporting as a hedge transaction. Fair values were determined on the basis of recognised valuation methods with option pricing models. The confirmations issued by the contracting parties as of the reporting date are consulted for purposes of comparison.

Inasmuch as the conditions of IAS 39 are not present, hedge accounting is currently not employed.

No use has been made of the option to designate assets or liabilities, when added, as recognised in profit or loss and valued at fair value.

The Company removes a financial asset from its books when it has ceased due to payment or when payments may no longer be expected for the asset.

### Impairment of Financial Assets

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

If there is an objective indication that an impairment loss on loans and receivables carried at amortised cost has occurred, the amount of the loss results from the difference between the asset's book value and the present value of estimated future cash flows (excluding expected future loan defaults that have not yet occurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate determined upon initial recognition).

The book value of the asset is reduced through use of a value adjustment account. The impairment loss is recognised in profit or loss.

It is first determined whether an objective indication of individual impairment exists for financial assets which are significant in and of themselves, and of individual or collective impairment for financial assets that are not significant in and of themselves. If the Group determines that no objective indication of impairment exists for an individually tested financial asset, whether significant or not, it assigns the asset to a group of financial assets with similar credit risk characteristics and collectively tests them for impairment. Assets which are tested individually for impairment and for which an impairment loss is recognised are not included in the collective assessment for the portfolio.

If the amount of the impairment loss declines in a subsequent reporting period and the decline can be related objectively to a circumstance arising after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is limited to the amortised cost at the date of the reversal. The reversal is recognised on the income statement. For trade receivables, if there are objective indications (such as likelihood of insolvency or significant financial difficulties of the debtor) that not all amounts due under the original payment terms will be collected, an impairment loss is charged using a value adjustment account. The amount of an impairment loss is de-recognised when a receivable is classified as uncollectible. The relevant company is viewed as the cash-generating unit.

### Shares of Companies Valued at Equity

Shares of those companies over which MAGNAT Real Estate Opportunities GmbH & Co. KGaA is able to exercise a significant influence but over which no control is held are to be recognised in accordance with IAS 28, using the equity method to value the Group's pro rata equity interest. Shares of joint venture companies are to be recognised in accordance with IAS 31 using the equity method to value the Group's pro rata equity interest. Subsequently, the book value of the shares will increase and decrease in accordance with the shareholder's portion of the periodic profit of the company valued at equity (including foreign currency translation). Application of the equity method ends when the significant influence ceases to exist or when the company is no longer classified as a joint venture.

After application of the equity method, the Group makes a determination of whether it is necessary to recognise an additional impairment loss for the Group's shares in those companies valued at equity. As of each balance sheet reporting date, the Group determines the extent to which there are objective indications that a share of a company valued at equity is impaired. If so, the positive difference between the book value and the recoverable amount (the higher of utility value and fair value, less cost of disposal) is recognised as an impairment loss recognised in profit or loss.

### Properties Held as Financial Investments

For the first time, the Company has recognised at fair value properties held as a financial investment within the Group. There were no properties held as financial investments by companies within the scope of consolidation during the comparable period. During the reporting period, properties held as a financial investment within the Group were held only at Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, a company valued at equity, and at companies valued at equity of subgroup GAIA Real Estate Holding S.A., Luxembourg. The fair value amounts were determined based on a valuation by an outside, independent appraiser. In calculating fair value, assumptions were made with respect to changes in rents, vacancy rates, revenue reductions and maintenance costs, as well as discount rates. Due to their long-term orientation, these valuation assumptions are subject to uncertainty, which can result in both positive and negative changes of value in the future.

### Investment Properties

Investment properties are recognised in accordance with IAS 2. Investment properties are reported at the lower of cost of manufacture/production and net realisable value. Net realisable value is the estimated selling price obtainable in the ordinary course of business less estimated costs up to completion and estimated selling costs. Besides directly attributable individual costs, cost also includes overhead costs attributable to manufacture or production. In accordance with IAS 23, borrowing costs are not included in the cost of manufacture/ production (benchmark method), but are recorded as an expense. Since investment property is held exclusively for re-sale, no scheduled depreciation was taken during the fiscal year.

### Taxes

Current tax assets and liabilities for prior periods are measured as 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 reporting date.

### Deferred Taxes

Deferred taxes are recognised using the liability method for temporary differences existing as of the balance sheet reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except for deferred tax liabilities from taxable temporary differences in connection with holdings in subsidiaries, affiliates and joint ventures if the timing for reversing the temporary differences can be controlled, and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, tax loss carry-forwards not yet used and unused tax credits to the extent that there is a likelihood that taxable income will be available against which the deductible temporary differences and the unused tax loss carry-forwards and unused tax credits can be offset, except:

- *deferred tax assets related to deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the profit for the period under commercial law nor the taxable income, and*

- *deferred tax assets from taxable temporary differences connected with holdings in subsidiaries, affiliates and joint ventures, where it is probable that the temporary differences will not be reversed in the foreseeable future, and that sufficient taxable income will not be available against which the temporary differences can be applied.*

The book value of deferred tax assets is reviewed as of each balance reporting sheet date and reduced insofar as it is no longer probable that sufficient taxable income will be available against which at least part of the deferred tax asset can be offset. Unrecognised deferred tax assets are reviewed as of each balance sheet reporting date and recognised insofar as it has become probable that future taxable income will allow the deferred tax asset to be realised on.

Deferred tax assets and liabilities are measured using the tax rates expected to apply in the period in which the asset is realised on or the liability is satisfied. They are calculated based on the tax rates (and tax laws) applicable as of the balance sheet reporting date. Subsidiaries' deferred tax assets and liabilities are measured using the tax rates of their respective countries.

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

### Value-Added Tax

Sales revenues, expenses and assets are recognised net of VAT, with the following exceptions:

- *When the VAT incurred on a purchase of assets or services is not recoverable from the tax authorities, the VAT is recognised as part of the asset's cost or as part of the expense item.*

- *Receivables and liabilities are recognised with VAT included.*

The amount of VAT recovered from, or paid to, the tax authority is included under receivables or liabilities in the consolidated balance sheet.

### Cash and Cash Equivalents

Cash and cash equivalents include cash and demand deposits and are recognised at their face amount. Cash in foreign currencies is translated at the rate prevailing on the reporting date.

### Trade Payables and Other Liabilities

After their initial recognition, liabilities are measured at amortised cost. Gains and losses are recognised in profit or loss for the period when the liabilities are de-recognised.

### Financial Liabilities

Financial liabilities are recognised at their initial cost less all directly incurred and attributable transaction costs and any discounts associated therewith. In subsequent periods, transaction costs and any discounts are adjusted using the effective interest rate method. Recognition of financial liabilities is subsequently made at amortised cost. A financial liability is de-recognised when it is repaid or ultimately ceases to exist.

### Accrued Liabilities

During the fiscal year, corresponding liabilities were recorded for future liabilities to third parties for which an outflow of funds is probable. Liabilities are created in the amount of the present value of the expected outflow of funds for those obligations for which no pecuniary charge is expected as early as in the following year. The value recorded for the liabilities is reviewed at each balance sheet reporting date. Liabilities in foreign currencies are translated at the rate prevailing on the reporting date.

### Minority Interests

Other shareholders' shares of net assets were calculated and reported separately from the shares of the parent company's shares in consolidated shareholders' equity. Other shareholders' shares of net assets are made up of the amount of minority interests as of the prior year's balance sheet reporting date and of the minority interests' share of the changes to equity during the fiscal year.

### Leasing

***a) Determination of whether an Agreement Contains a Lease***

The determination of whether an agreement is or contains a lease takes place initially on the basis of the economic content of the agreement, based on an assessment of whether performance of the agreement depends upon the utilisation of a certain asset, and the agreement conveys a right to use that asset.

After commencement of the lease, a new assessment of whether an agreement contains a lease is to be made only when one of the following conditions is met:

- *there is a change to the terms of the lease, as long as the change does not relate only to a renewal or extension of the agreement;*
- *a renewal option is exercised or an extension is granted, unless the conditions of renewal or extension were already originally taken into account during the term of the lease agreement;*
- *there is a change in the determination of whether performance depends upon a specific asset;*
- *or there is a significant change to the asset.*

***b) Group as Lessor***
Leases in which substantially all of the risks and benefits associated with ownership are not transferred by the Group to the lessee are classified as operating leases. Initial direct costs incurred in negotiating and entering into an operating lease are added to the book value of the leased asset and are recognised over the lease term corresponding to the lease income. Contingent rents are recognised as income in the period in which earned.

Rental agreements concluded by the Group in connection with residential properties do not represent leases within the meaning of IAS 17 because the lease agreements usually do not cover a fixed term, but are entered into for an indefinite period. Lessees may terminate the agreement by the statutory deadlines.

***c) Group as Lessee***
Lease payments for operating leases are recognised in the income statement as an straight-line expense over the term of the lease.

## Revenue Recognition

Sales revenues comprise proceeds from the sale of real estate companies, net rent and incidental rental expenses. Net rent and incidental rental expenses were reported on the consolidated income statement as rental income. Sales revenues are recognised in the period in which they are realised.

