ESTAVIS AG

THE REAL ESTATE INVESTMENT GROUP

ANNUAL REPORT 2006/2007

ESTAVIS AG

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Overview
Key Financial Data

ESTAVIS AG	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
Revenues and earnings	TEUR	TEUR
Revenues	198,398	44,048
Total operating performance	201,229	44,380
EBIT	16,550	5,566
Pre-tax profit	14,648	5,570
Net profit	8,814	4,669

ESTAVIS AG	June 30, 2007	June 30, 2006
Structure of assets and capital	TEUR	TEUR
Non-current assets	32,563	621
Current assets	144,753	55,094
Equity	96,168	3,461
Equity ratio	54 %	6 %
Total assets/equity and liabilities	177,316	55,716

ESTAVIS AG

Share	
ISIN	DE000A0KFKB3
German Securities Code Number (WKN)	A0KFKB
Trading symbol	E7S
Number of shares on June 30, 2007	7,724,427
Free float	38 %
Issue date	April 2, 2007
Issue price	EUR 28.00
Share price high (April 2– June 29, 2007*)	EUR 29.40
Share price low (April 2– June 29, 2007*)	EUR 25.20
Closing price on June 29, 2007*	EUR 29.40
Market capitalisation on June 29, 2007*	EUR 227 million
Average trading volume (Xetra)	12,621

* Closing prices in Xetra trading

This Annual Report comprises the consolidated financial statements of ESTAVIS AG and the management report of the Group on the 2006/2007 financial year as well as additional voluntary information.

This translation of the original German version of the Annual Report has been prepared for the convenience of our English-speaking shareholders.
The German version is authoritative.

The above-mentioned versions of the Annual Report can be found at www.estavis.de or can be optained free of charge by writing to:
ESTAVIS AG, Uhlandstraße 165, 10719 Berlin, Germany.

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LETTER TO THE SHAREHOLDERS

Dear Shareholders,
Ladies and Gentlemen,

You have in your hands the first annual report of ESTAVIS AG. This report testifies to a remarkable and highly successful 2006/2007 financial year that was characterised by extensive changes.

With the successful IPO on April 2, 2007, we significantly improved the financial strength of the ESTAVIS Group and laid the foundations for sustainable growth. As a result, the long-standing expertise in our core business area that we offer our customers and partners is now combined with the economic efficiency of a listed company. The net assets, financial position and results of operations of the ESTAVIS Group are strong. Our company generates adequate returns, has a solid financing situation and has access to a liquidity reserve as a result of its successful IPO.

On April 2, 2007, ESTAVIS shares were listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange at an opening price of EUR 28.30. On the last day of trading of our financial year, June 29, 2007, the closing price of the company's shares was EUR 29.40 – the highest level recorded since our initial listing.

Significant revenue and earnings growth

The IPO was accompanied by a significant expansion in our business activities, which continued until the end of the financial year and is reflected in our figures.

We increased consolidated revenues by 350% to EUR 198.4 million. Earnings before interest and taxes (EBIT) increased to EUR 16.6 million (197%) compared with the previous period, while the net profit for the financial year climbed to EUR 8.8 million (89%). Although it should be noted that the comparative prior period was a short financial year, we consider these increases to be remarkable.

Successful business strategy

We believe that this dynamic corporate development serves as impressive evidence of ESTAVIS' successful business strategy. As one of the leading German companies for the structuring and sale of risk-diversified real estate portfolios, we act as the link between private sellers of real estate and institutional investors. Due to its attractive conditions, the German property market has seen a significant increase in activity on the part of institutional investors over a number of years, and this trend shows no sign of stopping. We aim to leverage these opportunities on a long-term basis in order to continue on our strong growth path in future.

Our strategic objective is to harness the high levels of interest on the German property market while continuing to assemble attractive real estate packages for our customers. One key step in this strategy was the acquisition of a majority interest in Hamburgische Immobilien Invest SUCV AG with effect from March 31, 2007. This Hamburg-based real estate company is listed on the Entry Standard of the Frankfurt Stock Exchange. Hamburgische Immobilien Invest SUCV AG is also the majority shareholder of CWI Real Estate AG, another Entry Standard-listed company. CWI Real Estate AG, which is domiciled in Bayreuth, focuses on trading in residential property portfolios that are particularly suitable for the retirement provision of private individuals.

This transaction gave ESTAVIS improved access to its target regions for real estate acquisitions, particularly in Northern and Southern Germany, as well as allowing the company to offer its customers additional services in the area of privatisation.

Major portfolios sold

In the fourth quarter of the past financial year, we continued our success story with the sale of two major portfolios: On June 28, 2007, we sold a large portfolio to an institutional investor in the UK for around EUR 40 million. This portfolio was structured "on-demand" and covered a total of 873 residential and commercial units with a regional focus on Leipzig, Berlin and Northern Germany. The properties were acquired with the funds generated from our IPO. In addition, we sold a real estate portfolio consisting of around 600 residential and commercial units, primarily in North Rhine-Westphalia and the Halle/Leipzig area, to a financial investor for EUR 44 million on June 30, 2007.

All in all, we sold around 300 residential and commercial properties consisting of approximately 4,200 units to institutional investors in the period under review. In the previous year, around 1,050 units were sold. We are planning to significantly expand our activities for the acquisition and sale of properties in future.

Sales team strengthened for further expansion

As our strategy is fully focused on growth, we are particularly pleased to report that our Sales team will be even better positioned in future. On July 1, 2007, we made an excellent addition to our existing management team with Rudolf Beger, Managing Director Sales, who is a fully qualified lawyer, an international tax expert and a communications and real estate specialist. Rudolf Beger has held a number of international executive positions at global corporations such as EXXON, General Motors and CITIGROUP. Most recently, he was responsible for managing the operations of the global real estate consulting company ANTORUM International Property, Inc. in his capacity as general manager.

Positive outlook

The outlook for the German real estate market remains positive. Due to the attractive conditions, we have observed a significant increase in activity on the part of institutional investors over a number of years. Attractive interest rates and comparatively low property prices compared with other European countries mean that interest in both residential and commercial real estate in Germany continues to be strong. We believe that this situation offers significant opportunities for the expansion of our business activities.

In the expectation of continued positive conditions on the German property market, we are forecasting further strong revenue growth in the 2007/2008 financial year. On this basis, we are also projecting a significant increase in our operating result (EBIT) and earnings per share.

In an environment in which interest rates are rising around the world, however, the company is also exposed to risks, such as those illustrated by the crisis on the U.S. banking and real estate market. Although financial experts repeatedly stress that the German and U.S. property markets differ from each other in structural terms, we are aware of these risks.

ESTAVIS AG will continue to strive to minimise the risks potentially affecting its business activities, its economic strength and its shareholders to the greatest possible extent. The vast majority of our transactions are concluded on the basis of customer relationships that have been established over a number of years.

Our portfolios are assembled following a comprehensive analysis of feasibility and the fulfilment of specific yield indicators, as well as with a view to achieving broad risk diversification.

These high quality standards form a reliable basis for sustainable economic success. With our many years of experience and a diversified service profile, we have developed a unique selling point in the German real estate market that, in our experience, is held in high regard by domestic and foreign investors alike.

As a result, we are confident that ESTAVIS will continue to provide a fascinating growth story in future, putting us in an excellent position to benefit from the ongoing potential and dynamic development offered by the German real estate market.

Thanks to shareholders, business partners and employees

We would like to take this opportunity to pay particular thanks to our shareholders, whose support both during and since our IPO serves as a superb testimony to their confidence in our abilities.

Needless to say, we would also like to thank our customers and business partners, who have likewise expressed their trust in our expertise and can be sure that we will continue to provide them with attractive real estate portfolios in future.

Furthermore, we would like to express our gratitude to our committed and talented employees, who have devoted considerable effort to ESTAVIS AG and the further development of our business model in the past financial year.

With the support of these three strong pillars, we are confident that we will be able to achieve our growth targets for the new 2007/2008 financial year and press ahead with our successful business development.

Rainer Schorr	Corina Büchold	Hans Wittmann
Chief Executive Officer (CEO)	*Member of the Management Board*	*Member of the Management Board*

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,
Ladies and Gentlemen,

The past financial year was characterised by a number of important strategic measures for the future development of ESTAVIS AG.

The acquisition of Hamburgische Immobilien Invest SUCV AG expanded ESTAVIS AG's business model and improved the company's access to its target regions for real estate purchases. Furthermore, the successful IPO in April 2007 gave the company additional funds with which to press ahead with the expansion of its business.

Monitoring the activities of the Management Board

In the 2006/2007 financial year, the Supervisory Board of ESTAVIS AG performed the duties assigned to it by law and the Articles of Association, including monitoring and advising the company's management on a continuous basis. The Supervisory Board was kept fully informed of all issues concerning the company's development and the course of business at all times. This included written monthly reports on the commercial, financial and technical development of the company. In addition, the Management Board informed the Chairman of the Supervisory Board of any particularly significant events immediately and in a timely manner. In particular, this related to the company's IPO and the measures required as a result, as well as developments relating to the acquisition of a majority interest in Hamburgische Immobilien Invest SUCV AG. The Supervisory Board examined the documents submitted for approval by the Management Board and approved the corresponding proposed resolutions.

The Supervisory Board also addressed the topic of the company's highly expansive business policy and discussed aspects of its medium-term strategic planning with the Management Board. In addition, the Supervisory Board monitored the activities of the Management Board in relation to the successful establishment of a risk management system following the conversion of the company's legal form into an Aktiengesellschaft (stock corporation under German law) and satisfied itself that the Management Board had taken the necessary measures to ensure that the risk management system reflected the company's changing requirements. Where decisions by the Management Board required the approval of the Supervisory Board, the members of the latter examined the corresponding documents with due care and passed resolutions accordingly.

Meetings and committees

The high level of complexity of the decisions to be taken, particularly with regard to the company's IPO and the acquisition of a majority interest in Hamburgische Immobilien Invest SUCV AG, meant that the activities of the members of the Supervisory Board were particularly intensive. Accordingly, the Supervisory Board held a total of 14 meetings – some of them by telephone – in the past financial year, in each case attended by all of its members.

The main topics addressed by the meetings of the Supervisory Board were as follows:

August 25, 2006:	Resolution on contracts of employment with members of the Management Board, revision of the by-laws for the Supervisory Board
September 11, 2006:	Approval of the single-entity and consolidated financial statements for the short financial year ended June 30, 2006
September 27, 2006:	Appointment of the managing directors of a subsidiary
October 2, 2006:	Approval of the assumption of a loan agreement and the encumbrance of property with land charges
December 14, 2006:	Expansion of the purpose of the company
February 9, 2007:	Approval of the change in name of a subsidiary
February 20, 2007:	Amendment of contracts of employment with members of the Management Board
February 22, 2007:	Examination of the post-formation report; recommendation to the Annual General Meeting to approve of the capital increase (acquisition of Hamburgische Immobilien Invest SUCV AG)
March 16, 2007:	Approval of the proposed price range for the company's IPO
March 22, 2007:	Approval of an underwriting agreement
March 26, 2007:	Establishment of price range and number of shares
March 28, 2007:	Approval of an investment agreement
March 29, 2007:	Approval of a cash capital increase
June 25, 2007:	Approval of the disposal of shares in subsidiaries

Due to the high level of responsibility of the entire Supervisory Board with regard to the strategic decisions taken by the company, the Supervisory Board has opted not to form any committees to date.

The Supervisory Board also addressed the potential conflicts of interest arising from the fact that Sozietät Heuking Kühn Lüer Wojtek, of which the Chairman of the Supervisory Board, Dr. Karl-Josef Stöhr, is a partner, acts in an advisory capacity for the company.

In particular, the Supervisory Board meeting on October 2, 2006 dealt with the conclusion of an agency agreement with Heuking Kühn Lüer Wojtek. Dr. Stöhr did not attend this meeting, with Mrs. Christa Schorr attending in his place.

Mrs. Schorr was appointed as a member of the Supervisory Board solely for the purpose of the resolution on this agency agreement.

Composition of the Supervisory Board

Mr. Klaus-Dieter Heinken stepped down from the Supervisory Board with effect from December 22, 2006. Mr. Denham Eke was appointed as his successor.

In the course of the past financial year, the Supervisory Board was expanded from three to six members. Mr. John W. Cutts, Mr. Klaus-Dieter Jakob and Mr. Ulrich Wogart were appointed as the new members.

In addition, Mrs. Christa Schorr was appointed to the Supervisory Board for one meeting in the past financial year. Mrs. Schorr was temporarily appointed to the Supervisory Board in place of Dr. Stöhr for the meeting on October 2, 2006.

Corporate Governance

The Management Board and Supervisory Board of ESTAVIS AG identify with the objectives of the German Corporate Governance Code, which aims to promote responsible and transparent company management and control with a view to generating a sustainable increase in enterprise value. In accordance with section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of a listed company are required to issue a statement each year, in which they provide information on the extent to which the recommendations of the Government Commission on the German Corporate Governance Code have been complied with in the past and are being complied with. Based on the version of the German Corporate Governance Code dated June 14, 2007, the Supervisory Board adopted the declaration of conformity prepared in conjunction with the Management Board in August 2007.

Single-entity and consolidated financial statements, audit of the annual financial statements, dependent company report

The Annual General Meeting appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, (PricewaterhouseCoopers) as the company's auditors. The Supervisory Board issued PricewaterhouseCoopers with the corresponding audit engagement, including specifying the focuses of the audit. The Supervisory Board ensured that it was informed about the audit measures performed by PricewaterhouseCoopers with a view to ensuring the audit quality and auditor independence. The single-entity financial statements of ESTAVIS AG and the consolidated financial statements for the year ended June 30, 2007, the management report of ESTAVIS AG and the Group management report were audited by PricewaterhouseCoopers and issued with an unqualified audit opinion in each case.

The Supervisory Board also examined the single-entity and consolidated financial statements prepared by the Management Board, as well as the management report and Group management report. The audit report was provided to all of the members of the Supervisory Board in good time. The Supervisory Board examined these documents and discussed them in detail at its meeting on September 27, 2007. The lead auditor attended this meeting and reported on the key results of the audit. The Supervisory Board raised questions with the Management Board on individual aspects.

The examination of the single-entity financial statements of ESTAVIS AG, the consolidated financial statements, the management report and the Group management report by the Supervisory Board did not give rise to any objections. Based on the final results of its own examination, the Supervisory Board concurred with the results of the audit. The Supervisory Board approved the single-entity and consolidated financial statements for the 2006/2007 financial year and the accompanying management report and Group management report. The financial statements are therefore adopted in accordance with section 172 of the German Stock Corporation Act.

PricewaterhouseCoopers also audited the dependent company report prepared by the Management Board of the company in accordance with section 312 of the German Stock Corporation Act and issued the following audit opinion in its report:

“On completion of our audit in accordance with professional standards, we confirm that the factual statements made in the report are correct, the company’s compensation with respect to the transactions listed in the report was not inappropriately high in view of the circumstances that were known at the date on which they were implemented, and there are no circumstances which would justify, in relation to the measures specified in the report, a materially different opinion than that held by the Management Board.”