Revenue is recognised from sales transactions when

- *substantially all the risks and rewards connected with ownership are transferred to the buyer;*
- *the Group retains neither rights of disposition nor effective control over the object of sale;*
- *the amount of revenue and the costs arising in connection with the sale can be measured reliably;*
- *and it is sufficiently probable that an economic benefit will flow to the Group from the sale.*

## Comparability to Prior Year Figures

With respect to comparability to prior year figures, it should be noted that the prior year was an abbreviated fiscal year (from 6 April 2006 through 31 March 2007).

## D. Notes to the Consolidated Income Statement

### *1) Rental Income*

Rental income breaks down for the Group as follows:

| EUR '000 | 01.04.2007 - 31.03.2008 | 06.04.2006 - 31.03.2007 |
|---|---|---|
| Net rents | 3,209 | 95 |
| Proceeds from incidental rental expenses | 1,248 | 12 |
| | **4,457** | **107** |

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

### *2) Operating Expenses for the Generation of Rental Income*

Operating expenses for the generation of rental income were EUR 2,416,000 for the reporting year (prior year: EUR 13,000). Operating expenses amounting to EUR 1,248,000 (prior year: EUR 12,000) are allocable and can be passed on to renters. Operating expenses amounting to EUR 1,168,000 are non-allocable.

### *3) Profit and Loss from the Disposition of Real Estate Companies*

In the comparable period, the Company sold its shares of a real estate company, amounting to 94.5 percent, for a purchase price of EUR 900,000. That company largely consisted of one property. The purchase price was disclosed as of 31 March 2007 in the item Trade Payables And Other Receivables.

The cost of disposition of the real estate company in the comparable period relates mainly to the disposition of the real estate company's net assets of EUR 534,000. Furthermore, disposition costs of EUR 22,000 were deferred by the Company.

### 4) Profit or Loss on Companies Valued at Equity

Profit or loss from companies valued at equity (EUR 10,600,000; prior year: EUR -19,000) mainly includes the Company's share of profit from GAIA Real Estate Holding S.A., Luxembourg, (EUR 7,776,000) and the Company's share of profit from Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, Germany (EUR 339,000). The profit in each case largely results from the valuation of properties held as financial investments at fair value pursuant to IAS 40.

For R-QUADRAT Polska Alpha Sp. Z.o.o., a company valued at equity, a first-time share of losses, amounting to EUR 126,000, was not recognised.

### 5) General and Administrative Expenses

| EUR '000 | 01/04/2007 - 31/03/2008 | 06/04/2006 - 31/03/2007 |
|---|---|---|
| Management Fees | 2,247 | 37 |
| Legal and consulting fees | 1,442 | 322 |
| MAGNAT Management GmbH management fee | 505 | 186 |
| Advertising and travel expenses | 133 | 16 |
| Supervisory Board remuneration | 96 | 62 |
| | **4,423** | **623** |

### 6) Other Operating Expenses

| EUR '000 | 01/04/2007 - 31/03/2008 | 06/04/2006 - 31/03/2007 |
|---|---|---|
| Non-deductible input tax | 331 | 75 |
| Write-down of trade receivables | 103 | 0 |
| Expenses for General Shareholders Meeting and stock support | 86 | 23 |
| Other | 667 | 12 |
| | **1,187** | **110** |

### 7) Financial Result

| EUR '000 | 01/04/2007 - 31/03/2008 | 06/04/2006 - 31/03/2007 |
|---|---|---|
| Financial income | 2,281 | 778 |
| Finance expenses | -1,317 | -111 |
| | **964** | **667** |

Financial income derives, in particular, from the investment of funds taken in connection with the Company's capital increase and the preliminary financing of projects for the co-investor. Financial income includes EUR 868,000 from the valuation of foreign currency derivatives at fair value.

Financial expenses mainly include interest expense paid to banks and shareholders owing to the Group's extensive investment activities. Refer to item I.1.

### 8) Taxes on Income

| EUR '000 | 01/04/2007 - 31/03/2008 | 06/04/2006 - 31/03/2007 |
|---|---|---|
| Current income tax expense | 90 | 3 |
| Deferred income tax expense | 9 | 13 |
| | **99** | **16** |

Current tax expenses include corporate income tax and trade income tax for the domestic companies.

As of the balance sheet reporting date, there are unused tax loss carry-forwards amounting to EUR 7,061,000 (prior year: EUR 875,000) at companies included in the consolidated financial statements. The tax loss carry-forwards result from loss carry-forwards from the subgroup Magnat Investment I B.V. (EUR 4,144,000) and those from MAGNAT (EUR 2,917,000). Deferred tax assets are only recognised based on these loss carry-forwards if it is probable that there will be sufficient profit against which they may be offset in the foreseeable future.

## 9) Tax Reconciliation

The tax reconciliation between the theoretical and actual (including deferred) tax expense is shown on the basis of a consolidated tax rate of 29.7 percent (prior year 37.5 percent).

| EUR '000 | 01/04/2007 - 31/03/2008 | 06/04/2006 - 31/03/2007 |
|---|---|---|
| ***Profit before taxes*** | ***8,091*** | ***352*** |
| ***Expected tax expense*** | ***2,403*** | ***132*** |
| Tax effect from neutralisation of costs of raising capital | -650 | -461 |
| Tax effect from non-deductible expenses | 126 | 19 |
| Tax effect from foreign currency translations not affecting income | -417 | 0 |
| Tax effects from tax-free income | -3,038 | 0 |
| Tax effects from unused tax los carry-forwards for which no deferred tax assets were recognised | 1,690 | 328 |
| Other | -15 | -2 |
| ***Effective taxes on income (original + deferred taxes)*** | ***99*** | ***16*** |
| Consolidated tax rate (in %) | 1.2 | 4.5 |

Tax-free income (tax effect EUR 3,038,000) is the result of tax-free investment income.

## 10) Profit or Loss after Taxes Attributable to Minority Interests

The impact of minority interests on the profit or loss after tax, amounting to EUR -665,000 (prior year: EUR 400), is attributable mostly to other shareholders' shares of MAGNAT Investment I B.V., Netherlands.

## 11) Earnings per Share

The basic earnings per share are derived from the portion of the profit for the period attributable to equity holders of the Company, divided by the weighted average of the theoretical number of shares outstanding.

Corresponding to the division of the share capital, equal to EUR 52,900,000, into 52.9 million shares (after capital increases), the General Partner's capital is represented by a theoretical 50,000 shares.

| | 01/04/2007 - 31/03/2008 | 06/04/2006 - 31/03/2007 |
|---|---|---|
| Share in profit or loss attributable to equity holders of the parent (EUR '000) | 8,654 | 336 |
| Weighted average of theoretical number of shares outstanding | 51,915,500 | 25,793,889 |
| ***Basic earnings per share (EUR)*** | **0.17** | **0.01** |
| ***Diluted earnings per share (EUR)*** | **0.17** | **0.01** |

The basic earnings are equal to the diluted earnings because no dilution is present.

The General Meeting of Shareholders of 13 February 2007 passed a resolution to increase share capital by EUR 4,600,000. The Supervisory Board was also authorized to raise share capital by an additional EUR 16,100,000, to EUR 52,900,000. The Management made use of this authorisation by a resolution dated 22 March 2007, as did the Supervisory Board by its approval dated 23 March 2007. The implementation of both capital increases was entered in the Commercial Register on 18 April 2007.

Pursuant to IAS 33.64, the effect on basic and diluted earnings per share should be shown as if the capital increase had already taken place as of the start of the fiscal year. The effect on basic and diluted earnings per share is presented below:

| | 01/04/2007 - 31/03/2008 | 06/04/2006 - 31/03/2007 |
|---|---|---|
| Share in profit or loss attributable to equity holders of the parent (EUR 000') | 8,654 | 336 |
| Number of outstanding shares | 52,900,000 | 52,900,000 |
| ***Basic earnings per share (EUR)*** | **0.16** | **0.01** |
| ***Diluted earnings per share (EUR)*** | **0.16** | **0.01** |

## E. Notes to the Consolidated Balance Sheet

### *1) Long-Term Assets*

#### ***1.1 Intangible Assets***

Intangible assets include goodwill of the subsidiaries of MAGNAT Investment I B.V. determined in connection with the capital consolidation.

#### ***1.2 Investments in Companies Valued at Equity***

Investments in companies valued at equity (EUR 48,803,000) comprise investments in associated companies (EUR 10,595,000) and joint ventures (EUR 38,208,000).

#### ***1.2.1 Investments in Associated Companies***

| *Company* | *Balance sheet value as of 31/03/2008 EUR '000* | *Balance sheet value as of 31/03/2007 EUR '000* |
|---|---|---|
| Squadra Immobilien GmbH & Co. KGaA | 4,339 | 0 |
| Russian Land AG | 2,494 | 0 |
| JJW Hotel Palais Schwarzenberg Betriebsgesellschaft mbH | 3,762 | 0 |
| | **10,595** | **0** |

A summary of the complete assets, liabilities, income and profit and loss for the period of the associated companies are shown in the following table:

Summarised financial information of associated companies:

| *EUR '000* | *31.03.2008* | *31.03.2007* |
|---|---|---|
| Aggregate assets | 46,039 | 0 |
| Aggregate liabilities | 3,171 | 0 |
| Aggregate income | 612 | 0 |
| Aggregate profit/loss for the period | 1,418 | 0 |

The following associated companies and subgroups have a balance sheet date differing from the consolidated balance sheet date: JJW Palais Schwarzenberg Betriebsgesellschaft mbH, Russian Land AG. MAGNAT exercises significant influence over the associated companies jointly with other equity holders and, hence, the taxable year of MAGNAT Real Estate Opportunities KGaA cannot serve as a basis. In connection with the preparation of the consolidated financial statements, interim financial statements are prepared for the companies.