The dependent company report prepared by the Management Board and the audit report prepared by PricewaterhouseCoopers were made available to all of the members of the Supervisory Board in a timely manner. The Supervisory Board examined these documents and discussed the relationships with the controlling parent companies. The documents were discussed in detail at the Supervisory Board meeting on September 27, 2007. The lead auditor attended this meeting and reported on the key results of the audit. Based on the final results of its own examination, the Supervisory Board did not raise any objections.

In the name of the members of the Supervisory Board, I would like to thank the Management Board and the employees of ESTAVIS AG for the work they have achieved and their remarkable commitment and loyalty, all of which made a vital contribution to a highly successful 2006/2007 financial year.

Berlin, September 27, 2007

For the Supervisory Board
Dr. Karl-Josef Stöhr
Chairman

CORPORATE GOVERNANCE REPORT

In accordance with section 3.10 of the German Corporate Governance Code, the Management Board and Supervisory Board of ESTAVIS AG report on the company's corporate governance activities each year.

The Management Board and Supervisory Board of ESTAVIS AG identify with the objectives of the German Corporate Governance Code, which aims to promote responsible and transparent company management and control with a view to generating a sustainable increase in enterprise value.

Corporate Governance at ESTAVIS AG is intended to increase the confidence of investors, business partners, employees and the wider public in the management and monitoring of the company.

Declaration of conformity 2007

In accordance with section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of a listed company are required to issue a statement each year in which they provide information on the extent to which the recommendations of the Government Commission on the German Corporate Governance Code have been complied with in the past and are being complied with.

Based on the version of the German Corporate Governance Code dated June 14, 2007, the Management Board and Supervisory Board issued a declaration of conformity in August 2007. This declaration has been published in full on the company's website (www.estavis.de).

"Joint declaration of conformity with the German Corporate Governance Code by the Management Board and Supervisory Board of ESTAVIS AG in accordance with section 161 of the German Stock Corporation Act

In accordance with section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of ESTAVIS AG hereby issue the following declaration:

Since the initial listing of the company's shares on March 30, 2007 ESTAVIS AG has complied with and continues to comply with the recommendations of the German Corporate Governance Code in the current version dated June 14, 2007 with the following exceptions:

Section 3.8 (D&O insurance)
The company has taken out a D&O insurance policy for the Management Board and the Supervisory Board that does not include a deductible. In the opinion of the Management Board and the Supervisory Board, the agreement of a deductible would have no effect on the sense of responsibility and loyalty of the members of the executive bodies.

Section 4.2.3 (Compensation)
The total compensation of the Management Board currently consists of fixed and variable components, but no long-term incentives containing risk elements.

Section 5.1.2 (Age limit)
Due to the age structure of the Management Board, no age limit is currently specified.

Sections 5.3.1, 5.3.2 and 5.3.3 (Committees)
Due to the increased level of supervision required in the course of the company's IPO and the significant responsibility borne by the entire Supervisory Board as a result, the Supervisory

Board has not yet formed any committees, and in particular has yet to establish an Audit Committee or a Nomination Committee. The Supervisory Board will examine the extent to which the establishment of committees can be used to optimise its supervisory activities in future."

Compensation report

Compensation paid to the Management Board

The Supervisory Board stipulates the structure and amount of the compensation paid to the members of the Management Board and reviews these factors on a regular basis. The total remuneration of the Management Board is composed of fixed and variable components and non-cash benefits.

Fixed compensation is paid in the form of a monthly salary, while the variable component is paid as an annual management bonus. The management bonus depends on the operating result (EBIT) generated by the company. Other variable compensation components, such as stock options or similar instruments, are currently not used.

In the 2006/2007 financial year, the fixed and variable compensation paid to the Management Board totalled TEUR 1,134.

The following table shows the individual components of the compensation paid to the members of the Management Board:

ESTAVIS AG	Fixed compensation	Variable compensation	Total compensation
	TEUR	TEUR	TEUR
Rainer Schorr	377	249	626
Corina Büchold	153	116	269
Hans Wittmann	144	95	239
Total	**674**	**460**	**1,134**

The fixed compensation includes non-cash benefits in the form of the use of a company car. The value of this benefit is determined by the relevant tax legislation. In addition, ESTAVIS AG has also taken out D&O and accident insurances for the members of the Management Board.

There are no pension commitments to members of the Management Board.

Compensation paid to the Supervisory Board

The compensation paid to the Supervisory Board consists of fixed and performance-related compensation. In addition, the members of the Supervisory Board are reimbursed for any expenses incurred in exercising their function.

The members of the Supervisory Board receive fixed annual remuneration of EUR 5,000 and the Chairman of the Supervisory Board receives fixed annual remuneration of EUR 10,000 plus statutory VAT in both cases, to the extent that this is required to be paid; these amounts are payable after the end of the financial year.

In addition, the members of the Supervisory Board receive variable compensation based on the performance of the company's share price compared with the share price performance of comparable companies ("peer group"). The peer group is composed of Colonia Real Estate AG, Deutsche Wohnen AG, Franconofourt AG and Vivacon AG. Variable compensation is limited to 200% of the fixed compensation of the respective member plus statutory VAT, to the extent that this is required to be paid.

The compensation of the members of the Supervisory Board in the 2006/2007 financial year totalled EUR 48,000. The following table contains a detailed overview of the individual compensation paid:

ESTAVIS AG	Fixed compensation	Variable compensation	Total compensation
	EUR	EUR	EUR
Dr. Karl-Josef Stöhr	11,750	8,813	20,563
Michael Kremer	5,875	4,406	10,281
John W. Cutts (since March 30, 2007)	1,488	1,116	2,604
Denham Eke (since February 2, 2007)	2,479	1,859	4,338
Klaus-Dieter Jakob (since March 30, 2007)	1,488	1,116	2,604
Ulrich Wogart (since March 30, 2007)	1,488	1,116	2,604
Klaus-Dieter Heinken (until December 22, 2006)	2,900	2,175	5,075

Klaus-Dieter Jakob received fees and non-cash benefits totalling around EUR 18,000 for consulting services provided in the financial year under review.

Shareholdings of the Management Board and Supervisory Board

The number of ESTAVIS shares held by the members of the Management Board as of June 30, 2007 was as follows:

ESTAVIS AG	Number of shares
Rainer Schorr (held indirectly via R. Schorr Beteiligungsgesellschaft mbH)	3,095,099
Rainer Schorr	300,000
Corina Büchold	80,937
Hans Wittmann	83,012

The total number of shares held by the members of the Supervisory Board falls below the threshold of 1 % stipulated in the German Corporate Governance Code; accordingly, these shareholdings are not disclosed individually in this report.

Share transactions requiring notification in accordance with section 15a of the German Securities Trading Act (directors' dealings)

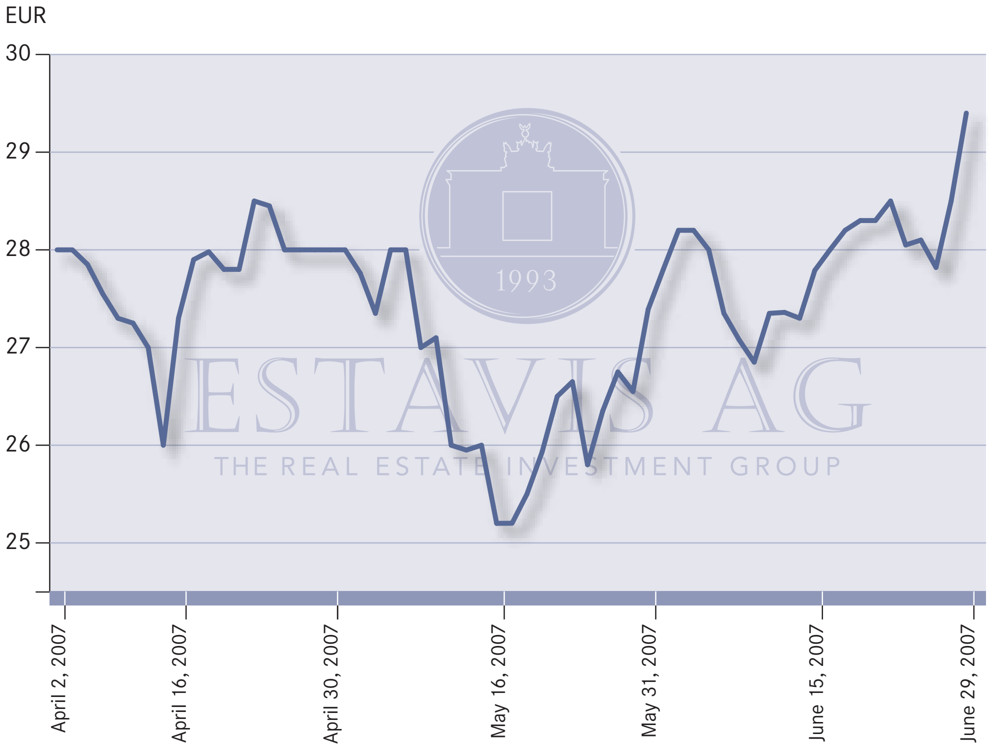
In accordance with section 15a of the German Securities Trading Act, the members of the management of listed companies and related parties are required to notify the issuer and the German Federal Financial Supervisory Authority (BaFin) of any transactions they make involving the securities of the respective company. ESTAVIS AG publishes these transactions, known as directors' dealings, on its website (www.estavis.de). No share transactions requiring notification were made in the period under review.

THE ESTAVIS SHARE

With its successful IPO in April 2007, ESTAVIS AG created the basis for further profitable growth. The gross proceeds of the IPO amounted to around EUR 56 million, the majority of which will be used for the expansion of the company's business activities.

ESTAVIS shares, which are listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange, enjoyed a successful debut with an initial share price of EUR 28.30 on April 2, 2007. A total of 2,947,614 shares were placed with domestic and foreign investors at an issue price of EUR 28.00. ESTAVIS shares received particularly high levels of interest among institutional investors.

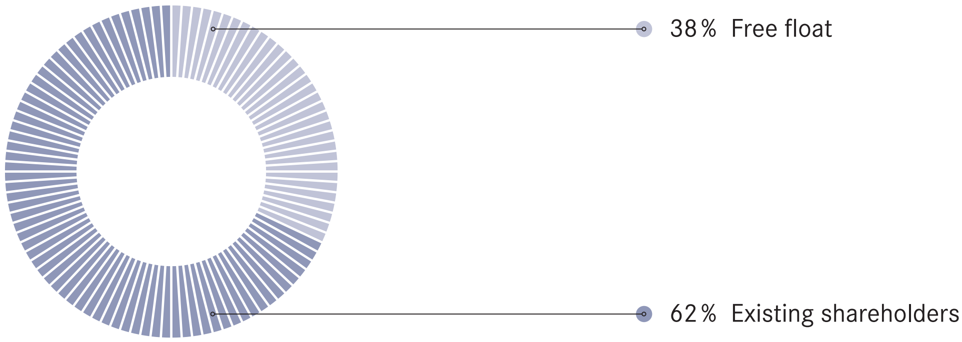
On the last trading day of the 2006/2007 financial year, ESTAVIS shares closed at EUR 29.40 (in Xetra trading), the highest level recorded since the IPO.



ESTAVIS share price development from April 2 to June 29, 2007

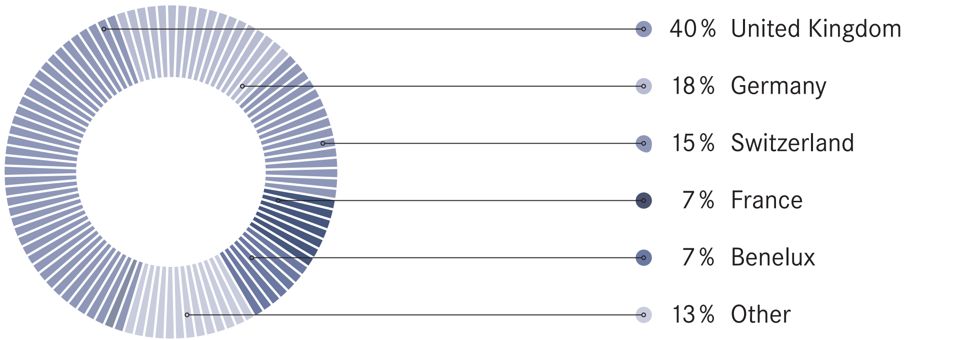
Shareholder structure

At the balance sheet date, a total of 7,724,427 no-par value bearer shares were in circulation. Existing shareholders, who were required to adhere to lock-up periods of six or twelve months under the terms of the IPO, held around 62 % of all shares at the balance sheet date, meaning that the free float was around 38 %.



Shareholder structure on June 30, 2007

During the course of the IPO, the vast majority of the company's shares were placed with institutional investors in Europe (excluding Germany). Private investors in Germany received around 1 % of the issued shares. The following diagram shows the geographical distribution of the issue volume:



Geographical distribution of the issue volume

ESTAVIS shares at a glance

ESTAVIS AG

Share	
ISIN	DE000A0KFKB3
German Securities Code Number (WKN)	A0KFKB
Trading symbol	E7S
Number of shares on June 30, 2007	7,724,427
Free float	38 %
Issue date	April 2, 2007
Issue price	EUR 28.00
Share price high (April 2– June 29, 2007*)	EUR 29.40
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Market capitalisation on June 29, 2007*	EUR 227 million
Average trading volume (Xetra)	12,621

* Closing prices in Xetra trading

Investor relations activities

The Management Board of ESTAVIS AG is committed to the principle of open and active communication with analysts and shareholders. We have succeeded in further expanding the contacts we made in the course of our IPO, as well as gaining new shareholders.

The planned roadshow activities and our participation in high-profile investor conferences in autumn 2007 will provide us with further opportunities to present the growth prospects of ESTAVIS AG to an international audience of potential investors. In addition, we are pursuing the aim of expanding our coverage by financial analysts and business journalists in order to generate additional attention for the company's shares.

Financial Calendar 2007/2008

2007

October 8 DVFA Investor Conference, EXPO REAL 2007, Munich
October 25/26 Investor Conference Real Estate Share Initiative, Frankfurt
November 12–14 German Equities Forum, Frankfurt
November 16 Quarterly Report – 1st Quarter 2007/2008
November 30 Annual General Meeting, Berlin

2008

February 15 Quarterly Report – 2nd Quarter 2007/2008
May 16 Quarterly Report – 3rd Quarter 2007/2008
September 26 Full Year Results 2007/2008

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PRELIMINARY REMARKS

The consolidated financial statements of ESTAVIS AG (hereinafter also referred to as ESTAVIS) on which this report is based were prepared in line with the International Financial Reporting Standards (IFRS).

The figures for the previous year relate to a short financial year from January 1 to June 30, 2006. As a result of this and the acquisition of Hamburgische Immobilien Invest SUCV AG in the financial year 2006/2007 (see section 1.2 of the Management Report), the comparability of the figures of the reporting period and the previous year is considerably limited. To enable clear and problem-oriented reporting, only a few quantitative details are therefore provided to explain the key changes in financial data compared with the previous year. All monetary figures are stated in euros (EUR).