### *1.2.2 Investments in Joint Ventures*

| *Company* | *Balance sheet value as of 31/03/2008 EUR '000* | *Balance sheet value as of 31/03/2007 EUR '000* |
|---|---|---|
| R-QUADRAT Polska Alpha Sp. Z.o.o. | 0 | 9 |
| MAGNAT Investment II B.V. | 5,489 | 1,992 |
| GAIA Real Estate Holding S.A. | 17,824 | 0 |
| OXELTON ENTERPRISES Limited | 14,895 | 0 |
| | ***38,208*** | ***2,001*** |

Summarised financial information of joint ventures in accordance with IAS 31.56 (subgroups' proportional interests):

| *in EUR '000* | *31.03.2008* | *31.03.2007* |
|---|---|---|
| Aggregate long-term assets | 37,403 | 5,941 |
| Aggregate current assets | 68,995 | 6,727 |
| Aggregate long-term liabilities | 3,108 | 2,031 |
| Aggregate current liabilities | 77,081 | 4,655 |
| Aggregate income | 31,669 | 5 |
| Aggregate expenses | 19,610 | 43 |

The following joint ventures and subgroups have a balance sheet date differing from the consolidated balance sheet date: R-QUADRAT Polska Alpha Sp. Z.o.o., GAIA Real Estate Holding S.A., OXELTON ENTERPRISES Limited. In connection with the preparation of the consolidated financial statements, interim financial statements are prepared for the companies.

### 1.3 Loans to Companies Valued at Equity

Loans to companies valued at equity, amounting to EUR 4,583,000 (prior year: EUR 2,824,000), relate largely to a loan to R-QUADRAT Polska Alpha Sp. Z.o.o., Poland, and a loan to OXELTON ENTERPRISES Limited, Cyprus, (EUR 1,000,000). The loan to R-QUADRAT Polska Alpha Sp. Z.o.o. was granted for project development of the "Katy Wroclawskie" project and bears an interest rate of 11 percent p.a. The loan has a term of 4 years. The agreement is subject to termination by either party within 3 months. The repayment date of the loan to OXELTON ENTERPRISES Limited is contingent upon the occurrence of certain future conditions and bears an interest rate of 10 percent p.a. The loan is to be repaid no later than 31 December 2011.

### 1.4 Advance Payments for Financial Assets

Advance payments for financial assets relate to advance payments for financing the Sadko project.

### 1.5 Derivative Financial Instruments

The reported financial instruments, amounting to EUR 1,261,000, relate to MAGNAT's long position (foreign currency options). Refer to item I.1 in this regard.

## 2) Current Assets

### 2.1 Investment Properties

Reported investment properties amounting to EUR 61,764,000 (prior year: EUR 6,249,000) relate to unimproved and improved properties intended for re-sale. In addition, advance payments of EUR 6,685,000 (prior year: EUR 5,803,000) were made for other land and buildings. There were no indications of impairment. There were also no write-downs reversed during the fiscal year.

Investment properties were recognised at the lower of cost and fair value (net realisable value). No write-downs of investment properties were recognised during the reporting period.

The following investment properties were pledged as collateral for liabilities.

| *Company* | *Book Value EUR '000* | *Property* |
|---|---|---|
| Erste MAGNAT Immobiliengesellschaft mbH | 6,266 | Worms labour office, Parchim labour office, Schwerin labour office, Telekom Halle |
| Zweite MAGNAT Immobiliengesellschaft mbH | 24,857 | Eberswalde |
| Dritte MAGNAT Immobiliengesellschaft mbH | 3,059 | Rostock |
| Vierte MAGNAT Immobiliengesellschaft mbH | 7,899 | Saalfeld |
| Fünfte MAGNAT Immobiliengesellschaft mbH | 5,429 | Delitzsch |
| | **47,510** | |

### 2.2 Trade Receivables and Other Assets

| *EUR '000* | *31/03/2008* | *31/03/2007* |
|---|---|---|
| Trade receivables | 2,366 | 1,424 |
| Income tax receivables | 371 | 243 |
| Administrative accounts | 144 | 79 |
| Other | 1,650 | 849 |
| | **4,531** | **2,595** |

All receivables have a short-term maturity. Bad debt write-downs amounting to EUR 103,000 were taken. Other than those, there are no significant overdue payments.

### 2.3 Financial Receivables and Other Financial Assets

Financial receivables and other financial assets contain mostly MKGaA's current financial receivables from R-Quadrat Capital Beta GmbH, amounting to EUR 4,706,000 and current financial receivables of MAGNAT Investment I B.V. from R-Quadrat Capital Beta GmbH, amounting to EUR 973,000. This item also includes EUR 573,000 in interest on loans to companies valued at equity.

### 2.4 Cash and Cash Equivalents

Cash and cash equivalents of EUR 4,827,000 (prior year: EUR 30,162,000) relate to cash on hand and bank balances.

## 3) Equity

MAGNAT's share capital is currently EUR 52,900,000.00. This amount is divided into 52,850,000 individual bearer shares with a theoretical par value of EUR 1 and 50,000 individual registered shares with a theoretical value of EUR 1 each. All shares are fully paid in.

Transfer of the registered shares requires the consent of the Company's General Meeting of Shareholders. Consent must be given by a 75 percent majority of the share capital of the Company. In the event of a capital increase, the profit participation of new shares may be defined in a manner deviating from German Stock Corporation Act [Aktiengesetz] (AktG) § 60 (2).

The equity share of the personally liable partner amounts to EUR 50,000.00.

Limited shareholders are not entitled to the issuance of individual share certificates for limited partners' shares. The Company can group together individual shares of one class into share certificates representing a majority of shares. Limited partners' shares are represented in several global certificates.

## Long-term Liabilities

### 4.1 Deferred Tax Assets and Tax Liabilities

Deferred tax assets and tax liabilities are composed of temporary differences in the following balance sheet items:

| *EUR '000* | *31/03/2008* | *31/03/2007* |
|---|---|---|
| Companies valued at equity | 144 | 0 |
| Loss carry-forwards | 407 | 0 |
| ***Deferred tax assets*** | ***551*** | ***0*** |
| Companies valued at equity | 114 | 0 |
| Derivative financial instruments | 258 | 0 |
| Investment properties | 199 | 13 |
| Other | 2 | 0 |
| ***Deferred tax expenses*** | ***573*** | ***13*** |

EUR 521,000 of this amount meets the requirements of IAS 12.74. After netting out deferred tax and deferred tax liabilities, the following deferred tax assets and liabilities remain:

| *EUR '000* | *31/03/2008* | *31/03/2007* |
|---|---|---|
| Companies valued at equity | 30 | 0 |
| ***Deferred tax assets*** | ***30*** | ***0*** |
| Investment properties | 50 | 13 |
| Other | 2 | 0 |
| ***Deferred tax expenses*** | ***52*** | ***13*** |

### *4.2 Long-Term Financial Liabilities*

Long-term financial liabilities, amounting to EUR 13,760,000, solely contain liabilities to banks with a remaining time to maturity of more than one year.

The nominal interest rate is virtually identical to the effective interest rate, as only minimal transaction costs were incurred.

| *Non-current share of loans* | *Nominal interest rate %* | *Maturity* | *31/3/2008 EUR 000'* | *31/3/2007 EUR 000'* |
|---|---|---|---|---|
| DKB rollover loan for Erste MAGNAT Immobilienges. mbH | 3M-EURIBOR +1.2 % | 30/12/2010 | 3,782 | - |
| DKB rollover loan for Vierte MAGNAT Immobilienges. mbH | 3M-EURIBOR +1.2 % | 30/12/2010 | 5,843 | - |
| DKB rollover loan Fünfte MAGNAT Immobilienges. mbH | 3M-EURIBOR +1.2 % | 30/12/2010 | 4,135 | - |
| | | | ***13,760*** | ***0*** |

## *5) Current Liabilities*

### *5.1 Accrued Liabilities*

| *EUR '000* | *31/03/2008* | *31/03/2007* |
|---|---|---|
| Financial statement expenses and auditing fees | 469 | 138 |
| Supervisory Board remuneration | 96 | 62 |
| Outstanding invoices | 48 | 24 |
| | ***613*** | ***224*** |

### *5.2 Trade Payables and Other Liabilities*

| *EUR '000* | *31/03/2008* | *31/03/2007* |
|---|---|---|
| Payables to related parties | 2,906 | 946 |
| Trade payables | 470 | 3,084 |
| Liabilities to administrators | 230 | 0 |
| Income tax liabilities | 61 | 1 |
| VAT liabilities | 9 | 164 |
| Other | 106 | 84 |
| | ***3,782*** | ***4,279*** |

Payables to related parties consist of payables to R-QUADRAT Immobilien Beratungs GmbH.