1 BUSINESS AND CONDITIONS

1.1 BUSINESS ACTIVITIES AND BUSINESS MODEL

The ESTAVIS Group is one of the leading listed property dealers in Germany. In geographical terms, its business activities have so far been confined to German properties, chiefly in various conurbations in central and northern Germany. Investments are made in residential and commercial properties. ESTAVIS focuses its business on property trading and property asset management operations.

a) Property trading

Property trading operations comprise the following activities:

Portfolio trading

The traditional focus of operations is on portfolio trading, where the ESTAVIS Group operates as a market maker between property providers and property portfolio users. In this respect, the company purchases individual properties in line with precisely defined criteria, bundles them into structured portfolios and then sells them to institutional investors from Germany and abroad. As required, the properties are renovated and/or modernised before resale. The portfolios are structured in line with the specifications investment criteria of the respective investors, in particular their return and risk requirements.

Development

Occasionally, ESTAVIS also carries out project developments, provided that the property purchase entails the opportunity to purchase suitable properties at favourable prices or to make viable for project development, for instance in the event of package buys or realisations of bank security. Project developments are only carried out if it is ensured that the project can be incorporated into a portfolio and if leasing of most of the building to be erected or resale is guaranteed before construction starts.

Property sale to private investors

These operations comprise the sale of individual properties (predominantly owner-occupied apartments) to private investors for their own use and to capital investors for the purpose of retirement provision.

Brokerage business

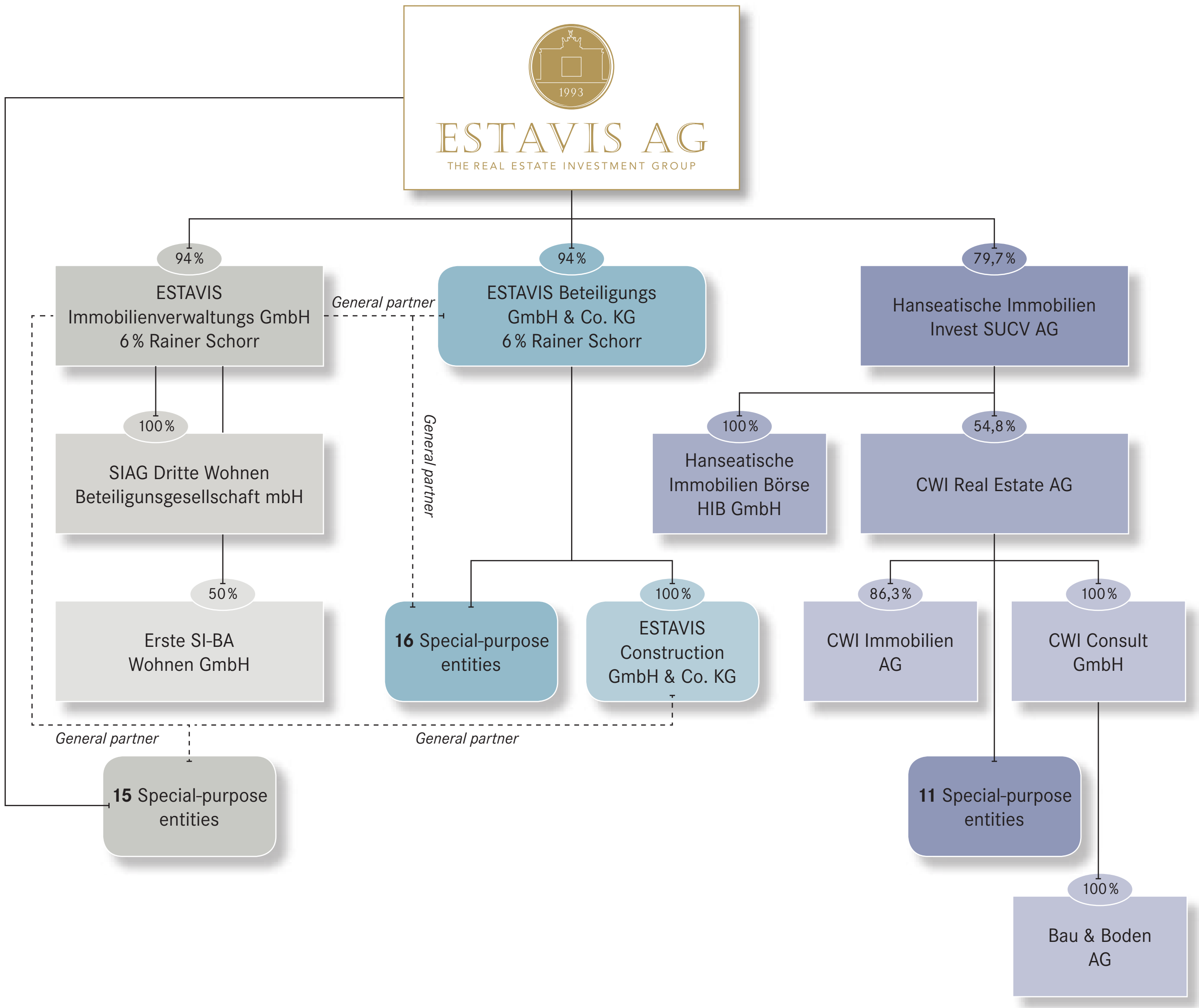
In the brokerage business, the company acts as a broker of high-quality investment properties, predominantly dealing with private investors.

b) Property asset management

In addition to trading with property, ESTAVIS has started to build up a property asset, with the aim of strengthening the financial position of the company through continuous rental income and appreciation of the properties.

1.2 CORPORATE STRUCTURE

ESTAVIS AG is the parent company of the ESTAVIS Group. The structure of the Group at the end of the reporting period is set out below:



Legal structure of the ESTAVIS Group (simplified version)

A list of the individual Group companies and associated companies of ESTAVIS AG can be found in the notes to the Consolidated Financial Statements.

The overview shows the breakdown of operating activities within the Group. The original operations, portfolio trading and development, are primarily carried out by the operating units of the ESTAVIS subgroup. The subgroup Hamburgische Immobilien Invest SUCV AG concentrates on property sale to private investors, brokerage business and property asset management.

ESTAVIS AG, Berlin				
ESTAVIS subgroup		Hamburgische Immobilien Invest subgroup		
Portfolio trading	Development	Property sale to private investors	Brokerage business	Property asset management

Breakdown of operating activities in the ESTAVIS Group

ESTAVIS AG itself is the operative holding company for the special-purpose entities and chiefly performs central management and monitoring tasks.

1.3 ECONOMIC ENVIRONMENT

a) Macroeconomic development

In 2006, macroeconomic development in Germany was characterised by a tangible upturn. After a sustained phase of economic weakness, real growth of gross domestic product was unexpectedly high at 2.9 % in 2006. In contrast to previous years, this increase was not chiefly attributable to exports. Instead, growth was mainly propelled by domestic demand. The main factors in the recovery of the German economy were the improving situation on the labour market, as well as non-recurring effects such as pre-emptive effects as a result of the VAT increase to 19 % that came into force on January 1, 2007. Regardless of the economic signs and the temporarily strong rise in energy costs, the price trend in 2006 was moderate with a year-on-year increase in consumer prices of 1.7 %.

In the first half of 2007, the upturn in the German economy continued at a slightly slower pace. Gross domestic product rose by 2.5 % year-on-year in the second quarter of 2007, with foreign trade providing the majority of the growth impetus. At the same time, price trend was roughly at the same level as the previous year, showing a 1.8 % increase in consumer prices in June 2007 compared with the previous year.

Interest rates rose sharply in Germany in financial year 2006/2007. Due to possible risks to price stability in Europe, the European Central Bank increased its key interest in 2006 and 2007 in several stages from 2.25 % to the current level of 4.0 %, with corresponding impacts on the lending rate in Germany.

b) Sector development

After a lengthy phase of stagnation, a moderate recovery of the German housing market is apparent, albeit with regional differences. Whilst demand has increased in conurbations with a good infrastructure, strong emphasis on leisure and extensive employment opportunities, and there are even housing bottlenecks in some places, there are other structurally weak areas with high vacancy rates.

Regardless of the general recovery in the German construction industry since 2006, the stagnation of new construction activity in western Germany and the downward trend in eastern Germany have continued in the housing construction sector. There was no further fall in the housing construction volume, primarily because of pre-emptive effects as a result of the imminent VAT rise.

Due to the sustained period of weakness, prices for residential properties in Germany have fallen very slightly in Germany over the past ten years across the overall market. Compared with the rest of western Europe, especially the Anglo-Saxon countries, German residential property prices are therefore very favourable. This particularly applies to second-hand properties. In contrast, rents increased by an average of 0.5% per year. The German property market has diverged from its western European reference markets with this trend. Consequently, the return on rent in Germany remains well above the international average.

As a result of the extremely favourable economic conditions, institutional investment activity, especially by foreign investors, has increased sharply on the German property market in recent years.

1.4 LEGAL CONDITIONS

ESTAVIS AG is a stock company (Aktiengesellschaft) based in Germany, and has issued voting shares that are listed on an organised market as defined by section 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG), namely on the Regulated Market of the Frankfurt Stock Exchange (Prime Standard).

a) Managing body

The legal managing and representative body of ESTAVIS AG is the company's Management Board. The composition of the Management Board and the appointment of its members are consistent with sections 76, 84 and 85 of the AktG in conjunction with Article 6 of the Articles of Association. In accordance with these provisions, the Management Board consists of one or several members. The Supervisory Board determines the number of members on the Management Board. The Supervisory Board may appoint up to five members of the Management Board and appoint a Management Board member as chairman. At present, the company's Management Board consists of the chairman and two other members.

In accordance with section 84 of the German Stock Company Act (AktG), the members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. Re-appointment or an extension of the term of office is permissible, in each case for no more than five years. Appointment and re-appointment require a resolution by the Supervisory Board, which may not be passed any earlier than one year before expiration of the term of office. The Supervisory Board may revoke the appointment of a Management Board member prior to the expiration of his or her term of office for good cause.

b) Amendment of the Articles of Association

Pursuant to section 179 AktG, any amendment to the Articles of Association requires a resolution by the General Shareholders' Meeting. Exceptions to this are amendments and additions to the Articles of Association that only relate to its wording; authority for such amendments is transferred to the Supervisory Board in accordance with Article 11 (2) of the Articles of Association.

In accordance with sections 133 and 179 of the AktG in conjunction with Article 13 (3) of the Articles of Association, resolutions of the General Shareholders' Meeting on amendments to the Articles of Association require a simple majority of the votes cast and a simple majority of the share capital represented when the resolution is adopted, unless the law or the Articles of Association prescribe a larger majority in individual cases.

c) Capital structure

As of June 30, 2007, the issued capital (share capital) of ESTAVIS AG amounted to EUR 7,724,427. It consists of 7,724,427 no-par value bearer shares. There are no different stock classes.

In accordance with the resolution by the General Shareholders' Meeting dated February 23, 2007, the Management Board is authorised, until February 22, 2012, with the consent of the Supervisory Board, to increase the share capital of the company by one or more issuances of new bearer shares against non-cash and/or cash capital contributions, by up to a total of EUR 2,500,000 (Authorised Capital). Subject to the conditions described below, the shareholders have a subscription right.

The Management Board, with the consent of the Supervisory Board, is authorised to exclude the statutory subscription right of the shareholders in the following cases:

- to adjust for fractional amounts;
- in cases of capital increase against cash contributions, if the capital increase does not exceed 10 % of the share capital and the issue price does not materially fall below the relevant stock market price. For the purposes of this authorisation, the issue price, in the case of the purchase of new shares by an intermediary with the simultaneous obligation of such intermediary to offer the new shares for purchase by one or more third parties designated by the company, will be deemed to be the amount that must be paid by the third party or parties;
- for the purpose of the acquisition of companies, interests in companies, parts of companies, intellectual property rights such as patents or trademarks or licenses thereto, or other product rights or other contributions in kind;
- for the issuance of employee shares to employees of the company or its affiliates; or
- in other cases that are in the considered interests of the company.

The Management Board is further authorised, with the consent of the Supervisory Board, to stipulate the further content of the stock rights and the other details of the implementation of the capital increase from the authorised capital.

In accordance with the resolution by the Extraordinary Shareholders' Meeting on February 23, 2007, the Management Board is also authorised, until February 22, 2012, to increase the share capital of the company with the consent of the Supervisory Board by one or more issuances of new bearer shares against non-cash and/or cash contributions by up to a total of EUR 1,362.213.00 (Authorised Capital II). Authorised Capital II is subject to the same provisions on the exclusion of shareholders' statutory subscription rights and other conditions as described for Authorised Capital I above. The authorisation on Authorised Capital II only comes into force when the corresponding amendment to the Articles of Association is entered in the commercial register. The entry of the amendment in the commercial register has been completed.

As an essential condition for the IPO, in a "lock-up agreement", ESTAVIS AG is obliged not to take any of the following measures until six months after the date of initial listing (April 2, 2007) without the prior written consent of the underwriters (Cazenove AG, Frankfurt a. M., JPMorgan Cazenove Ltd., London, and WestLB AG, Düsseldorf):

- announcement or performance of any capital increase from authorised capital;
- proposal of any capital increase resolution to the General Shareholders' Meeting;
- actions that directly or indirectly offer, pledge, allot, issue or sell shares of the company or other securities carrying conversion rights or option rights to shares, which actions involve entry into a sale obligation, comprise the sale of a call option or the purchase of a put option or govern any other relinquishment or disposal of the securities;
- conclusion or performance of transactions (including transactions in financial instruments) by which the commercial risk of share ownership is transferred to a third party in whole or in part, irrespective of whether these transactions are to be performed by delivery of shares, by payments of money or other forms of consideration.

As of the balance sheet date, there was no authorisation of the Management Board to buy back treasury shares.

d) Transfer and voting right restrictions

In connection with the IPO of ESTAVIS AG, the existing shareholders of the company committed themselves to a "lock-up agreement". This prohibits, within six or twelve months after the date of initial listing (April 2, 2007) and without the prior written consent of the underwriters (Cazenove AG, Frankfurt a. M., JPMorgan Cazenove Ltd., London, and WestLB AG, Düsseldorf), any actions

- that directly or indirectly offer, pledge, allot, issue or sell shares of the company or other securities carrying conversion rights or option rights to shares, which actions involve entry into a sale obligation, comprise the sale of a call option or the purchase of a put option or govern any other relinquishment or disposal of the securities;
- that involve conclusion or performance of transactions (including transactions in financial instruments) by which the commercial risk of share ownership is transferred to a third party in whole or in part, irrespective of whether these transactions are to be performed by delivery of shares, by payments of money or other forms of consideration.

As of the balance sheet date, 694,666 of ESTAVIS AG were subject to a six-month transfer restriction and 4,082,147 shares were subject to a twelve-month transfer restriction in accordance with the provisions described above. The Management Board is not aware of any further contractual transfer restrictions, nor are there any voting right restrictions in accordance with statutory provisions or the Articles of Association.