Trade payables, amounting to EUR 470,000 (prior year: EUR 3,084,000), are entirely made up of payables to third parties and have a short-term maturity. They stem primarily from the implementation of investment projects.

Liabilities to administrators comprise mainly operating costs owed for properties leased. The liabilities are short-term in nature.

Current income tax liabilities, amounting to EUR 61,000 (prior year: EUR 1,000), relate to trade tax (EUR 30,000) and corporate income tax (EUR 31,000).

### *5.3 Current Financial Liabilities*

Current financial liabilities are made up of both liabilities to banks, amounting to T EUR 15,342, and liabilities to companies in which an equity interest exists, amounting to EUR 3,183,000.

All current and future receivables of Zweite MAGNAT Immobilien GmbH and Dritte MAGNAT Immobilien GmbH from rental and lease contracts and from purchase price claims are pledged as collateral to the bank to secure a short-term EUR 15,000,000 line of credit. The pledge of bank balances of Zweite MAGNAT Immobilien GmbH and Dritte MAGNAT Immobilien GmbH is serving as collateral for a short-term EUR 15,000,000 line of credit.

Liabilities to banks include EUR 207,000 in interest liabilities.

Liabilities to companies in which an equity interest is held are current and relate to liabilities to minority shareholders and the General Partner.

The nominal interest rate is virtually identical to the effective interest rate, as only minimal transaction costs were incurred.

| Current portion of loans | Nominal interest rate % | Maturity | 31/03/2008 EUR '000 | 31/03/2007 EUR '000 |
|---|---|---|---|---|
| Line of credit EUR 15,000,000 Hypo Vereinsbank for Zweite and Dritte MAGNAT Immobilienges. mbH | 7.25 % | 31.08.2008 | 14,770 | - |
| Loan by R-QUADRAT Capital Beta GmbH for MAGNAT Investment IBV | 7.40 % | 31.12.2008 | 2,944 | - |
| Loan by R-QUADRAT Capital Beta GmbH for Zweite MAGNAT Immobilienges. mbH | 7.40 % | 31.12.2008 | 239 | - |
| Interest liabilities for current and non-current loans | n/a | n/a | 207 | - |
| Repayment of DKB loan for Erste MAGNAT Immobilienges. mbH | 3M-EURIBOR +1.2 % | 31.07. bzw. 31.12.2008 | 116 | - |
| Repayment of DKB loan for Vierte MAGNAT Immobilienges. mbH | 3M-EURIBOR +1.2 % | 31.07. bzw. 31.12.2008 | 120 | - |
| Repayment of DKB loan for Fünfte MAGNAT Immobilienges. mbH | 3M-EURIBOR +1.2 % | 31.07. bzw. 31.12.2008 | 124 | - |
| Current account liability MAGNAT ReOp KGaA | 5.69 % | n/a | 5 | 28 |
| | | | ***18,525*** | ***28*** |

## *6) Operating Leases – Group as Lessee*

Subleases exist, mainly for German companies in the Group, with the managing General Partner MAGNAT Management GmbH. These leases result in a liability amounting to approx. EUR 7,000 for the following fiscal year and a liability amounting to EUR 36,000 for five fiscal years.

## *7) Operating Leases – Group as Lessor*

With its acquisition of real estate in the property management companies intended for sale, the Group has entered into commercial property leases. The property held includes office space not used by the Group itself. The remaining lease terms of these non-cancellable leases are between 2.5 and 3.5 years.

As of the reporting date, the following leases were in existence:

The “Parchim labour office” property has a non-cancellable remaining lease term until the end of May 2011. The tenant has two unilateral options to extend the fixed lease term by five years at a time.

For the associated property annex, there is a non-cancellable remaining lease term until the end of November 2010. The tenant has a unilateral option to extend the fixed lease term by six years.

The “Worms labour office” property has a non-cancellable remaining lease term until the end of March 2011. The tenant has two unilateral options to extend the fixed lease term by five years at a time.

The “Telekom Halle Peissen” property has a non-cancellable remaining lease term until the end of September 2011. The tenant has three unilateral options to extend the fixed lease term by five years at a time.

The “Delitzch” property has a non-cancellable remaining lease term until the end of 2010 for one key tenant. The tenant has two unilateral options to extend the fixed lease term by two years at a time. There are various non-cancellable remaining lease terms for the remaining tenants which range from mid-September 2008 through the end of February 2009. In addition, various customized options to extend the term exist.

As described above, the lease terms agreed to by the Group in connection with residential properties do not represent leases for purposes of IAS 17.

As of 31 March 2008, the following receivables for future minimum lease payments from non-cancellable leases were in existence:

| | EUR '000 |
|---|---|
| < 1 year | 666 |
| 1 to 5 years | 1,391 |
| over 5 years | 0 |
| | **2,057** |

## F. Notes to the Consolidated Cash Flow Statement

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

The cash flow from operating activities includes disbursements for income taxes in the amount of EUR 371,000. There were no income tax refunds during the fiscal year.

The cash flow includes interest received, in the amount of EUR 1,723,000, and interest paid, in the amount of EUR 1,524,000.

### Cash Flows from Operating Activities

Cash flow from operating activities, in the amount of a total EUR -62,224,000, is marked chiefly by the expansion of land banking activities (EUR 46,652,000), as well as financial receivables and other financial assets (EUR 6,495,000). Changes to trade payables and other liabilities, as well as changes to deferred liabilities resulted in a net amount of EUR 3,912,000. Non-cash expenses and income amounted to EUR 12,971,000.
A breakdown of the significant items is shown separately in the section “Non-cash expenses and income”.

### Cash Flows From Investing Activities

A majority of the shares in associated companies and other ownership interests were acquired during the reporting period. Cash flow relative hereto comes to a total of EUR 41,278,000. Disbursements for the purchase of subsidiaries during the reporting period amounted to EUR 9,338,000. Loans granted to associated companies and other ownership interests resulted in disbursements of EUR 1,759,000, and capital expenditures for fixed assets accounted for disbursements of EUR 7,000.

### Cash Flows From Financing Activities

Cash flows from financing activities, amounting to EUR 89,271,000, are mainly due to the capital increases carried out during the reporting period (EUR 57,315,000) and to the assumption of financial liabilities in the amount of EUR 31,956,000.

### Cash Funds

Cash funds are equal to the balance sheet amount for cash and cash equivalents on the consolidated balance sheet.

### Non-cash Items

Non-cash items result mainly from the profit or loss of associated companies (EUR 10,600,000), from foreign currency translation (EUR 1,403,000) and from the results of revaluation of financial derivatives in accordance with IAS 39 (EUR 868,000).

## G. Notes to the Consolidated Statement of Changes in Equity

### *1) Notes to the Consolidated Statement of Changes in Equity for the Period 1 April 2007 through 31 March 2008*

### Capital Transactions with Equity Holders

The capital increases agreed upon in February 2007, amounting to EUR 4,600,000 and EUR 16,100,000 (approved capital 2007/I), were recorded in the Commercial Register on 18 April 2007, thereby becoming effective. Following the capital increases the effects of which were felt during the reporting year, the share capital increased from EUR 32,200,000 to EUR 52,900,000. In connection with the capital increases, a premium amounting to EUR 24,800,000 was achieved, which was deposited into capital reserves. During the reporting year no distributions were made to equity holders, nor were any made in the year following up through the time the financial statements were prepared.

### Transaction Costs

Transaction costs in connection with the issuance of share capital amount to EUR 2,188,000, reducing capital reserves with no effect on the income statement.

### Additional Equity Changes not affecting the Income Statement

A negative foreign currency translation difference amounting to EUR 6,545,000, of which EUR 807,000 was attributable to minority interests, led to the additional changes to shareholders' equity, having no effect on the income statement.

### Profit or Loss for the Period

The profit for the period attributable to the shareholders of the parent amounts to EUR 8,654,000; the minority interests account for a share of losses amounting to EUR 665,000.

### *2) Notes to the Consolidated Statement of Changes in Equity for the Period 6 April 2006 through 31 March 2007*

As of the balance sheet date 31 March 2007, the subscribed capital of MAGNAT Real Estate Opportunities GmbH & Co. KGaA, EUR 32,200,000, was divided into 32,150,000 individual bearer shares with a notional par value of EUR 1 each and 50,000 individual registered shares also with a notional value of EUR 1. In this 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 (authorised capital).

The Company was founded on 6 April 2006 with equity of EUR 16,550,000.

On the Company's formation, Management was authorised to issue up to 8,000,000 shares with a par value of EUR 1 in return for cash or non-cash contributions (Authorised Capital I).

At the Extraordinary General Meeting of the Company's shareholder on 7 July 2006, a resolution was passed to increase the Company's capital stock by up to EUR

5,000,000, from EUR 16,500,000 to up to EUR 21,500,000, in exchange for cash contributions. In addition, authorisation was granted for the further issuance of up to

2,750,000 shares, with a par value of EUR 1, in exchange for cash or non-cash contributions (Authorised Capital II).

On 17 July 2006, the personally liable partner decided to increase the share capital of MKGaA not by the EUR 5,000,000 decided on at the General Meeting of Shareholders on 7 July 2006, but rather by EUR 6,500,000. The additional increase of EUR 1,500,000 is covered by the approved capital amounting to EUR 8,000,000. The Company's share capital thereby amounts to EUR 23,000,000.

Following the capital increase, Authorised Capital I amounts to EUR 6,500,000. On 17 July 2006, the Supervisory Board of MKGaA approved the decisions made by the General Partner of MAGNAT Management GmbH.

On 18 September 2006, personally liable partner MAGNAT Management GmbH made a decision to increase share capital by EUR 9,200,000, from EUR 23,000,000 to EUR 32,200,000, by making full use of Authorised Capital I (EUR 6,500,000) and partial use of Authorised Capital II (EUR 2,700,000 of EUR 2,750,000). The decision made by the General Partner MAGNAT Management GmbH on 18 September 2006 had been approved by the Supervisory Board of MKGaA on 15 September 2006.

For each capital increase, the amount raised in excess of the par value was transferred to the capital reserve. The cost of raising capital of EUR 1,231,000 was deducted directly from the capital reserve. Deferred taxes were not recognised in connection herewith as it is not currently expected that the losses incurred, in particular through the cost of raising capital, will be able to be utilised in the future.

During the period from 6 April 2006 through 31 March 2007, the minority interests item comprised only shares of minority shareholders in MAGNAT Investment I B.V., Netherlands.

## H. Consolidated Segment Reporting

| *1 April 2007 - 31 March 2008* | *Business Segments* | | | |
|---|---|---|---|---|
| *EUR '000* | *Portfolio* | *Development* | *Non-operational* | *Group* |
| Revenues | 0 | 4,457 | 24 | 4,481 |
| Other income | 0 | 67 | 1 | 68 |
| Income from companies valued at equity | 8,115 | 2,861 | 0 | 10,976 |
| ***Segment income*** | ***8,115*** | ***7,385*** | ***25*** | ***15,525*** |
| Other expenses | 0 | -5,000 | -3,025 | -8,025 |
| Losses from companies valued at equity | 0 | -376 | 0 | -376 |
| ***Segment expenses*** | ***0*** | ***-5,376*** | ***-3,025*** | ***-8,401*** |
| ***Segment profit or loss*** | ***8,115*** | ***2,009*** | ***-3,000*** | ***7,124*** |
| Interest income | | | | 2,281 |
| Interest expense | | | | -1,317 |
| Taxes on income | | | | -99 |
| ***Profit or loss for the period*** | | | | ***7,989*** |
| ***Additional information*** | | | | |
| Segment assets | 22,164 | 94,495 | 12,681 | 129,340 |
| there of shares of companies valued at equity | 22,164 | 26,639 | 0 | 48,803 |
| Loans to companies valued at equity | | | | 4,583 |
| Financial receivables and other financial assets | | | | 6,710 |
| Tax assets | | | | 401 |
| ***Total assets*** | | | | ***141,035*** |
| Segment liabilities | 0 | 1,282 | 3,198 | 4,480 |
| Long-term financial liabilities | | | | 13,760 |
| Current financial liabilities | | | | 18,525 |
| Tax liabilities | | | | 61 |
| ***Total liabilities*** | | | | ***36,826*** |

| | *Geographic Segments* | | |
|---|---|---|---|
| *EUR '000* | *Germany* | *CEE/SEE/CIS [1]* | *Group* |
| Revenues | 4,480 | 1 | 4,481 |
| Other income | 43 | 25 | 68 |
| Income from companies valued at equity | 339 | 10,637 | 10,976 |
| ***Segment income*** | ***4,862*** | ***10,663*** | ***15,525*** |
| ***Additional information*** | | | |
| Segment assets | 60,723 | 68,617 | 129,340 |

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

| 6 April 2006 - 31 March 2007 | | Business segments | | |
|---|---|---|---|---|
| EUR '000 | Portfolio | Development | Non - operational | Group |
| Revenues | 0 | 1,007 | 0 | 1,007 |
| Income from companies valued at equity | 0 | 2 | 0 | 2 |
| **Segment income** | **0** | **1,009** | **0** | **1,009** |
| Other expenses | 0 | -657 | -645 | -1,302 |
| Losses from companies valued at equity | 0 | -21 | 0 | -21 |
| **Segment expenses** | **0** | **-678** | **-645** | **-1,323** |
| **Segment profit or loss** | **0** | **331** | **-645** | **-314** |
| Interest income | | | | 777 |
| Interest expense | | | | -111 |
| Taxes on income | | | | -16 |
| **Profit or loss for the period** | | | | **336** |
| **Additional information** | | | | |
| Segment assets | 0 | 16,441 | 30,271 | 46,712 |
| thereof shares of companies valued at equity | 0 | 2,001 | 0 | 2,001 |
| Loans to companies valued at equity | | | | 2,824 |
| Financial receivables and other financial assets | | | | 215 |
| Tax assets | | | | 243 |
| **Total assets** | | | | **49,994** |
| Segment liabilities | 0 | 4,217 | 284 | 4,501 |
| Current financial liabilities | | | | 28 |
| Tax liabilities | | | | 15 |
| **Total liabilities** | | | | **4,544** |

| | Geographic Segments | | |
|---|---|---|---|
| EUR '000 | Germany | CEE/SEE/CIS [1] | Group |
| Revenues | 1,007 | 0 | 1,007 |
| Income from companies valued at equity | 0 | 2 | 2 |
| **Segment income** | **1,007** | **2** | **1,009** |
| **Additional information** | | | |
| Segment assets | 37,530 | 9,182 | 46,712 |

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

Segmentation of financial statement data is carried out pursuant to IAS 14 according to the internal focus by strategic business area (primary segment) as well as the regional aspects (secondary segment). The Group is divided primarily into the two business segments: Portfolio and Development. The Portfolio segment contains information related to properties held as long-term fixed assets. The Development segment includes the business areas of Revitalisation, Project Development and Land Banking. The "Non-Operational" segment comprises the holding companies which, in terms of IAS 14, do not represent independent segments. This includes the activities of MKGaA as Group holding company. This is, however, presented separately for reasons of greater comprehensibility.

Fiscal year revenues result mainly from leasing and were generated mainly in the area of development in Germany.

There were no revenues from inter-segment transactions during the fiscal year.

The company Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, and the subgroup GAIA Real Estate Holding S.A. Luxembourg, which were included in the consolidated financial statements at equity, are reported in the Portfolio business area and primary segment. Since the subgroup GAIA mainly contains investment properties, for reasons of simplicity, the subgroup is entirely classified as part of the Portfolio segment.

The activities of the companies in the Non-Operational business area or the Non-Operational primary segment are limited to administration of the subsidiaries and other companies. Revenues of the segment, amounting to EUR 24,000, were generated through the sale of financial assets to outside customers.

The amortised investment book values of the companies valued at equity (EUR 48,803,000) are distributed over the primary segments as follows: Portfolio EUR 22,164,000 and Development EUR 26,639,000.

Profit for the period of the companies valued at equity amounts to EUR 10,600,000 and is made up of EUR 8,115,000 from the Portfolio segment and EUR 2,485,000 from the Development segment.

Consolidated profit for the period results mainly from the companies valued at equity in the CEE/SEE/CIS region, which operate primarily in the Portfolio business area.

The amortised investment book values of companies valued at equity valued (EUR 48,803,000) are distributed over the secondary segments as follows: Germany EUR 4,339,000 and CEE/SEE/CIS region EUR 44,464,000.

## I. Other Notes

### *1) Financial Instruments*

The parent company MKGaA entered into two foreign currency options (EUR/USD plain vanilla OTC currency options) with a bank during the fiscal year. In principle, these have the characteristics of a hedging instrument, but do not meet the requirements to qualify for recognition as a hedge transaction under IAS 39. Currency options are, therefore, classified as being held for trade and are valued at fair value as of balance sheet reporting date. The balance sheet value is made up of the premium payment made at the time of the purchase amounting to EUR 400,000, and the change in fair value between the purchase date and the balance sheet date. This change, amounting to EUR 861,000, was recognised as income on the consolidated income statement, in financial results.

Derivative financial instruments amounting to EUR 93,000 are recognised as a long-term liability and represent premium income from MAGNAT's foreign currency options (MAGNAT as option writer), valued as of the balance sheet date. At the time of purchase of the two currency options, the premium income amounting at that time to EUR 100,000 was recognised at cost as a liability in the category "long-term liabilities". The change in fair value of EUR 7,000 between the date of purchase and the balance sheet date were also recognised as income on the consolidated income statement, in financial results.

In the prior year, the Group held financial derivatives as current assets only to the extent that options to acquire shares in four companies not yet belonging to the Group were acquired. The companies to which the options relate are non-listed. When exercised, the option premium was credited towards the later purchase price. Specifically, these are option contracts granting the Company the right to invest in various project companies. The four options were exercised by the Company on 15 May 2007. The options are "Sadko I", "Sadko II", "Village Vitali" and "Alexander".