The shares of ESTAVIS AG were not subject to any voting right restrictions in accordance with statutory provisions or the Articles of Association as of the balance sheet date. All shares of the company issued as of June 30, 2007 carry full voting rights and grant a vote at the General Shareholders' meeting. The Management Board is not aware of any contractual transfer restrictions.

e) Equity interests and rights of control

As of the balance sheet date, Rainer Schorr Beteiligungsgesellschaft mbH, Berlin, directly held 40.07 % of the shares of ESTAVIS AG. 43.89 % of the shares of the company were directly and indirectly attributable to Mr. Rainer Schorr via Rainer Schorr Beteiligungsgesellschaft mbH. There are no other known direct or indirect interests in the share capital of the company that exceed 10 % of the voting rights.

None of the shares issued by ESTAVIS AG carry rights that give their holders special control authority.

There is no information on the voting right control in the event that employees have an interest in the joint stock and do not directly exercise their rights of control.

f) Impacts of potential takeover bids

There are no material agreements between ESTAVIS AG and other parties that will come into force, change or terminate in the event of a change of control in the company as a result of a takeover bid.

ESTAVIS AG has not concluded any agreements that provide for compensation of members of the Management Board or employees in the event of a takeover bid.

1.5 IPO AND PERFORMANCE OF ESTAVIS SHARES

In financial year 2006/2007, ESTAVIS put in place the organisational, structural and legal conditions for the IPO. Since April 2, 2007, ESTAVIS shares have been traded in the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange.

The shares were issued at a price of EUR 28.00 each. At the end of the financial year, the shares were trading at EUR 29.40 (all figures Xetra). The average daily trading volume was 12,621 shares. The share performance resulted in a total market capitalisation of EUR 227.1 million as of June 30, 2007.

The IPO has given a long-term boost to the financial power of the ESTAVIS Group, thus forming the basis for a further commercial expansion of the company. In addition, there has been a significant improvement in the competitive position of the company in terms of procurement and sale of properties.

2 BUSINESS PERFORMANCE AND FINANCIAL POSITION

2.1 SUMMARY

In financial year 2006/2007, against the backdrop of the positive market environment, the ESTAVIS Group managed to extend its strong market position and benefit from the sharp increase in institutional property investment in Germany, in particular from foreign investors. In this respect, revenue and earnings rose considerably in financial year 2006/2007, even without the effect of the company's acquisition of Hamburgische Immobilien Invest SUCV AG.

The net asset, financial and earnings situation of the ESTAVIS Group is very sound. Our company is generating appropriate returns, is soundly financed and has a liquidity reserve as a result of the successful IPO. Consequently, we can implement the planned expansion steps even more rigorously and quickly. This particularly applies to the expansion of portfolio trading operations and the further regional market extension of the company.

2.2 EARNINGS SITUATION

The earnings situation of the ESTAVIS Group improved considerably in the reporting period, as expressed by the key figures. In terms of comparison, it must be kept in mind that the previous period was a short financial year.

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006	Change
	TEUR	TEUR	in %
Revenues	198,398	44,048	+350 %
EBIT	16,550	5,566	+197 %
Net profit	8,814	4,669	+89 %

In the reporting period, ESTAVIS increased consolidated earnings by 350 % to EUR 198.4 million. The main revenue driver here was property trading. 4,189 units (previous year: 1,058) were sold, with total living and floor space of 388,000 m² (previous year: 55,100 m²).

The Hamburgische Immobilien Invest Group, purchased in the reporting period, made a contribution of EUR 17.9 million to the significant increase in revenue.

The breakdown of ESTAVIS Group revenue by operations in the reporting period is shown below:

- Property trading EUR 198.1m (previous year: EUR 44.0m)
- Property asset management EUR 0.3m (previous year: EUR 0.0m)

Earnings before interest and taxes (EBIT) rose by EUR 11.0 million (197 %) compared with the previous period. Net profit was up by EUR 4.2 million (89%). The profit share figures of the Hamburgische Immobilien Invest Group were EUR 0.8 million (EBIT) and EUR 0.2 million (net profit).

In the reporting period, the operating result was negatively impacted by legal and consulting expenses of approx. EUR 1.8 million relating to the acquisition of the Hamburgische Immobilien Invest Group as well as the IPO of the company. Personnel expenses rose considerably due to the necessary increase in headcount. In addition, interest expenses increased due to the borrowing required for the expansion and the rise in the general interest rate.

The rise in other operating expenses is largely based on the increase in advertising and travel costs as well as fee and commission expenses.

At the same time, the gross margin (gross profit/revenue) fell from 15.4 % in the previous period to 13.1 % in financial year 2006/2007. This was primarily caused by non-recurring effects that led to higher renovation and modernisation expenses.

Income tax rose sharply to TEUR 5,412 (previous year: TEUR 701) in the reporting period. This increase is mainly due to the fact that in the previous year, different tax rates in the Group and effects arising from the change in legal form as of June 30, 2006, resulted in a low tax burden.

The negative impacts on earnings contrasted with income from changes in the value of investment property, a positive result from associated companies and a rise in other operating income. The increase in other operating income primarily resulted from higher rent income. In addition, interest income was up strongly as a result of the temporary investment of funds from the IPO.

Detailed information on the composition and level of expenses and income can be found in the notes to the consolidated financial statements.

Against the backdrop of the above-mentioned developments and non-recurring effects, compared with the previous period, the EBIT margin (EBIT/revenue) of the ESTAVIS Group fell from 12.6 % to 8.3 % and the return on sales (net profit/revenue) fell from 10.6 % to 4.4 %. However, a comparison of these key figures is of little relevance in view of the limited comparability of the reporting periods.

2.3 FINANCIAL AND NET ASSET SITUATION

With an equity ratio of 54.2 % (previous year: 6.2 %), liquid funds constituting 20.3 % (previous year: 24.8 %) of assets and working capital of EUR 80.9 million (previous year: EUR 3.2 million), the ESTAVIS Group has a highly stable financing and liquidity situation as of the end of the reporting year. The funds from the IPO had a major impact on available equity and funds. This has enabled ESTAVIS to commit considerable capital funds for the further expansion of the company.

The non-current assets of the ESTAVIS Group increased from EUR 0.6 million to EUR 32.6 million in the reporting period. This is chiefly attributable to the takeover of Hamburgische Immobilien Invest SUCV AG by the Group. Consequently, goodwill rose to EUR 11.5 million and investment property rose to EUR 16.9 million.

In the reporting period, the Group invested EUR 0.4 million (previous year: EUR 0.1 million) in fixed assets and intangible assets. These investments chiefly related to IT hardware and software as well as additions to office equipment and the vehicle fleet. Furthermore, financial assets (excluding investment property) increased from EUR 0.3 million in the previous period to EUR 1.6 million.

The main factors in the increase in current assets from EUR 55.1 million to EUR 144.8 million were the impacts of the IPO and the expansion of the business activities of the ESTAVIS Group. At the end of the reporting period, current assets consisted of the retail property portfolio (EUR 23.1 million), current receivables (EUR 85.7 million) and liquid funds (EUR 36.0 million).

The rise in equity from EUR 3.5 million to EUR 96.2 million resulted primarily from the IPO and the consolidated profit generated in the reporting period. In this respect, the share of minority stockholders in the equity of the ESTAVIS Group is chiefly attributable to the takeover of the Hamburgische Immobilien Invest Group.

The liabilities of the ESTAVIS Group at the end of the reporting year of EUR 81.1 million comprised current liabilities of EUR 63.9 million and non-current liabilities of EUR 17.2 million. Financial obligations, largely consisting of liabilities to banks, accounted for most of the liabilities (EUR 46.6 million). Other major liability items were income tax and sales tax liabilities of EUR 8.7 million, liabilities to affiliated companies arising from joint ventures of EUR 8.2 million and accrued expenses of EUR 5.5 million.

The operating cash flow of the ESTAVIS Group totalled EUR –76.4 million in the reporting period (previous year: EUR 8.2 million). This was primarily caused by a sharp rise in trade receivables and a decrease in advance payments received as a result of realisation of the revenue concerned. After investing and financing activities, an overall increase in cash and cash equivalents of around EUR 22.2 million was achieved in financial year 2006/2007 (previous year: EUR 9.2 million).

Further details on the level and composition of the cash flows are set out in the cash flow statement in the Consolidated Financial Statements.

2.4 OTHER NON-FINANCIAL SUCCESS FACTORS

Against the backdrop of the fast-moving German property market, the technical expertise and commitment of our employees and executives as well as investor- and portfolio-oriented selection of properties are key success factors for the performance of the ESTAVIS Group.

To help retain employee knowledge and skills, the ESTAVIS Group places a special emphasis on attractive working conditions. This particularly includes a competitive remuneration and training system, which is continuously monitored and adapted to any changes on the labour market as required. Furthermore, we constantly draw conclusions on employee satisfaction from the development of fluctuation rates and sickness levels. Both variables have shown low figures in the past.

We also aim for long-term commitment to the company with respect to the company's executives, in order to carry on cultivating our long-standing customer relationships. One way of meeting this aim is the long-term incentives granted to the Management Board members that enable them to participate in the sustained growth of the company (see also section 6 of the Management Report).

To ensure that the property portfolios fulfil investor expectations, the ESTAVIS Group uses an internally-developed software tool (due diligence software) in order to select individual properties and allocate them to portfolios. The assessment criteria and their weighting are regularly reviewed. As required, they are adapted to new findings and current market developments, in particular identified changes to investor requirements.

3 RISK REPORT

3.1 RISK MANAGEMENT SYSTEM

The risk management system of ESTAVIS AG is geared towards identifying, securing and utilising the existing and future success and risk potential of the Group's commercial activities in order to generate a sustained increase in enterprise value. An integral component of this system is the structured, early tackling of potentially adverse developments and events that makes it possible to take countermeasures in good time before significant damage is done.

With the function of promptly detecting and communicating significant risk factors, particularly those that are relevant to income and jeopardise the Group's existence, the risk management system of the ESTAVIS Group is organisationally integrated into the planning, reporting and controlling processes of the Group. It is centrally managed by ESTAVIS AG and comprises the systematic identification, analysis, assessment and monitoring of material risks by the Management Board of the company. In view of the clear corporate structures and business processes, the level of formalisation has been kept low to date for efficiency reasons. The close involvement of the Management Board in the main business processes and projects ensures ongoing monitoring of the risks arising.

The risk management system used by ESTAVIS AG contains the following key elements:

- a structured and standardised controlling and reporting system that is capable of identifying adverse commercial developments at an early stage and communicating them to the company's management;
- documentation of relevant risks to inform the company's management on a regular or case-specific basis;
- frequent and regular assessment of the identified risks and decision-making regarding any countermeasures or the conscious acceptance of clear risks by the Management Board of ESTAVIS AG.

The financial risk management of the ESTAVIS Group is geared towards managing and limiting the financial risks arising from operating activities. In particular, this is intended to counter significant bad debt losses that could jeopardise the commercial development of the company. Another objective of financial risk management is to ensure optimised Group financing. To this end, appropriate credit line agreements are concluded by the parent company, and are used for centralised financing of the operating Group units. Continuous, rolling liquidity controlling ensures that the company always has sufficient funds on hand.

Derivative financial instruments have not been treated separately in the risk management system of ESTAVIS AG to date as they are only used to a minor extent. Regarding the individual risks arising from primary financial instruments, we particularly refer to the statements below on the bad debt and financing risks as well as the details in the notes to the consolidated financial statements.

The appropriateness and functional capability of the implemented risk early warning system are examined by the auditor in the context of the annual audit of the external financial reporting of ESTAVIS AG. Improvement potential identified in this process is then incorporated into the system.

In the context of creation of an integrated corporate structure, the ESTAVIS Group has integrated the subgroup Hamburgische Immobilien Invest SUCV AG, purchased in 2007, into the Group-wide risk management system whilst optimising the system existing within ESTAVIS. In this respect, a Group-wide inventory of all identifiable potential risks was carried out.

3.2 INDIVIDUAL RISKS

The ESTAVIS Group is exposed to a large number of different risks which, individually or collectively, can adversely affect the net asset, financial and earnings situation and the further commercial development of the company. According to the Management Board of ESTAVIS AG, the following company-specific and market-specific individual risks must be emphasised.

Other the risks that are unknown or whose significance is unknown at present could also have a significant negative impact on the business development of the ESTAVIS Group.

Company-specific risks

a) Project selection risks

The commercial success of the ESTAVIS Group heavily depends on the selection and acquisition of suitable properties. This involves the risk of wrongly estimating or failing to identify the negative structural, legal, commercial and other impacts of the properties to be purchased. Furthermore, the assumptions made in relation to the income potential of the properties could subsequently prove to be partly or wholly inappropriate. In particular, incorrect estimates relating to the attractiveness of the property location and other factors that investors deem to be crucial to the decision to buy could result in the relevant property not being sold on the planned terms or within the envisaged period of time.

These property-specific risks are countered by a thorough examination of the relevant properties and their portfolio compatibility. To this end, a software tool developed by the company itself is used. In the context of the property assessment, factors including the expected renovation, maintenance and modernisation requirement as well as the earning power and debt service cover ratio are examined in line with standard banking benchmarks.

b) Property portfolio risks

The ESTAVIS Group predominantly holds its property portfolios on a short-term basis, but holds some of them for longer periods. As long as the properties are held in the portfolios of the company, devaluations could occur that are caused by deteriorations in the social structures of the location, excessive levels of wear and tear, unexpectedly high renovation requirements or similar factors.

In order to protect against these risks, rights of cancellation are sometimes agreed in the purchase agreement. In such cases, the risk is generally restricted to downpayments that are usually payable at a high level and cannot be reimbursed in the event of withdrawal from the purchase agreement.

c) Sales risks

A key factor in the corporate development of the ESTAVIS Group is the long-standing and established business relationships and personal contacts between the management and existing and potential investors. In particular, the stake of the Management Board members in the share capital is intended to help the company to retain their special personal expertise and commitment.

In the area of residential property trading, ESTAVIS uses an extensive network of experienced external sales partners. In this respect, the commercial success is highly dependent on recruiting qualified brokers on a long-term basis. This is primarily to be attained by means of attractive remuneration conditions.

d) Financing risks

In relation to the existing loans for financing the properties held and the new borrowing required to acquire other property portfolios, there is the risk that company-specific and market-specific developments may make it harder to borrow money and/or only make it possible on less favourable terms. This risk is countered by extensive property financing by means of downpayments as well as high turnover rates (from 90 to 180 days between purchase of the individual property and sale of the portfolio).

e) Bad debt risks

The company predominantly sells its properties to customers who form special-purpose entities, and not directly to groups or individuals. Consequently, only limited recourse to the stockholders of the purchaser is possible if a buyer is unable to pay. To reduce this risk, ownership of properties is generally not transferred to the purchaser until the purchase price has been paid into an escrow account.