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

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

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

The exercise period for the options ran till 30 June 2007. The option premiums paid are being credited towards the purchase price.

As the two options are thus financial derivatives connected to equity instruments for which no quoted price on an active market is available and the fair value of which could not be reliably determined, they were valued at amortised cost less any impairment losses. There were no indications of impairment in the prior year. The options are disclosed in the item "derivative financial instruments". The term of all options was less than one year as of 31 March 2007.

Interest rate risks in connection with cash flows relate to funds placed in demand deposit accounts and to fixed and variable interest rates on borrowed capital.

Interest rate risks are not expected to have any significant negative effects over the long-term, as the liquid funds are only available until the investments are made in the material amount reported as of the balance sheet date and, in accordance with plans, will then be tied up in projects. For the amount deposited as of the balance sheet date, EUR 4,827,000, a 0.5 percent p.a. reduction in interest rates would lead to a reduction in annual interest income of EUR 24,000 (equal to EUR 2,000 per month).

The maximum credit risk from all financial assets corresponds to the book value of the loans under "other investments," advance payments for financial assets, trade receivables and other assets, financial receivables and other financial assets, thus a total of EUR 26,643,000.

The credit risk is met by maintaining close contact with the debtors and thereby identifying unfavourable trends at an early stage.

## Financial Risk Management

Group financial assets consist mainly of shares and loans to companies valued at equity, advance payments, trade receivables, financial receivables, other assets and bank balances. A considerable portion of trade receivables consists of rents. Potential defaults in connection herewith are taken into account. In the sale of project companies within the Group, the transferred shares are generally pledged as collateral pending final settlement in the favour of the seller. In individual sales, title is transferred to the buyer only after payment of the entire purchase price.

The significant financial liabilities utilised by the Group, with the exception of financial derivatives, comprise bank loans and account overdrafts, trade liabilities, advance payments received and loans granted. The main purpose of these financial liabilities is the financing of the Group's business activities.

In addition, the Group also has financial derivatives available. This primarily includes currency hedges. The purpose of these financial derivatives is to hedge against the currency risks arising from the Group's business activities, primarily in countries aligned with the US dollar.

The Group is exposed to various financial risks through its business activities: foreign currency risk, interest rate risk, credit risk and liquidity risk. Overarching risk management focuses on the ongoing identification and active management of risks typical for the business. Within certain ranges, risks are accepted, being counterbalanced by corresponding opportunities for returns. The objective is to limit peak risks in order to avoid threats to the Company's continued existence.

The Management of the General Partner identifies, evaluates and safeguards against financial risks in close cooperation with the Asset Manager and in coordination with the Group's Supervisory Board.

## Foreign Currency Risk

MAGNAT predominantly operates in markets outside the Eurozone and is therefore exposed to corresponding exchange rate risks. Wherever possible and feasible, the same currencies are used in project execution (i.e. debt financing for construction costs follows the principle of matching currencies).

The remaining exchange rate risk, limited in the textbook case to the equity invested and the potential profit, is only partially hedged: In principle, preference is given to hedging individual project-related risks on an aggregate basis, and here, in turn, hedging is considered only when certain ranges of fluctuation are exceeded, and only for particular currencies and only for the equity invested (but not for the potential profit). This approach is based on a cost/benefit analysis, but also on the knowledge that currency risk as a whole cannot be entirely isolated, rather that many additional interdependencies outside of pure exchange rate fluctuations play a role. In sum, the management of currency risks is geared toward taking on such risks within a certain range of fluctuation. Hedging is merely sought to cap peak risk at the aggregate level and with certain currencies, to counteract developments that could threaten the existence of the Company. The currency hedging strategy is determined in close coordination with the Supervisory Board.

As of the balance sheet date, there was a EUR call / USD put option for USD 25,000,000 at an exercise price of 1.47 in place to hedge USD exposure. An offsetting option with an exercise price of 1.25 was sold to reduce the cost of the premium. This hedging strategy covers the investments of the Company but not the expected gains from the respective projects.

### Interest Rate Risk

The MAGNAT Group utilises debt capital to finance real estate projects, in some cases with floating interest rates. The MAGNAT Group is thus exposed to interest rate risk as increases in interest rates raise the cost of financing.

Hedging of interest rate risk will take place only in particular cases. Management considers the assumption of this risk justifiable in view of cost/benefit considerations, particularly given the background that investments and the financing pertaining to them are not long-term. An evaluation of this policy is made at regular intervals, but at least every six months, and in close coordination with the Supervisory Board.

### Credit Risk

There are no significant concentrations of credit risk within the Group.

### Liquidity Risk

Careful liquidity management includes holding sufficient reserves of liquid funds. By means of short and medium-term liquidity planning, the Group constantly monitors the risk of a liquidity squeeze. This planning looks at the times to maturity of financial investments and the financial cash flow from business activities. Incoming liquid funds from sales of property serve to further secure liquidity. Entering into long-term real estate loans, securing lines of credit and equity measures serve as additional instruments to secure liquidity. In the Company's initial phase, liquidity risk was managed primarily by maintaining a liquidity reserve in the form of bank credit balances available at any time. This function has now in part been taken over by lines of credit that can be drawn down at any time.

## Capital Management

The overriding objective of the Group's capital management is to secure future debt repayment capability and preservation of the Group's financial assets.

The Group monitors its capital through the equity ratio. MAGNAT intends to utilise available equity as a means for improved leverage, but will continue to maintain an equity base higher than the industry average. The equity ratio was 73.9 percent on 31 March 2008 (prior year: 90.9 percent).

## ADDITIONAL INFORMATION REGARDING FINANCIAL INSTRUMENTS

| *31 March 2008* | | | *Valuation in accordance with IAS 39* | | | |
|---|---|---|---|---|---|---|
| *in EUR '000* | *Valuation category* | *Carrying value* | *Fair value effect to I.S.* | *Amortized cost* | *Value at equity* | *Fair value* |
| Shares of companies valued at equity | L&R | 48,803 | | | 48,803 | |
| Loans to companies valued at equity | L&R | 4,583 | | 4,583 | | 4,583 |
| Advance payments for financial assets | L&R | 1,731 | | 1,731 | | 1,731 |
| Financial derivatives | AtFVtPL | 1,261 | 1,261 | | | 1,261 |
| Trade receivables and other assets | L&R | 4,531 | | 4,531 | | 4,531 |
| Financial receivables | L&R | 6,710 | | 6,710 | | 6,710 |
| Cash | L&R | 4,827 | | 4,827 | | 4,827 |
| | | | | | | |
| Financial derivatives | AtFVtPL, n.a. | 93 | 93 | | | 93 |
| Long-term financial liabilities | o.L., n.a. | 13,760 | | 13,760 | | 13,760 |
| Trade payables | o.L., n.a. | 3,783 | | 3,783 | | 3,783 |
| Current financial liabilities | o.L., n.a. | 18,525 | | 18,525 | | 18,525 |
| Amount by valuation category | | | | | | |
| | L&R | | | 22,382 | | |
| | AtFVtPL | | 1,261 | | | |
| | AtFVtPL | | -93 | | | |
| | o.L. | | | -36,068 | | |

*31 March 2007* — *Valuation in accordance with IAS 39*

| *in EUR '000* | *Valuation category* | *Carrying value* | *Fair value effect to I.S:* | *Amortized cost* | *Value at equity* | *Fair value* |
|---|---|---|---|---|---|---|
| Shares of companies valued at equity | L&R | 2,001 | | | 2,001 | |
| Loans to companies valued at equity | L&R | 2,824 | | 2,824 | | 2,824 |
| Trade receivables and other assets | L&R | 2,595 | | 2,595 | | 2,595 |
| Financial receivables | L&R | 215 | | 215 | | 215 |
| Financial derivatives | AtFVtPL | 145 | 145 | | | 145 |
| Cash | L&R | 30,162 | | 30,162 | | 30,162 |
| | | | | | | |
| Trade payables | o.L., n.a. | 4,279 | | 4,279 | | 4,279 |
| Current financial liabilities | o.L., n.a. | 28 | | 28 | | 28 |
| Amoun by valuation category | | | | | | |
| | L&R | | | 35,796 | | |
| | AtFVtPL | | 145 | | | |
| | o.L. | | | -4,307 | | |

*Net Profit or Loss 01/04/2007 - 31/03/2008* — *From Revaluation*

| *EUR '000* | *From interest* | *At fair value* | *Currency difference* | *Impairment* | *Net result* |
|---|---|---|---|---|---|
| Loans and Receivables | 1,414 | | | -103 | 1,311 |
| Derivatives | | 867 | | | 867 |
| Other Liabilities | -1,317 | | 42 | | -1,275 |
| | ***97*** | ***867*** | ***42*** | ***-103*** | ***903*** |

*Net Profit or Loss 06/04/2006 - 31/03/2007* — *From Revaluation*

| *EUR '000* | *From interest* | *At fair value* | *Impairment* | *Net result* |
|---|---|---|---|---|
| Loans and Receivables | 777 | | | 777 |
| Derivatives | | | | 0 |
| Other Liabilities | -110 | | | -110 |
| | ***667*** | ***0*** | ***0*** | ***667*** |