If renovation measures need to be carried out, parts of the purchase price are regularly only due after completion. In the event of insolvency of a customer prior to completion of the renovation measures, defaults could arise regarding these purchase price portions. The company also bears the credit risk in the event that it enforces rights of rescission or warranty against a seller of property and the seller defaults with repayment of the purchase price or fulfilment of the warranty rights.

Finally, there is a credit risk with property purchases because rent payments frequently continue to be paid to the seller after transfer of rights, entitlements and obligations, and the seller must then in turn pass these payments on to the ESTAVIS Group.

There are no other significant risks in relation to financial instruments of the Group at present.

f) Legal risks

In the context of their business activities, the companies of the ESTAVIS Group can particularly be involved in legal disputes and confronted by (potential) warranty and compensation claims without themselves being able to enforce claims against third parties.

Warranty risks primarily arise if properties are sold individually or in portfolios in the context of asset deals (in the past approx. 60 % of the contract volumes; an increase to more than 80 % is expected in future), as often no exclusion of liability is agreed. If, in contrast, special-purpose entities themselves are sold (share deal), such a risk is either reduced or eliminated, as exclusion of a guarantee for the properties held by the special-purpose entity is generally agreed.

If ESTAVIS is committed to carrying out renovation and modernisation measures, it usually assumes a guarantee for these measures when the property is sold, unless one has already been concluded. In addition, if such measures have not been performed properly, a portion of the agreed sales price is given up. Also, in the event of delays in the renovation and modernisation work, considerable additional charges can arise.

Many property sale contracts contain contractual commitments on the rent level. If it is not possible, or not possible at a particular point in time, to furnish evidence of these, elements of the purchase price will fall due at a later time or will even be waived. Furthermore, in individual cases, rent guarantees that could lead to corresponding equalisation obligations are currently provided for up to one year.

When selling individual apartments, the companies of the ESTAVIS Group and their sales partners also perform consultancy services that could lead to compensation claims from third parties.

Sufficient provisions have been set up for currently existing legal risks. At present, there are no legal risks, particularly arising from legal disputes, that could significantly impact on the financial position of the ESTAVIS Group.

Market-specific risks

a) Economic risks

To date, the ESTAVIS Group generated sales exclusively within Germany. In view of this, in particular, a deterioration in the national economic climate can lead to a decline in demand for property investments, have negative impacts on rent and price levels and impair the credit rating of potential tenants and buyers of properties.

Furthermore, the market environment in Germany is indirectly affected by international economic trends. Consequently, a cooling of the economic climate in Europe could negatively impact on the purchasing behaviour of foreign investors.

The development of the interest rate in Germany is particularly important to national property demand. A (further) increase in interest rates would make property investments more difficult due to rising interest payments. In addition, in this case, the borrowing costs for the loans taken out by the companies of the ESTAVIS Group would rise, with a negative impact on earnings.

b) Sector risks

In the recent past, the German property market has been characterised by excess supply of residential properties, from which the ESTAVIS Group has benefited in the form of favourable purchase prices. There is the risk that this favourable sector situation may not continue. Increased penetration of new competitors on the German property market could also contribute to this.

The property sector is characterised by intensive competition from numerous providers. In this respect, there is the risk of the competition embracing the competitive advantages of the ESTAVIS Group, particularly in terms of financing and the selection and portfolio structuring of properties. This could lead to increased price pressure and lower margins. Furthermore, the number of residential privatisations could rise and the excess supply of residential properties could increase further, which could exacerbate the above-mentioned price/margin risk.

Demand for residential properties could finally be negatively impacted by the expected decline in population in Germany and a possibly associated fall in living space requirements.

c) Legal conditions

As the business activities of the ESTAVIS Group are regulated by specific legal conditions for property, they could be restricted by changes to national and/or European rules of law and by a changed interpretation or application of existing rules of law. These include tenancy law, public construction law, preservation law and tax law.

3.3 OTHER INFLUENCES

In addition to the above-mentioned risks, there are general influences that are not foreseeable and also difficult to overcome. Examples of these are political changes, social influences and risk factors such as natural disasters or terrorist attacks. Such influences can have negative impacts on the economic situation and indirectly impair the further commercial development of the ESTAVIS Group.

3.4 ASSESSMENT OF THE OVERALL RISK

On the basis of the available information, the Management Board of ESTAVIS AG does not currently see any specific risks that could individually or cumulatively jeopardise the continued existence of the company or are likely to materially impact its net asset, financial and earnings situation.

4 FORECAST REPORT

The following statements on the future business performance of the ESTAVIS Group and the influencing factors regarded as crucial thereto in relation to the development of the market, sector and company are based on the estimates of the Management Board of ESTAVIS AG. The assumptions made are currently deemed to be realistic on the basis of the available information. All forecasts involve the risk that the developments will not actually occur either in terms of their trend or their extent. The material risks to which the ESTAVIS Group feels it is exposed are explained in the risk report.

4.1 MARKET AND BUSINESS OPPORTUNITIES

The demographic and social trends in Germany involve considerable opportunities for the domestic property market. Consequently, the expectation remains that the number of households and the average space requirement per person will continue to grow in the future. This could have a positive impact on the business development of the ESTAVIS Group.

Additional sales opportunities, primarily in the core business of portfolio trading, could also arise if the existing price differential between the German and international property markets continues. The low price level compared with the international property markets makes the German property market very attractive to foreign investors with regard to return aspects.

With its specialisation in property business through portfolio acquisition, the ESTAVIS Group has a niche on the German property market. At present, to the best of our knowledge, there is no other company that operates throughout Germany with a comparable business model. This presents ESTAVIS with the opportunity to utilise and further extend its existing competitive edge in future irrespective of the expected increase in competitive intensity in its core business area of portfolio trading.

We also expect positive impetus for the business development of the ESTAVIS Group from the purchase of the subgroup of Hamburgische Immobilien Invest SUCV AG. We are thus improving our access to target regions for property acquisitions. Furthermore, long-term positive synergy effects could arise from additional services that complement the existing range of services of the ESTAVIS Group.

With the funds that ESTAVIS AG received from the IPO, the company is able to further expand its business activities. Consequently, the ESTAVIS Group is in a position to rigorously utilise the business opportunities it has identified and to take the necessary measures.

4.2 DEVELOPMENT OF ECONOMIC CONDITIONS

The general consensus among analysts and market researchers is that the macroeconomic prospects in Germany remain positive for the next two financial years. However, the economic upturn is expected to slow down slightly. For instance, for the German economy, real gross domestic product growth rates of between 2.3 % and 2.8 % for 2007 and 2.5 % for 2008 are predominantly forecast, with the domestic economy being rated as the key growth engine.

Although the turbulence on the international financial markets triggered by the mortgage crisis in the USA is regarded as an uncertainty factor for macroeconomic development, in general this is not yet expected to result in serious risks to the stability of the economic growth process.

A moderate rise in consumer prices of around 1.5 % (2007) and 1.9 % (2008) is again expected in Germany for the next two years. Higher prices are also likely at European level. Accordingly, key interest rate rises by the European Central Bank cannot be ruled out as method of stabilising prices, leading to higher capital market interest rates in the short to medium term.

However, in sector-specific terms, positive economic signs are expected for the near future. Although the demographic trends expected in the long term (decreasing population, changes in the age structure) are already casting a shadow on current developments on the German property market, this effect will be more than made up for by various positive influencing factors.

For instance, it is generally assumed that the increase in one- and two-person households observed in the recent past continues to create growing demand for residential property in Germany. What is more, the extremely favourable property prices give rise to expectations that the institutional investment activity in the German residential property market will continue as a result of the still positive return expectations.

In view of the restrained new construction activity for residential property in recent years, a shortage of living space is expected in the medium term in Germany. In the foreseeable future, this situation is likely to cause the long-standing stagnation of property purchase prices to gradually change towards an upward trend. With the apparent market shortage, an increase in rent levels is also expected. The changes in purchase prices and rents are likely to differ considerably between regionsn.

4.3 CORPORATE DEVELOPMENT

a) Overall assessment

Against the backdrop of the described forecasts and developments, the ESTAVIS Group expects a positive performance for the next two financial years. We expect our company to benefit from the continued favourable market environment in Germany and to further strengthen its market position through sustained, profitable growth.

b) Increase in revenue

In terms of revenue planning for the ESTAVIS Group, we expect the company to be able to maintain its competitive edge and thus generate additional business volume. We regard the company's increased financial power following the IPO as another key factor for expansion of business activities. The funds received are primarily to be used to accelerate medium-term portfolio trading in addition to the current core business of short-term portfolio trading. Medium-term portfolio trading comprises the purchase of properties with a greater need for renovation and sale of these properties within 18 months. In addition, the sale of properties to private investors, the brokerage business and the development area are to be extended. We plan to generate around 20% of total revenue from the new areas in the medium term.

For each of the next two financial years, the ESTAVIS Group plans to achieve significant year-on-year increases in revenue. This estimate is based on the following factors:

- greater flexibility in terms of time and finance when buying properties;
- extremely fast transfer of rights, entitlements and obligations of properties shortly after conclusion of the purchase agreement;
- the current status of business and transaction initiation.

c) Earnings growth

Since the business model was implemented, the ESTAVIS Group has been generating EBIT margins of around 13%. The company's earnings situation crucially depends on us continuously purchasing properties with upside value potential at prices whose sale proceeds are well above the costs of acquisition and renovation.

We expect the EBIT margin to increase slightly as a result of the expansion of medium-term portfolio trading and development. With the forecast increase in revenue, a considerable improvement in EBIT and, accordingly, net profit is expected in the next two financial years. In contrast, the impacts of a possible rise in interest rates and therefore also interest payments on the net profit of the ESTAVIS Group appear to be of minor significance.

d) Financing

On the basis of these developments, we expect a continuous improvement in the liquidity and financing situation of the ESTAVIS Group in the next two financial years.

As the main asset movements take place between liquid funds and working capital and the ESTAVIS Group has a low capital utilisation rate, we assume in our investment and finance planning that the investment requirement can be covered from the operating cash flow. Unless external growth steps are taken, we do not deem it necessary to borrow interest-bearing funds for capital investment.

5 SUPPLEMENTARY REPORT

After the end of financial year 2006/2007, no events have occurred that are of particular significance to the commercial development of the ESTAVIS Group.

6 KEY FEATURES OF THE REMUNERATION SYSTEM FOR BOARD MEMBERS

The remuneration of the Management Board members of ESTAVIS AG has been agreed for a period of between two and three years. Neither party may terminate the respective agreement during this term other than for good cause. Remuneration of the Management Board members of ESTAVIS AG consists of fixed annual basic remuneration and a variable bonus dependent on the EBIT of the company. In addition, the Management Board members have use of a company car, and ESTAVIS AG has taken out property damage liability insurance (D&O insurance) and accident insurance for them.

The interest of the Management Board members in the long-term positive growth of the ESTAVIS Group is ensured by the shares in ESTAVIS AG that they hold. No other remuneration components with a long-term incentive effect have been agreed with the Management Board members. The Management Board members have not been granted any pension commitments or other retirement benefits. No arrangements for benefits upon early termination have been agreed with the Management Board members with the exception of a provision entitling the company to release Management Board members from their duties during a notice period and in the event of their dismissal, subject to the continued payment of their salary. The employment contracts of the Management Board members also prescribe a subsequent restraint on competition.

In addition to reimbursement of their expenses, the members of the Supervisory Board receive fixed annual remuneration for each full financial year of their membership of the Supervisory Board. There is also variable remuneration, which currently amounts to a maximum of 200% of the respective fixed remuneration per year and is dependent on the performance of the ESTAVIS share compared with the share prices of specific companies in the property sector (peer group) to be stipulated by the General Shareholders' Meeting. Furthermore, ESTAVIS AG has taken out property damage liability insurance (D&O insurance) for the Supervisory Board members.

The total income of the Board members and individual remuneration of the Management Board members are listed in the notes to the consolidated financial statements.

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CONSOLIDATED BALANCE SHEET

ESTAVIS AG

Assets	Section	June 30, 2007 TEUR	June 30, 2006 TEUR
Non-current assets			
Goodwill	6.1, 6.22, 7	11,492	0
Other intangible assets	2.7, 6.1, 7	50	0
Property, plant and equipment	2.8, 6.2, 7	775	162
Investment property	6.3	16,939	0
Investments in associates	2.3, 6.4	917	0
Other non-current financial assets	6.5	721	277
Deferred income tax receivables	6.13	1,668	182
Total		**32,563**	**621**
Current assets			
Inventories	2.12, 6.6	23,057	36,773
Trade receivables	6.7	50,139	1,513
Other receivables	6.7	35,323	3,001
Current income tax receivables		185	0
Cash and cash equivalents	6.8	36,048	13,807
Total		**144,753**	**55,094**
Total assets		**177,316**	**55,716**

CONSOLIDATED BALANCE SHEET

ESTAVIS AG

	Section	June 30, 2007	June 30, 2006
Equity		TEUR	TEUR
Issued capital	6.9	7,724	26
Capital reserves	6.9	70,577	0
Retained earnings to be used for capital increase	6.9	0	3,425
IAS 39 reserve	2.11	73	–55
Retained earnings		7,280	62
Equity attributable to the shareholders of the parent company		85,654	3,458
Minority interests		10,514	2
Total equity		**96,168**	**3,461**
Liabilities			
Non-current liabilities			
Other capital of shareholders attributable to minority interests	2.21	708	205
Provisions	2.17, 6.11	341	0
Non-current financial liabilities	6.10	13,535	78
Deferred income tax liabilities	6.13	2,666	48
Total non-current liabilities		**17,250**	**331**
Current liabilities			
Provisions	6.11	5,506	958
Current financial liabilities	6.10	33,022	5,113
Advance payments received		768	38,407
Current income tax liabilities		5,553	246
Trade payables	6.12	3,443	5,016
Other liabilities	6.12	15,606	2,185
Total current liabilities		**63,898**	**51,924**
Total equity and liabilities		**177,316**	**55,716**

CONSOLIDATED INCOME STATEMENT

ESTAVIS AG	Section	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
		TEUR	TEUR
Revenues	2.19, 6.14	198,398	44,048
Change in investment property	6.3	29	0
Other operating income	6.17	2,682	259
Changes in inventories		119	73
Total operating performance		**201,229**	**44,380**
Cost of materials	6.15	172,338	37,279
Staff costs	6.16	2,867	464
Depreciation and amortisation		137	23
Other operating expenses	6.17	10,216	1,048
Operating profit		**15,671**	**5,566**
Net income from associates		**879**	**0**
Interest income		952	98
Interest expenses		2,855	93
Financial result		**–1,903**	**5**
Pre-tax profit		**14,648**	**5,570**
Income taxes	6.18	5,412	701
Result after income taxes and before change in the other capital of shareholders		**9,236**	**4,869**
Change in other capital of minority shareholders		–422	–200
Net profit		**8,814**	**4,669**
attributable to parent company shareholders		8,767	4,578
attributable to minority interests		48	91
Earnings per share (EUR)	6.19	**1.54**	**0.93**