Meaning of abbreviations:

| | |
|---|---|
| AtFVtIS: | At Fair Value through P&L / Financial assets and financial liabilities valued at Fair Value through Income Statement |
| L&R: | Loans and Receivables |
| n.a | not applicable |
| o.L. | Other Liabilities |

| Payment flows EUR '000 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 |
|---|---|---|---|---|
| ***Loans*** | | | | |
| ***DKB - MAGNAT 1*** | | | | |
| Interest | 230 | 190 | 168 | 0 |
| Repayment | 116 | 116 | 3,666 | 0 |
| ***DKB - MAGNAT 4*** | | | | |
| Interest | 353 | 294 | 262 | 0 |
| Repayment | 120 | 120 | 5,723 | 0 |
| ***DKB - MAGNAT 5*** | | | | |
| Interest | 252 | 208 | 183 | 0 |
| Repayment | 124 | 124 | 4,010 | 0 |
| ***Line of credit*** | | | | |
| Interest | 535 | | | |
| Repayment | 14,770 | | | |
| ***Loan R-QUADRAT 1*** | | | | |
| Interest | 163 | | | |
| Repayment | 2,944 | | | |
| ***Loan R-QUADRAT 2*** | | | | |
| Interest | 13 | | | |
| Repayment | 239 | | | |
| Current account | 5 | | | |
| | ***19,864*** | ***1,052*** | ***14,012*** | ***0*** |
| Derivatives | | 93 | | |
| Trade liabilities | 3,783 | | | |
| | ***23,647*** | ***1,145*** | ***14,012*** | ***0*** |

## 2) Other Financial Obligations

The management function of the parent is exercised by its General Partner Pursuant to the parent’s articles of association, the General Partner receives a reimbursement of its expenses in this regard, which is limited, however, based on the Company’s balance-sheet equity as per the IFRS consolidated financial statements for the respective fiscal year. The reimbursement of expenses amounts to a maximum of 0.5 percent of equity reported on the balance sheet. In addition, the General Partner receives a liability compensation amounting to 5 percent of their own capital stock, thus, EUR 2,500 p.a. under current circumstances. As appropriate, all amounts are understood to include any statutory VAT that might apply.

The founding limited shareholder R-QUADRAT Immobilien Beratungs GmbH, Vienna, as owner of the registered shares subject to transfer restrictions, is obligated under the parent company’s articles of association to render special advisory services to the parent in connection with the acquisition, implementation and sale of projects. The fee is calculated as a percentage of the volume of investments acquired, developed or sold, as the case may be The parent company, for its part, charges the amounts billed to it by R-QUADRAT Immobilien Beratungs GmbH to the relevant project companies which occasioned them, which, for reasons of simplicity, may also take place directly.

## 3) Contingent Claims and Contingent Liabilities

Contingent liabilities amounting to EUR 986,000 originated primarily in the form of comfort letters. In addition, a variable purchase price increase was agreed to as part of the purchase of a property, depending upon the future occupancy rate.

Pursuant to a corresponding agreement, the shares of GAIA Real Estate Holding S.A. (previously SOFA Holdings S.A.) held by MKGaA were pledged to secure the bridge loan provided to the YKB portfolio. All claims, rights, entitlements and dividends resulting from these shares are pledged with first priority towards the complete performance of the liabilities secured.

## *4) Information Concerning Business Dealings with Related Parties*

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

**a) MAGNAT Management GmbH**

MAGNAT Management GmbH is the personally liable partner of MAGNAT Real Estate Opportunities GmbH & Co KGaA with special duties. The General Partner is responsible for the management function, which encompasses all tasks in connection with the Company's business 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 in accordance with § 8(2) of the Company's articles of association:

1. *For management activity, reimbursement of costs and expenses incurred in connection with carrying out proper business operations at the General Partner, especially personnel and non-personnel expenses, plus 3 percent on this total amount plus any statutory VAT that may be payable, but limited to a maximum of 0.5 percent of the Company's balance sheet equity as per the consolidated balance sheet for the respective fiscal year (on the basis of IFRS International Financial Reporting Standards).*

2. *For the assumption of general liability, a compensation of 5 percent of the General Partner's capital stock plus any applicable VAT. This compensation is payable annually after the close of the fiscal year.*

MAGNAT Management GmbH performed services to the parent in the past fiscal year amounting to EUR 505,000, plus any statutory VAT that may be payable. Of this amount, EUR 79,000 had not yet been settled as of the balance sheet date.

***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 shareholder duties, R-QUADRAT Immobilien Beratungs GmbH receives the following compensation for the aforementioned activities pursuant to the articles of incorporation:

1. *2.0 percent p.a. of the acquisition and production costs of the direct or indirect real estate investments of the Company pursuant to the IFRS; the assessment base in the case of indirectly held real estate investments, in particular in the event of direct or indirect majority interests in real estate project companies that are fully consolidated, is the acquisition and production costs per the IFRS consolidated balance sheet, in each case multiplied by the percentage interest held by the Company; the assessment base in the case of indirectly held real estate investments, in particular in the case of direct or indirect minority interests in real estate project companies which are not fully consolidated, is the analogously determined acquisition and production costs calculated pursuant to IFRS, in each case multiplied by the percentage interest held by the Company.*

   *This compensation includes any statutory VAT that may be incurred and is payable quarterly in arrears on the 15th of the month following the end of the quarter. If a particular real estate investment was not held for the entire quarter, the compensation will apply on a prorated basis.*

2. *A one-time 1.0 percent on the acquisition costs, including incidental acquisition costs pursuant to IFRS, in the case of direct or indirect real estate investments; the assessment base in the case of indirect real estate investments, in particular in the case of direct or indirect majority interests in real estate project companies that are fully consolidated, is the acquisition costs, including incidental acquisition costs per the consolidated balance sheet pursuant to IFRS, in each case multiplied by the percentage interest held by the Company; the assessment base in the case of direct or indirect minority interests in real estate project companies that are not fully consolidated is the analogously determined acquisition costs, including incidental acquisition costs calculated pursuant to IFRS, in each case multiplied by the percentage interest held by the Company, as a lump sum compensation for the increased expense in connection with the acquisition of direct or indirect real estate investments, thus in particular for the structured search for suitable real estate and real estate projects, the preliminary*

*selection and examination of the properties including coordination of a due diligence examination, carrying out negotiations in the name of and on behalf of the General Partner, preparation of contracts with the help of attorneys, etc., closing, as well as the arranging of financing (negotiations with credit institutions, optimisation of financing structure).*

*This compensation is understood to include any statutory VAT incurred and is payable following the legally binding conclusion of the acquisition process.*

**3.** *A one-time 2.5 percent of the production costs, including incidental production costs pursuant to IFRS in the case of indirect or direct real estate investments; the assessment base in the case of indirect real estate investments, in particular in the case of direct or indirect majority interests in real estate project companies that are fully consolidated, is the production cost including incidental production costs according to the IFRS consolidated balance sheet, in each case multiplied by the percentage interest held by the Company; the assessment base in the case of indirectly held real estate investments, in particular in the case of directly or indirectly held minority interests in real estate project companies that are not fully consolidated, is the analogously determined production costs, including incidental production costs calculated pursuant to IFRS, in each case multiplied by the percentage interest held by the Company, as a lump sum compensation for the increased expense in connection with support and coordination of all activities in connection with the development of real estate in which the Company directly or indirectly holds investments, as well as the review and preparation of development opportunities in advance.*

*This compensation includes any statutory VAT that may be payable and is payable, distributed over the planned production period, quarterly in arrears on the 15th of the month following the end of the quarter. During the production period, quarterly account statements are to be based on the estimated production costs, and a final account will take place following completion.*

4. *A one-time 2.5 percent of sales proceeds pursuant to IFRS upon the sale of direct or indirect real estate investments; the assessment base in the case of the sale of indirectly held real estate investments, in particular in the case of directly or indirectly held real estate project companies that were fully consolidated, are the sales proceeds per the IFRS consolidated balance sheet, in each case multiplied by the percentage interest held by the Company; the assessment base in the case of the sale of indirect real estate investments, in particular in the case of direct or indirect minority interests in real estate project companies that were not fully consolidated, are the analogously determined IFRS sales proceeds, in each case multiplied by the percentage interest held by the Company, as lump sum compensation for the increased expense in connection with the sale of direct and indirect real estate investments, thus in particular for structured searches for buyers, pre-selection of potential buyers including handling any due diligence with regard to the potential buyers, carrying out negotiations in the name of and on behalf of the General Partner, preparation of contracts using attorneys, etc., handling and arranging financing (negotiations with banks, optimising the financing structure).*

   *This compensation is only due, however, if the total profit on the investment sold (before income taxes) is equal to an annual internal rate of return on the Company's invested equity of at least 15 percent for the entire holding period of the investment. If the total profit of the investment (before income taxes) does not come to an internal rate of return of 15 percent determined in this manner, but is at least 10 percent, the compensation shall be 1.25 percent. If the total profit of the investment (before income taxes) comes to an annual internal rate of return, thus determined, between 10 percent and 15 percent, there shall be entitlement to a compensation determined through interpolation (i.e., for example 1.875 percent in the event of an internal rate of return of 12.5 percent).*

   *For purposes of calculating the internal rate of return, the acquisition and production costs (including incidental costs), including all attributable direct costs, loan costs and fees attributable to the project pursuant to paragraph 3 are to be subtracted from the total earnings from the investment (in particular sales proceeds, rental income and other revenues).*

   *This compensation is understood to include any statutory VAT, and is payable after the legally binding conclusion of the sales transaction.*

The services listed under Nos. 1 to 4 above are rendered by R-QUADRAT Immobilien Beratungs GmbH to the Company on the basis of this Section 8 and, in the case of indirect real estate investments, are in turn charged by the Company to the relevant project companies which occasioned them. After prior consultation with the General Partner, services may in individual cases also be rendered directly to the relevant project company, along with direct accounting for these services.