CONSOLIDATED CASH FLOW STATEMENT

ESTAVIS AG		July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
		TEUR	TEUR
	Net profit	8,814	4,669
+/–	Non-cash change in the other capital of shareholders	431	200
+	Depreciation/amortisation of non-current assets	137	23
+/–	Increase/decrease in provisions	4,640	119
+/–	Change in investment property	–29	0
+/–	Other non-cash expenses/income	–40,742	–25,345
–/+	Gains/losses from the disposal of non-current assets	4	0
–/+	Increase/decrease in inventories, trade receivables and other assets that are not attributable to investing or financing activities	–27,323	852
–/+	Increase/decrease in trade payables and other liabilities that are not attributable to investing or financing activities	–22,301	27,021
=	**Cash flow from current operating activities**	**–76,368**	**8,200**
	Payments received from the disposal of property, plant and equipment	5	0
–	Payments for investments in intangible assets	–40	0
–	Payments for investment property	–418	0
–	Payments for investments in property, plant and equipment	–405	–28
–	Payments for investments in non-current financial assets	0	–78
+	Payments from the addition of fully consolidated companies	3,057	0
+	Payments from the disposal of fully consolidated companies	5	0
=	**Cash and cash equivalents at the beginning of the period**	**2,204**	**–106**
	Payments made by shareholders	51,111	243
+	Payments from issuing bonds and raising (financial) loans	92,095	884
–	Repayment of bonds and financial loans	–46,800	0
=	**Cash flow from financing activities**	**96,406**	**1,127**
	Net change in cash and cash equivalents	22,241	9,221
+	Cash and cash equivalents at the beginning of the period	13,807	4,586
=	**Cash and cash equivalents at the end of the period**	**36,048**	**13,807**

Explanations on individual positions can be found in the Notes to the Consolidated Financial Statements, sec. 6.20.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year from July 1, 2006 to June 30, 2007

ESTAVIS AG	Issued capital	Capital reserves	IAS 39 reserve	Retained earnings	Equity attributable to the shareholders of the parent company	Minority interests	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
As of July 1, 2006	**3,451**	**0**	**–55**	**62**	**3,458**	**2**	**3,461**
Changes in the value of available-for-sale financial assets	–	–	127	0	127	4	**131**
Net profit for the period July 1, 2006 – June 30, 2007	–	–	–	8,767	8,767	48	**8,814**
Total recognised income and expenses	–	–	**127**	**8,767**	**8,894**	**51**	**8,945**
Capital increase from retained earnings	1,549	–	–	–1,549	0	–	**0**
Capital increase against contributions in kind (acquisition of HAG)	724	19,560	0	0	20,284	10,461	**30,745**
Capital increase against cash contributions	2,000	54,000	0	0	56,000	0	**56,000**
Equity-raising costs	–	–2,982	0	0	–2,982	0	**–2,982**
As of June 30, 2007	**7,724**	**70,577**	**73**	**7,280**	**85,654**	**10,514**	**96,168**

Explanations on individual positions can be found in the Notes to the Consolidated Financial Statements, sec. 6.9.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year from January 1, 2006 to June 30, 2006

ESTAVIS AG	Issued capital	Capital reserves	IAS 39 reserve	Retained earnings	Equity attributable to the shareholders of the parent company	Minority interests	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
As of January 1, 2006	**25**	**1**	**0**	**–1,427**	**–1,401**	**9**	**–1,393**
Changes in the value of available-for-sale financial assets	–	–	–55	0	–55	–4	**–58**
Net profit for the period January 1, 2006 – June 30, 2006	–	–	–	4,578	4,578	91	**4,669**
Total recognised income and expenses	**–**	**–**	**–55**	**4,578**	**4,523**	**88**	**4,610**
Reclassification due to capital increase	3,425*	0	0	–3,144	281	0	**281**
Change in consolidated group	1	–1	0	55	56	–94	**–38**
As of June 30, 2006	**3,451**	**0**	**–55**	**62**	**3,458**	**2**	**3,461**

* The figure as of June 30, 2006 contains the “Retained earnings to be used for capital increase” amounting to TEUR 3,425 reported separately in the Consolidated Balance Sheet.

CHANGES IN OTHER SHAREHOLDERS' CAPITAL

for the financial year from July 1, 2006 to June 30, 2007

ESTAVIS AG	Changes in other capital attributable to minority shareholders
	TEUR
As of July 1, 2006	**205**
Change due to contributions	10
Change in consolidated group	72
Change in liabilities recognised in the income statement	422
As of June 30, 2007	**708**

Explanations on individual positions can be found in the Notes to the Consolidated Financial Statements, sec. 2.21.

CHANGES IN OTHER SHAREHOLDERS' CAPITAL

for the financial year from January 1, 2006 to June 30, 2006

ESTAVIS AG	Changes in other capital attributable to minority shareholders
	TEUR
As of January 1, 2006	**5**
Change in liabilities recognised in the income statement	200
As of June 30, 2006	**205**

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1 BASIC INFORMATION

ESTAVIS AG and its subsidiaries buy and sell properties, as well as performing maintenance work on some of these properties for resale purposes. Properties are also held as financial investments. Since September 14, 2006, the company has been domiciled in Berlin, Germany. The company's shares are admitted to trading on the Regulated Market of the Frankfurt Stock Exchange (Prime Standard).

ESTAVIS AG was created following the change of name and legal form of "IMMCON" Immobilien-Consulting Jakob GmbH, Dresden (hereinafter referred to as "IMMCON GmbH"). The resolution on conversion was adopted on June 30, 2006 subject to the condition precedent of the entry in the commercial register of the non-cash capital increase of IMMCON GmbH that was resolved on the same day. The non-cash capital increase was entered in the commercial register on August 16, 2006. Accordingly, the change of name and legal form was then entered in the commercial register on August 23, 2006.

As of June 30, 2007, ESTAVIS AG acts as the operating holding company for a number of special-purpose entities. The company's main operating interest is its 79.69 % stake in Hamburgische Immobilien Invest SUCV AG, Hamburg (hereinafter referred to as the "HAG Group"), which it acquired on March 30, 2007. In turn, the HAG Group holds 54.76 % of the shares of the operating company CWI Real Estate AG, Bayreuth.

The prior-period figures relate to the short financial year from January 1 to June 30, 2006. For this reason and due to the expansion of the consolidated group, the prior-period figures are only directly comparable to the figures for the period under review to a limited extent.

The present consolidated financial statements were approved for publication by the company's Management Board in September 2007.

2 SIGNIFICANT ACCOUNTING POLICIES

The following section describes the accounting policies applied in preparing the consolidated financial statements.

2.1 Principles

The consolidated financial statements of ESTAVIS AG were prepared in accordance with the provisions of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated July 19, 2002 concerning the application of international accounting standards in the form of the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as required to be applied in the European Union.

The requirements of the IFRSs were met in full and provide a true and fair view of the net assets, financial position and results of operations of the ESTAVIS Group. In order to improve the clarity of presentation, some individual income statement and balance sheet items are presented in aggregated form. These items are discussed in the Notes. The income statement is structured in accordance with the nature of expense method.

As a matter of principle, the consolidated financial statements were prepared using a historical cost approach. Available-for-sale financial assets, derivative financial instruments and investment property are carried at fair value.

The estimates and assumptions applied in preparing the IFRS financial statements affect the measurement of assets and liabilities, the disclosure of contingent assets and liabilities at the respective balance sheet dates, and the amount of income and expenses during the period under review. Although these assumptions and estimates are made in accordance with the best knowledge of the company's management and on the basis of current events and measures, actual results may ultimately differ from these estimates.

The following new and amended accounting standards and interpretations were required to be applied for the first time in preparing the IFRS consolidated financial statements for the 2006/2007 financial year:

Standard/Interpretation		amended/new
IAS 19	Employee Benefits	amended
IAS 21	The Effects of Changes in Foreign Exchange Rates	amended
IAS 39	Financial Instruments: Recognition and Measurement	amended
IFRS 4	Insurance Contracts	amended
IFRS 6	Exploration for and Evaluation of Mineral Assets	new
IFRIC 4	Determining Whether an Arrangement Contains a Lease	new
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	new
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	new
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	new
IFRIC 8	Scope of IFRS 2	new
IFRIC 9	Reassessment of Embedded Derivatives	new

The first-time application of the new accounting standards did not affect the IFRS financial statements of ESTAVIS AG.

The following accounting standards that have been newly published by the IASB and, in some cases, not yet adopted by the European Union will only be required to be applied in preparing future financial statements – subject to their adoption by the European Union – and have not been applied early by ESTAVIS AG:

Standard/Interpretation		Applicable from financial year
IAS 1	Presentation of Financial Statements	2007/2008
IAS 32	Financial Instruments: Presentation	2007/2008
IFRS 7	Financial Instruments: Disclosures	2007/2008
IFRS 8	Operating Segments	2009/2010
IFRIC 10	Interim Financial Reporting and Impairment	2007/2008
IFRIC 11	IFRS 2: Group and Treasury Share Transactions	2007/2008
IFRIC 12	Service Concession Arrangements	2008/2009
IFRIC 13	Customer Loyalty Programmes	2008/2009
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	2008/2009

The company does not expect the future application of the new accounting standards to have a significant impact on the consolidated financial statements.

All amounts contained in the notes and tables are disclosed in thousands of euros (TEUR) unless stated otherwise. Both individual line items and sum totals represent the amounts with the smallest rounding difference. Accordingly, adding the values of the individual line items may result in slight differences compared with the sum totals presented.

2.2 Common control transactions

At the end of the previous short financial year, the ESTAVIS Group was created as a result of a series of transactions in which the companies involved were all controlled by the controlling shareholder, Mr. Rainer Schorr. The IFRSs do not contain any explicit accounting provisions for transactions of this kind. The company accounts for these transactions in accordance with the principles of predecessor accounting. This means that the carrying amounts of the assets and liabilities of the companies participating in the common control transaction in the consolidated financial statements of ESTAVIS AG are the same as they would be in the IFRS consolidated financial statements of the controlling shareholder.

The common control transaction that is relevant for the present financial statements, i.e. the combination of IMMCON GmbH (now ESTAVIS AG), ESTAVIS KG and ESTAVIS Immobilienverwaltungs GmbH, took place on June 30, 2006. In terms of the presentation of the comparative prior period, the financial statements were prepared as if the contribution had already taken place at the start of the 2005 financial year, i.e. the date at which the predecessor companies started their business operations.

2.3 Consolidation

a) Subsidiaries

All of the subsidiaries of ESTAVIS AG are included in the consolidated financial statements. This relates to companies whose financial and business policy the Group is able to control, either directly or indirectly. A list of the companies included in consolidation can be found under sec. 2.3 d.

Subsidiaries are fully consolidated from the date on which the Group obtains control over the respective company. They are deconsolidated from the date on which such control ends. Specific details of common control transactions can be found under sec. 2.2.

Acquired subsidiaries are recognised in accordance with the purchase method. The cost of acquisition corresponds to the fair value of the assets given up, equity instruments issued and liabilities created or incurred at the date of exchange, plus any costs directly attributable to the acquisition. On initial consolidation, any assets, liabilities and contingent liabilities identified in the course of the business combination are recognised at their fair value at the acquisition date irrespective of any minority interests. The excess of the cost of acquisition over the Group's interest in the fair value of the net assets of the company acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the (proportionate) net assets of the company acquired, the difference is recognised directly in the income statement.

The sale of special-purpose entities (share deal) is reported in the same way as a comparable direct sale of real estate (asset deal), as these transactions are an integral component of the primary business activities of the ESTAVIS Group. This serves to ensure the presentation of a true and fair view of the Group's net assets, financial position and results of operations. The selling price of the shares in the special-purpose entities being sold, plus its liabilities and less its receivables, is reported as the proceeds of the sale, while the carrying amount of the real estate being sold is reported under cost of materials.

Intragroup transactions, balances and unrealised profits from transactions between Group companies are eliminated. The same applies to unrealised losses, unless the transaction indicates the impairment of the transferred asset. Where necessary, the accounting policies of subsidiaries have been changed in order to ensure uniform Group-wide accounting.

b) Joint ventures

All joint ventures of ESTAVIS AG are included in the consolidated financial statements by way of proportionate consolidation. This relates to companies whose financial and business policy the Group is able to control, either directly or indirectly, in conjunction with a third party.

The information on the accounting treatment of subsidiaries also applies to the accounting treatment of joint ventures, with the difference that it only relates to the interest held by the Group; the interest attributable to the joint venture partner is not recognised.

c) Associates

Associates are companies over which the Group is able to exercise a significant influence but which it is not able to control; as a rule, this generally relates to companies in which the Group holds an interest of between 20% and 50%. Investments in associates are accounted for using the equity method and initially carried at cost. The Group's interest in associates contains the goodwill arising on acquisition (adjusted for accumulated impairment losses as applicable). A list of the associates consolidated using the equity method can be found under sec. 2.3 d.

The Group's interest in the net profit or loss of associates is recognised in the income statement from the acquisition date, while the Group's interest in changes in reserves is recognised under consolidated reserves. Cumulative changes in value after the acquisition date are offset against the carrying amount of the investment. If the Group's interest in the net loss of an associate is equal to or greater than its equity interest in the associate, including other unsecured receivables from the associate, the Group does not recognise any additional losses unless it has assumed obligations or made payments on behalf of the associate.

Unrealised profits from transactions between Group companies and associates are eliminated in accordance with the Group's interest in the associate. The same applies to unrealised losses, unless the transaction indicates the impairment of the transferred asset. Where necessary, the accounting policies of associates have been changed in order to ensure uniform Group-wide accounting.

d) Consolidated group

On June 30, 2007, the consolidated financial statements of ESTAVIS AG included 52 subsidiaries and two associates. The consolidated group changed as follows compared with June 30, 2006:

In the past financial year, the consolidated group expanded to include twelve newly formed companies (eleven special-purpose entities and one property management company).

One special-purpose entity is only included in the consolidated financial statements as an associate following the sale of 50 % of the Group's shares. As this company was still in the investment phase at the disposal date, the proceeds of the sale were insignificant. Another inactive special-purpose entity was deconsolidated on account of the fact that the Group was only holding its shares in trust for third parties.

At the end of the third quarter of the 2006/2007 financial year, the consolidated group expanded to include the companies of the HAG Group (14 consolidated subsidiaries and one associate); for further details, see sec. 6.22. In the fourth quarter, CWI Real Estate AG acquired 100 % of the shares of a special-purpose entity that holds investment property.

In addition, six special-purpose entities (joint ventures) that were formed in conjunction with a partner for the realisation of a major real estate portfolio were proportionately consolidated in the third quarter of the 2006/2007 financial year. As of June 30, 2007, the shares in these joint ventures had been sold to the joint venture partner with the exception of a residual interest of 6 % in each case. The transaction is reported in the consolidated financial statements as a proportionate sale of real estate (asset deal). The residual interests held are reported under other financial assets.

The following list shows the companies included in the consolidated group in addition to ESTAVIS AG. The disclosures in parentheses provide information on the business activities of the respective company. Companies without any such information are special-purpose entities.