In addition, as founding limited shareholder of the Company and holder of the registered shares with restricted transferability, R-QUADRAT Immobilien Beratungs GmbH is entitled to receive a profit-dependent fee that is computed as follows:

- ***"Amount A"*** *= consolidate net income for the period of the fiscal year (based on the IFRS consolidated financial statements) prior to deduction of this profit-dependent fee.*

- ***"Amount B"*** *= 12 percent of consolidated equity during the fiscal year (based on the IFRS consolidated financial statements) before taking this fee into account; in the event of changes to consolidated equity during the fiscal year, e.g. as a result of capital increases or dividend payments, the calculation is to be based on an average consolidated equity to be determined accordingly.*

- ***(Amount A less Amount B)*** *multiplied by 20 percent = profit-dependent fee.*

- *To the extent that* ***"Amount A"*** *less* ***"Amount B"*** *results in a negative amount* ***(= "Amount C")****, "Amount C" is carried forward to the following year. Only after "Amount C" plus any existing negative carry-forward ("cumulative Amount C") has been offset will a claim arise for the profit-dependent fee as described above.*

This fee is understood to include any statutory VAT and is payable after completion and audit of the consolidated financial statements.

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

| *EUR '000* | *01/04/2007 - 31/03/2008* | *06/04/2006 - 31/03/2007* |
|---|---|---|
| Parent | 2,432 | 0 |
| Subsidiaries | 1,709 | 886 |
| Companies valued at equity | 549 | 60 |
| | ***4,690*** | ***946*** |

Liabilities for services of R-QUADRAT Immobilien Beratungs GmbH to Group companies amount to EUR 2,906,000 (prior year: EUR 946,000) as of the balance sheet reporting date.

Squadra Immobilien GmbH & Co. KGaA provided bridge loans to two project companies in the past fiscal year. The total of these transactions amounted to EUR 8,600,000. The amounts were repaid during the fiscal year, and interest incurred for these loans amounted to EUR 111,000.

In the fiscal year, a consulting relationship existed between MAGNAT Real Estate Opportunities GmbH & Co. KGaA and the company of Supervisory Board member Dr. Carsten Strohdeicher. The consulting agreement includes advice and brokering of debt financing for real estate projects in Germany. The honorariums agreed to therein are significantly below normal market terms. In the past fiscal year, the consulting services were extremely beneficial to the Company. Important financing plans were able to be executed quickly, even against market trends. The consulting agreement was approved by resolution of the Supervisory Board. For the consulting services provided, EUR 70,000, plus V.A.T., was paid out during the fiscal year. Other members of the Supervisory Board did not receive any additional compensation other than the compensation for membership on the Supervisory Board for services performed.

***c) Minority Shareholders***

MAGNAT also had dealings with minority shareholders. These dealings were mainly in connection with the financing and acquisition of subsidiaries.

As of the balance sheet reporting date, MAGNAT had receivables of EUR 6,295,000 from and liabilities of EUR 209,000 to minority shareholder R-QUADRAT Capital Beta GmbH, Vienna.

## *5) Events After the Balance Sheet Reporting Date*

Short-term acquisition financing for the Eberswalde and Rostock German residential properties, amounting to EUR 15,000,000 (with a debt ratio of 60 percent of the acquisition cost) arranged during the prior fiscal year was able to be repaid in June 2008 with long-term debt financing for Eberswalde amounting to EUR 20,800,000 (and therefore a significantly higher debt ratio) at more favourable terms (3 month EURIBOR +1.1 percent; maturity at 30 March 2013). Advanced turn-around measures and measures introduced to reduce vacancy rates served as the basis for this advantageous refinancing. A potential interest rate hedge is being investigated in connection with this.

## *6) Management, Supervisory Board and Employees*

***a) Management***

Pursuant to the articles of incorporation, management of the parent is performed by its General Partner, MAGNAT Management GmbH, Frankfurt am Main.
The General Partner's general managers are Mr. Peter Waldner (until 28 February 2008), Mr. Jürgen Georg Faè (from 29 February 2008) and Mr. Jan Oliver Rüster. Remuneration is discussed in Sections D.5 and I.4.

***b) Supervisory Board and Employees***

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

Assuming that the proposed remuneration of the Supervisory Board is agreed to at the General Meeting of the Company's shareholders, the Board's total remuneration will amount to EUR 109,000.

The companies in the Group have one employee (office staff). Personnel expenses amount to EUR 7,000 per fiscal year. They comprise the salary amounting to EUR 6,000 and statutory social security expenses amounting to EUR 1,000.

***c) Declaration in accordance with German Corporate Governance Code***

The declarations of compliance with the Corporate Governance Code required by German Stock Corporation Act § 161 [Aktiengesetz] (AktG) are made available by the Company to shareholders once per calendar year.

Frankfurt am Main, 29 July 2008
MAGNAT Real Estate Opportunities GmbH & Co. KGaA

***Jan Oliver Rüster*** ***Jürgen Georg Faè***
(General Managers of MAGNAT Management GmbH,
as the Management of the Company)

| *Name* | *Position* | *Profession* | *Period* |
|---|---|---|---|
| Prof. Dr. Werner Schaffer | Chairman | German Tax Advisor | Since 7 July 2006 |
| Dr. Oliver Mensching | Vice Chairman until retirement | German Public Auditor/Tax Advisor | From 7 July 2006 through 24.10.2007 |
| Dr. Carsten Strohdeicher | Vice Chairman | Businessman Counsel | Since 7 July 2006 |
| Dr. Walter Steindl | Member of the Supervisory Board | Appraiser | From 31 July 2006 through 24.10.2007 |
| Dr. Christoph Jeannée | Member of the Supervisory Board | Attorney | Since 31 July 2006 |
| Wolfgang Quirchmayr | Member of the Supervisory Board | German Public Auditor/Tax Advisor | From 31 July 2006 through 24.10.2007 |

## Management Responsibility Statement

As manager of MAGNAT Management GmbH (managing general partnerof MAGNAT Real Estate Opportunities GmbH & Co. KGaA), we declare to the best of our knowledge that, under applicable accounting principles, the consolidated financial statements present a true and fair view of the net assets, financial position and results of operations and that the group management report portrays business developments, including operating results and the situation of the Group, in a true and fair way and describes the significant risks and opportunities of the Group's foreseeable development.

Frankfurt am Main, 29 July 2008

MAGNAT Real Estate Opportunities GmbH & Co. KGaA
***Jan Oliver Rüster*** ***Jürgen Georg Faè***

## Auditor's report

We have audited the consolidated financial statements, comprising the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and notes to the financial statements, along with the consolidated management report, prepared by MAGNAT Real Estate Opportunities GmbH & Co. KGaA, Frankfurt am Main, for the financial year from 1 April 2007 through 31 March 2008. The preparation of the consolidated financial statements and consolidated management report is the responsibility of the Company's management under the IFRS, as applied in the EU, and the supplementary provisions applicable under Commercial Code (HGB) § 315a para. 1. Our responsibility is to express an opinion on the consolidated financial statements and the consolidated management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted German principles for the auditing of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – German Institute of Auditors). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements and the consolidated management report in accordance with German principles of proper accounting be 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 consolidated management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in the 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 consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any qualifications.

In our opinion, based on the findings of our audit, the consolidated financial statements are in accord with the IFRS, as applied in the EU, as well as the supplemental provisions applicable under Commercial Code § 315a para. 1, and provide a true and fair view of the net assets, financial position and results of operations of the Group. Viewed as a whole, the consolidated management report is in accord with the consolidated financial statements, provides a true and fair view of the Group's position and appropriately presents the opportunities and risks of future development."

Eschborn/Frankfurt am Main, 29 July 2008

***Ernst & Young AG***
Independent Auditors
Tax Consultants

***Elsner***
Independent Auditor

***Sauer***
Independent Auditor

## 2008/2009 FINANCIAL CALENDER

| | |
|---|---|
| Q1 interim Report for period ending 30 June 2008 | 11.08.2008 |
| Regular General Meeting of Shareholders, Frankfurt/Main | 30.10.2008 |
| 2008/2009 Six-Month Report | 28.11.2008 |
| Q3 interim report for period ending 31 December 2008 | 11.02.2009 |
| Publication of the 2008/2009 Financial Statements | 31.07.2009 |

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