List of equity interests in subsidiaries

Company	Domicile	Equity interest*
ESTAVIS Beteiligungs GmbH & Co. KG (interim holding company)	Berlin	94 %
Dritte CRSR Wohnen GmbH & Co. KG	Berlin	94 %
ESTAVIS Construction GmbH & Co. KG (construction)	Berlin	100 %
SIAG Erste Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Zweite Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Dritte Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Fünfte Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Sechste Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Siebente Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Achte Wohnen GmbH & Co. KG	Berlin	94 %
SIAG Neunte Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Zehnte Wohnen GmbH & Co. KG	Berlin	94 %
SIAG Elfte Wohnen GmbH & Co. KG	Berlin	94 %
SIAG Zwölfte Wohnen GmbH & Co. KG	Berlin	94 %
SIAG Vierzehnte Wohnen GmbH & Co. KG	Berlin	94 %
SIAG Fünfzehnte Wohnen GmbH & Co. KG	Berlin	94 %
SIAG Siebzehnte Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Achtzehnte Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Neunzehnte Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Zwanzigste Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Einundzwanzigste Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Siebenundzwanzigste Wohnen GmbH & Co. KG	Berlin	100 %
SIAG Fünfundzwanzigste Wohnen GmbH & Co. KG	Berlin	100 %
Estavis Immobilienverwaltungs GmbH (general partner)	Berlin	94 %
SIAG Dritte Wohnen Beteiligungsgesellschaft GmbH	Berlin	100 %
SIAG 28. Wohnen GmbH & Co. KG	Berlin	100 %
SIAG 29. Wohnen GmbH & Co. KG	Berlin	100 %
SIAG 30. Wohnen GmbH & Co. KG	Berlin	100 %
SIAG 31. Wohnen GmbH & Co. KG	Berlin	100 %
Estavis 26. Property GmbH	Berlin	100 %
Estavis 27. Property GmbH (property management)	Berlin	100 %
Estavis 28. Property GmbH	Berlin	100 %
Estavis 29. Property GmbH	Berlin	100 %
Estavis 30. Property GmbH	Berlin	100 %
Estavis 31. Property GmbH	Berlin	100 %
Hamburgische Immobilien Invest SUCV AG (trading)		79.69 %
Hanseatische Immobilienbörse HIB GmbH (brokerage)		100 %
CWI Real Estate AG (trading)	Bayreuth	54.76 %
CWI Immobilien AG (investment property)	Berlin	86.34 %
CWI Wohnen AG & Co. KG	Berlin	94 %
2. CWI Wohnen AG & Co. KG	Berlin	94 %
4. CWI Wohnen AG & Co. KG	Bayreuth	94.5 %
5. CWI Wohnen AG & Co. KG	Bayreuth	94.5 %

List of equity interests in subsidiaries (continued from previous page)

Company	Domicile	Equity interest*
6. CWI Wohnen GmbH & Co. KG	Bayreuth	100 %
8. CWI Wohnen GmbH & Co. KG	Bayreuth	100 %
9. CWI Wohnen GmbH & Co. KG	Bayreuth	100 %
10. CWI Wohnen GmbH & Co. KG	Bayreuth	100 %
11. CWI Wohnen GmbH & Co. KG	Bayreuth	100 %
12. CWI Wohnen GmbH & Co. KG	Bayreuth	100 %
13. CWI Wohnen GmbH & Co. KG	Bayreuth	100 %
CWI Consult GmbH	Bayreuth	100 %
CWI Bau und Boden AG (investment property)	Chemnitz	100 %

* The equity interest describes the percentage interest held by the immediate parent company in each case.

In accordance with section 264b of the German Commercial Code, the commercial partnerships listed as subsidiaries above are exempted from the preparation, audit and disclosure requirements for corporations with regard to the annual financial statements and the management report.

List of equity interests in associates

Company	Domicile	Equity interest*
SIAG Sechzehnte Wohnen GmbH & Co. KG	Berlin	50 %
3. CWI Wohnen AG & Co. KG	Berlin	43 %

* The equity interest describes the percentage interest held by the immediate parent company in each case.

2.4 Segment reporting

A business segment is a group of assets and operating activities that provides products and services that are distinct from those provided by other business segments in terms of their risks and opportunities.

2.5 Foreign currency translation

a) Functional currency and reporting currency

ESTAVIS AG prepares its consolidated financial statements in euros (EUR).
The euro is the currency of the primary business environment in which ESTAVIS AG and its subsidiaries operate, and is therefore also their functional currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective group company using the exchange rates applicable at the transaction date. After initial recognition, monetary foreign currency items are translated at the exchange rate at the respective balance sheet date.

Currency translation differences resulting from the fulfilment of foreign currency transactions or the translation of monetary foreign currency items at the balance sheet date exchange rate are recognised in the income statement as foreign currency gains or losses.

2.6 Investment property

Investment property primarily relates to residential property held on a long-term basis to earn rentals or for capital appreciation. Investment property is carried at fair value, which is determined by external valuers on the basis of the prices obtainable on the open market or, if there is a lack of comparable properties, in accordance with the income capitalisation approach. Changes in fair value are reported separately in the income statement.

2.7 Intangible assets

a) Goodwill

Goodwill is the excess of the cost of an acquisition over the Group's interest in the fair value of the net assets of the company being acquired at the acquisition date, and is reported under intangible assets. Any goodwill resulting from the acquisition of an associate is contained in the carrying amount of the interest in the respective associate. Goodwill is tested for impairment annually and carried at original cost less accumulated impairment losses.

b) Other intangible assets

This includes purchased software, which is carried at cost and amortised on a straight-line basis over its useful life. The useful life for purchased software is three years.

2.8 Property, plant and equipment

Property, plant and equipment primarily consists of computer hardware, other office equipment and motor vehicles, and is carried at cost less depreciation and impairment losses. Depreciation is performed on a straight-line basis, taking into account the residual value and applying the following useful lives:

- Computer hardware 3 years
- Other office equipment 8–13 years
- Motor vehicles 2–3 years

Low-value assets are written off in full in the year in which they are acquired.

The residual values and remaining useful lives are reviewed at each balance sheet date and adjusted as necessary.

Subsequent expenditure is only capitalised if it is probable that the company will receive an economic benefit from the respective expenditure in future. All other repair and maintenance measures are recognised as expenses in the financial year in which they are incurred.

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to the latter amount (see also sec. 2.9).

Gains and losses from the disposal of property, plant and equipment are determined by comparing the sales proceeds with the carrying amount, and are reported in the operating result.

2.9 Impairment of assets

Goodwill is tested for impairment annually. Property, plant and equipment and intangible assets which are written off on a straight-line basis are tested for impairment if events or indicators suggest that their carrying amount may not be recoverable. Impairment losses are recognised in the amount by which the carrying amount of an asset exceeds its recoverable amount. The latter corresponds to the higher of the net selling price of the asset and the discounted net cash flow from its continued use (value in use). In order to determine impairment, assets are combined at the lowest level to form cash-generating units for which cash flows can be identified largely independently from the rest of the company. By contrast, goodwill impairment is determined at the level of the segment to which the respective goodwill is allocated.

If the reasons for impairment no longer apply, impairment losses may be reversed up to a maximum of the amortised cost of the respective asset. Goodwill impairment losses may not be reversed.

2.10 Financial assets

Financial assets are divided into the following categories: financial assets recognised at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification of financial assets depends on the purpose for which they were acquired. The company's management is responsible for determining the classification of financial assets on initial recognition and reviewing their classification at each reporting date. In the period under review and the prior period, the Group only had financial assets in the categories financial assets at fair value through profit or loss (one interest rate derivative), loans and receivables and available-for-sale financial assets.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and financial assets that were voluntarily designated as "at fair value through profit or loss" on acquisition. A financial asset is classified as held for trading if it was primarily acquired for the purpose of being sold in the short term, it forms part of a clearly identifiable portfolio of managed financial instruments that has been used to generate short-term gains in the past, or it is a derivative not included in a hedging relationship. The company's management may choose to designate other financial assets as "at fair value through profit or loss" if certain conditions are met. Assets belonging to this category are reported under current assets if they are held for trading or they are expected to be disposed of within twelve months of the balance sheet date.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group directly provides a debtor with money, goods or services without intending to use the corresponding receivables for trading purposes. Loans and receivables are classified as current assets if they have a maturity of twelve months or less from the balance sheet date; otherwise, they are reported under non-current assets. Loans and receivables are reported in the balance sheet under other financial assets, trade receivables and other receivables.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that have been allocated to this category or that cannot be allocated to any of the other categories. They are reported under non-current assets if the company's management does not intend to dispose of them within twelve months of the balance sheet date.

2.11 Available-for-sale financial assets

On initial recognition, available-for-sale financial assets are carried at fair value plus the transaction costs incurred. At subsequent reporting dates, they are carried at fair value, which corresponds to their market price. The difference between this amount and the carrying amount on initial recognition is taken directly to the revaluation reserve in equity. When available-for-sale financial assets are sold or an impairment loss is recognised on such assets, any unrealised gains on fair value measurement contained in equity are reclassified and recognised in the income statement.

At each balance sheet date, ESTAVIS AG examines whether there is any objective evidence of impairment. If such evidence exists, any accumulated losses previously recognised directly in equity are reclassified and recognised as an expense in the income statement.

2.12 Inventories

The inventories of the ESTAVIS Group consist of the properties it acquires for resale, which are carried at the lower of cost and net realisable value. Acquisition cost includes the purchase price for the respective properties and incidental expenses, such as brokerage fees, real property transfer taxes, notaries' fees and land register costs. Production costs are incurred if and to the extent that restoration work is performed on a property prior to its disposal. Production costs include the directly attributable cost of materials and wages, as well as the cost of purchased services. The overheads attributable to construction are also included in the cost of inventories. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade receivables

Trade receivables are initially carried at their fair value. Subsequent to initial measurement, they are carried at amortised cost calculated in accordance with the effective interest method, less any write-downs. Trade receivables are written down if there is objective evidence that the amounts due may not be collectable in full. The amount of the write-down recognised is the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from the receivable discounted using the effective interest method. Write-downs are recognised in income. If the reasons for a write-down no longer apply, either in full or in part, the write-down is reversed up to a maximum of the amortised cost of the receivable and the amount of the reversal is recognised in income.

2.14 Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purposes of the cash flow statement, cash and cash equivalents are composed of cash, demand deposits held at banks, and other short-term, highly liquid investments with an original term of no more than three months.

2.15 Provisions

Provisions are recognised when the company has a current legal or constructive obligation based on events in the past, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the company expects the reimbursement of an amount for which a provision has been recognised (e.g. under an insurance policy), it must record the right to reimbursement as a separate asset providing that reimbursement is effectively guaranteed in the event of a claim being asserted on the respective obligation.

The company recognises provisions for onerous contracts if the unavoidable costs of meeting the obligation under the respective contract are greater than the expected benefits from the contractual claim.

2.16 Financial liabilities

On initial recognition, financial liabilities are carried at their fair value less transaction costs. In subsequent periods, they are carried at amortised cost. Any differences between the amount disbursed (less transaction costs) and the settlement amount are recognised in income over the term of the respective liability in accordance with the effective interest method.

Financial liabilities are classified as current if the Group does not have the unconditional right to settle the liability at a date that is more than twelve months after the balance sheet date.

2.17 Pension obligations

One group company has a defined benefit pension plan, the performance risk for which ultimately lies with that group company. The plan is reinsured by way of payments to insurance companies.

The provision recognised in the balance sheet corresponds to the present value of the obligation at the balance sheet date less the fair value of the reinsurance claim. The obligation is calculated annually by an independent actuary in accordance with the projected unit credit method. The present value of the obligation is calculated by discounting the expected future cash outflows at the discount rate for high-quality corporate bonds with the same term as the obligation.

Actuarial gains and losses relating to adjustments and changes to actuarial assumptions are recognised immediately in the income statement.

2.18 Deferred taxes

Deferred taxes are recognised in accordance with the liability method for temporary differences between the tax base and the IFRS carrying amount of assets and liabilities, as well as for unused tax loss carryforwards. As a matter of principle, deferred taxes are calculated by applying the tax base that is expected to be in place when the temporary difference is reversed in accordance with the information available at the current balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which temporary differences or tax loss carryforwards can be utilised.

2.19 Revenue recognition

Revenues are composed of the amounts invoiced for the sale of properties. Revenue from the sale of a property is recognised when substantially all the risks and rewards incident to ownership of the respective property are transferred to the buyer. This is generally the case when the possession, benefits, burdens and risks associated with the property are transferred. In the case of the sale of special-purpose entities, this date is generally the date on which the transfer of the shares in the respective entity is completed.

If renovation work is still in progress at the date on which the property is sold and this renovation work is negligible compared to the volume of the transaction as a whole, the company recognises a provision for the additional costs that are expected to be incurred. In the case of more comprehensive renovation work, the portion of revenue attributable to renovation is recognised when the construction measures are completed.

Components of the consideration that depend on the fulfilment of agreed minimum rental income from the sold properties are recognised only when these conditions are met in full.

Rental income is recognised on an accrual basis in accordance with the terms of the underlying contracts. Rental income from investment property is recognised as revenue, while rental income from properties carried in the trading portfolio is reported under other operating income.

Interest income is recognised on a time proportion basis that takes into account the outstanding liability and the effective yield over the remaining term.

2.20 Leases

The Group acts as a lessee.
Leases under which the Group bears the substantial risks and rewards of ownership of the leased property are classified as finance leases. Assets held under finance leases are capitalised at the start of the lease term at the lower of their fair value and the present value of the minimum lease payments. At the same time, a lease liability in the same amount is recognised under non-current financial liabilities. The portion of the lease liability that is due within twelve months of the balance sheet date is reported under current financial liabilities. Each lease instalment is then divided into the finance charge and the reduction of the outstanding liability in order to ensure a constant periodic return on the outstanding lease liability. The finance charge is recognised in the income statement as interest expense. Items of property, plant and equipment held under finance leases are depreciated over their useful life, which may be limited by the lease term, taking into account any residual value.

Some of the finance leases entered into by the ESTAVIS Group for motor vehicles, office furniture and IT equipment contain residual value guarantees. No purchase or lease extension options have been agreed.

Leases not classified as finance leases are classified as operating leases. The company has entered into operating leases for motor vehicles, some of its office equipment, and business premises. These leases do not contain purchase options. Leases for office space contain extension options at standard market conditions. Payments made in connection with operating leases (less incentive payments by the lessor) are recognised in the income statement on a straight-line basis over the term of the lease.

The Group acts as a lessor in connection with the leasing of properties held as inventories or investment property. These agreements are classified as operating leases. For information on the accounting treatment of rental income, see under sec. 2.19.

2.21 Residual interests and dividend distributions

The Group holds equity interests in a large number of partnerships in which minorities also hold an interest. In accordance with IAS 32, the shareholder position in a partnership is generally required to be recognised as a liability on account of the termination rights of the limited partners. From the Group's perspective, this applies to minority interests in subsidiaries with the legal form of a partnership. When these liabilities arise, they are measured at the present value of the partner's compensation claim. This is generally the amount of the partner's capital contribution. Subsequent to initial recognition, the liability is adjusted depending on the company's results prior to the recognition of the change in the respective liability. The change in the liability is recognised in the income statement unless it is based on capital contributions and withdrawals. If the adjustment results in a theoretical claim on behalf of the partner, it must be suspended until it would result in a liability against the partner again. Only residual values resulting from a negative shareholder position or a reserve for available-for-sale securities are recognised in equity.

For corporations within the Group, liabilities for distributions to shareholders are only recognised in the period in which the corresponding resolution on the appropriation of net retained profits is adopted by the shareholders' meeting.

3 FINANCIAL RISK MANAGEMENT

Financial risk management describes the management and limitation of the financial risks resulting from the Group's operating activities. It includes a continuous, rolling liquidity control system that aims in particular to prevent significant defaults and ensure the liquidity required in the regular course of business.

In order to limit default risk, the ownership of sold properties is generally only transferred to the buyer when the purchase price is paid into a notary trust account. The predominantly short-term nature of the Group's borrowings on account of the high turnover rate between the acquisition and sale of properties means that interest rate risk does not play a significant role. The Group only holds a limited volume of derivative financial instruments for interest rate hedging purposes.

The acquisition of properties by group companies is primarily financed centrally on the basis of master credit agreements with the parent; this serves to ensure an optimised Group financing situation. The purchase agreements generally include a right of rescission on behalf of the group company in the event that refinancing cannot be obtained for the acquisition.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The company makes accounting estimates and assumptions with regard to anticipated future developments. Inevitably, it is rare for the estimates derived on this basis to correspond precisely to the actual future circumstances.

Estimates are required to be made in particular for the recognition of current and deferred taxes. There is a degree of uncertainty regarding the interpretation of complex tax legislation. Accordingly, differences between actual results and our assumptions or future changes in our estimates may lead to changes in tax results in future periods. The Group has taken account of the potential effects of external tax audits by the taxation authorities to a reasonable extent.

The income capitalisation approach used in estimating the fair value of investment property requires the use of estimate ranges for expected rental income and the necessary maintenance expenses in particular, as well as for the risk-bearing market interest rates to be applied to the respective properties. The comparative method is subject to uncertainties concerning the properties used in valuation.

In estimating the net selling prices of properties held as inventories, there is a particular degree of uncertainty with regard to the determination of the estimated selling price.

Impairment testing for the goodwill that is allocated to the Trading segment requires the use of estimate ranges in respect of future revenues and trading margins in particular.

5 SEGMENT REPORTING

Since the acquisition of the HAG Group, the Group has been organised across two primary areas of operation:

1. The acquisition and sale of properties (Trading). This includes the Group's construction activities, which merely constitute a secondary function of its trading operations.
2. Holding properties for investment purposes (Property Asset Management).

The Group only acquires and sells properties located in Germany, meaning that geographical segmentation is not necessary.

The segment results for the financial year ending June 30, 2007 are presented in the table below. All of the Group's activities in the previous year were in the Trading segment.

	Trading	Investment property	Unallocated	Group
	TEUR	TEUR	TEUR	TEUR
Revenues (external only)	198,091	297	–	198,398
Segment result	**17,274**	**150**	**–1,800**	**15,624**
Currency gains				47
Operating result				15,671
Net income from investments consolidated using the equity method	879	–	–	879
Financial result				–1,903
Net profit before income taxes				14,648

The unallocated costs relate to consulting costs incurred in connection with the company's IPO.

Depreciation and write-downs of property, plant and equipment and amortisation and write-downs of intangible assets are attributable to the segments as follows:

	Trading	Investment property	Unallocated	Group
	TEUR	TEUR	TEUR	TEUR
Depreciation and write-downs of property, plant and equipment	132	–	–	132
Depreciation and write-downs of intangible assets	6	–	–	6
Changes in value of investment property	–	29	–	29

Segment assets, segment liabilities and segment investments on June 30, 2007 were as follows:

	Trading	Investment property	Unallocated	Group
	TEUR	TEUR	TEUR	TEUR
Segment assets	155,707	18,118	2,574	176,399
Investments consolidated using the equity method	917	–	–	917
Total segment assets	156,624	18,118	2,574	177,316
Segment liabilities	25,304	360	55,484	81,148
Segment investments	878	16,910	–	17,788

Segment assets primarily relate to property, plant and equipment, investment property, inventories, receivables, and cash and cash equivalents used in operations. This excludes tax receivables and financial assets. In the previous year, the segment assets attributable to the Trading segment amounted to TEUR 55,257.

Segment liabilities relate to operating liabilities. This excludes tax liabilities and financial liabilities. In the previous year, the segment liabilities attributable to the Trading segment amounted to TEUR 46,566.

Segment investments include additions to property, plant and equipment and intangible assets (see sec. 7) and investment property, in each case including items resulting from company acquisitions (see sec. 6.3). In the previous year, segment investments amounted to TEUR 103.

6 ADDITIONAL DISCLOSURES ON INDIVIDUAL ITEMS OF THE FINANCIAL STATEMENTS

6.1 Intangible assets

The table under sec. 7 shows the changes in intangible assets over the last two years.

Goodwill is allocated to the Trading segment. The value in use of the segment was determined for the purposes of impairment testing. The calculation was based on the projected cash flows derived from the two-year financial plan adopted by the company's management.

For simplification, it was assumed that there would be no growth after the end of this two-year period.

The company's management determined the budgeted cash flow for the detailed planning phase on the basis of past events and expectations of future market developments.

The discount rate of 13% is a pre-tax interest rate that reflects the specific risks to which the Group is exposed. Impairment testing showed that no impairment losses were required.

6.2 Property, plant and equipment

The table under sec. 7 shows the changes in non-current assets over the last two years.

The carrying amounts of operating and office equipment include TEUR 147 (June 30, 2006: TEUR 123) relating to assets for which the Group is the lessee under a finance lease (for information on lease liabilities, see sec. 6.10). These assets are legally owned by the lessor.

The company has entered into operating leases for office space, motor vehicles and business equipment. The income statement contains lease expenses in the amount of TEUR 181 (H1 2006: TEUR 39).

6.3 Investment property

Investment property developed as follows:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Start of financial year	–	–
Additions from company acquisitions	16,492	–
Additions	418	–
Reversals of write-downs	29	–
Write-downs	–	–
End of financial year	16,939	–

The additions were primarily attributable to the acquisition of the HAG Group.

Investment property with a total carrying amount of TEUR 11,919 has been encumbered with land charges in order to serve as collateral for liabilities to banks. The total fair value of the investment property held by the Group was calculated by independent property appraisers at TEUR 16,939. If the underlying interest rate for this calculation had been 0.5 % higher, the total fair value at the balance sheet date would have been TEUR 16,709. By contrast, if the interest rate had been 0.5% lower, the total fair value would have been TEUR 18,353.

In addition to changes due to fair value measurement at the balance sheet date, the income statement contains the following items relating to investment property:

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	TEUR	TEUR
Rental income (revenues)	297	–
Selling profit	–	–
Administrative expenses	– 112	–
Interest expense	– 154	–
Other	– 16	–
Total	**14**	**–**

6.4 Investments in associates

Investments in associates developed as follows:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Start of financial year	–	–
Additions	184	–
Distributions	– 145	–
Group's interest in gains and losses	879	–
End of financial year	917	–

The additions in the past financial year related to SIAG Sechzehnte Wohnen GmbH & Co. KG and 3. CWI Wohnen AG & Co. KG. SIAG Sechzehnte Wohnen GmbH & Co. KG was reclassified as an associate following the sale of 50 % of the shares in the company to a partner. As the company was still in the investment phase at the disposal date, the proceeds of the sale were insignificant. 3. CWI Wohnen AG & Co. KG was acquired in the course of the acquisition of the HAG Group.

The Group's investments in the two associates, both of which are unlisted, can be broken down as follows:

	Equity interest	Assets	Liabilities	Income	Net profit
		TEUR	TEUR	TEUR	TEUR
SIAG Sechzehnte Wohnen GmbH & Co. KG	50 %	4,880	4,098	4,579	778
3. CWI Wohnen AG & Co. KG	43 %	1,080	945	816	101

6.5 Other financial assets

The other financial assets reported by the company can be broken down as follows:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Available-for-sale securities	677	241
Other non-current financial assets	44	36
Total	**721**	**277**

Available-for-sale securities consist of exchange-listed shares and investment fund units, and are carried at fair value.

Other non-current financial assets relate in particular to long-term rental deposits, six (residual) interests (each of 6 %) in unincorporated civil law associations, and one equity interest in a previously inactive company which is irrelevant for the presentation of the net assets, financial position and results of operations of the ESTAVIS Group.

6.6 Inventories

The company's inventories include properties and advanced payments for properties. They developed as follows in the past financial year:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Properties	20,949	36,101
Construction work in progress	268	0
Advanced payments	1,840	672
Total	**23,057**	**36,773**

Properties are carried at cost, including accrued renovation costs. No write-downs were necessary during the reporting period. The properties reported as inventories serve as collateral for financial liabilities.

6.7 Trade receivables and other receivables

Trade receivables primarily relate to the sale of properties. The development of trade receivables is shown in the following table:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Trade receivables	50,139	1,513
Write-downs/derecognition	0	0
Trade receivables (net)	**50,139**	**1,513**
Receivables from related parties (see sec. 6.23)	7,791	701
Other receivables	27,532	2,300
Total	**85,462**	**4,514**

The fair value of trade receivables is roughly equivalent to their carrying amount, as they are short-term in nature.

Trade receivables also include receivables from the sale of the Group's interests in joint ventures (see sec. 2.3).

Other receivables primarily relate to receivables from notary trust accounts in connection with the payments made by the buyers of properties.

6.8 Cash and cash equivalents

Cash and cash equivalents are primarily composed of demand deposits with banks, as well as a small amount of cash.

6.9 Shareholders' equity

At the balance sheet date, the issued capital of ESTAVIS AG amounted to TEUR 7,724, composed of 7,724,427 no-par value shares each with an interest in the company's share capital of EUR 1.00. All shares have been issued and are fully paid up. On June 30, 2006, the company resolved a non-cash capital increase, as a result of which the share capital of the company (which was still trading as a limited liability company [GmbH] under German law) increased from TEUR 26 by a total of TEUR 4,974. The non-cash contribution consisted of 94 % of the limited partner's shares of ESTAVIS Beteiligungs GmbH & Co. KG and 94 % of the shares of its limited partner, ESTAVIS Immobilienverwaltungs GmbH. The non-cash contribution was implemented on June 30, 2006 and the capital increase was entered in the commercial register on August 16, 2006. In the consolidated financial statements for the financial year ended June 30, 2006, the non-cash contribution was reported under "Retained earnings to be used for capital increase".

At the same time as the capital increase, the shareholders' meeting resolved to change the legal form of the company from a GmbH to an Aktiengesellschaft (stock corporation under German law). The share capital of the GmbH became the share capital of the Aktiengesellschaft, and was divided into 5,000,000 no-par value shares each with an interest in the share capital of EUR 1.00. The resolution was entered in the commercial register on August 23, 2006.

The non-cash contribution was effected as part of a common control transaction. Accordingly, the contribution was not carried at the relevant amount under company law (TEUR 4,974) in the consolidated financial statements for the financial year ended June 30, 2006, but at the amount of the (proportionate) IFRS net assets of the ESTAVIS Beteiligungs GmbH & Co. KG subgroup and the ESTAVIS Immobilienverwaltungs GmbH subgroup in accordance with the principles of predecessor accounting. On June 30, 2006, these net assets totalled TEUR 3,425.

In the consolidated financial statements, a reclassification was made from consolidated net profit for the 2006/2007 financial year in the amount of the difference between the carrying amount of the non-cash contribution in accordance with IFRSs and the par value of the issued capital (TEUR 1,549). In the statement of changes in equity, this transaction is described as "Capital increase from retained earnings" on account of its economic character in accordance with IFRSs.

On March 30, 2007, a further two capital increases were entered in the commercial register. The first was a non-cash capital increase of 724,427 no-par value shares each with a proportionate interest in the company's share capital of EUR 1.00. The non-cash contribution related to an interest of 79.69 % in Hamburgische Immobilien Invest SUCV AG, Hamburg (for further details, see sec. 6.22). The second was a cash capital increase of 2,000,000 no-par value shares each with a proportionate interest in the company's share capital of EUR 1.00. The gross amount of the cash contribution was EUR 56 million. The cash capital increase was implemented in the course of the company's IPO.

The amount of these two capital increases was reduced by the costs of capital procurement, which totalled TEUR 4,889. This was offset by the related tax benefit in the amount of TEUR 1,907.

6.10 Financial liabilities

The following table shows the company's current and non-current financial liabilities:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Non-current financial liabilities		
Liabilities to banks and other lenders	13,425	0
Finance lease liabilities	110	78
Total non-current financial liabilities	**13,535**	**78**
Current financial liabilities		
Current portion of liabilities to banks and other lenders	32,999	5,095
Current portion of finance lease liabilities	23	18
Total current financial liabilities	**33,022**	**5,113**

The carrying amount of non-current financial liabilities to banks and other lenders can be broken down into liabilities with a remaining term of between 1 and 5 years (TEUR 7,147) and liabilities with a remaining term of more than 5 years (TEUR 6,278).

Liabilities to banks are secured by the properties for which they were incurred.

The interest rates for non-current liabilities to banks with a fixed interest rate amounted to between 5.0 % and 7.7 % (H1 2006: 4.39 %). In addition, the company entered into short-term financing arrangements under master agreements with interest rates of between 1.25 % and 2.0 %, corresponding to the short-term Euribor rate, plus a margin. This resulted in interest rates of between 4.39 % and 8.0 %.

With the exception of one loan denominated in Swiss francs (TEUR 1,830), all of the company's liabilities are denominated in euros.

In order to hedge the interest rate risks from a variable-interest loan, the company entered into an interest rate swap with a fair value of TEUR –21 at the balance sheet date.

The company's total liabilities from finance leases are based on the following minimum lease payments:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Up to 1 year		
Total minimum lease payments	34	24
Finance charge	1	1
Present value of minimum lease payments	33	23
Between 1 and 5 years		
Total minimum lease payments	125	86
Finance charge	25	14
Present value of minimum lease payments	100	72
More than 5 years		
Total minimum lease payments	–	–
Finance charge	–	–
Present value of minimum lease payments	–	–
Total		
Total minimum lease payments	159	110
Finance charge	26	15
Present value of minimum lease payments	133	95

The interest rate for lease liabilities was between 8.2 % and 10.1 % (H1 2006: between 8.2 % and 10.1 %). The liabilities are primarily to a related party.

The carrying amount of current interest-bearing liabilities is roughly equivalent to their fair value. The carrying amount of non-current interest-bearing liabilities is only slightly higher than their fair value, as these items almost exclusively resulted from the acquisition of the HAG Group and were measured at fair value at this date.

6.11 Provisions

Provisions developed as follows during the financial year under review:

	Outstanding construction work	Rental guarantees	Other	Total
	TEUR	TEUR	TEUR	TEUR
July 1, 2006	**510**	**–**	**448**	**958**
Company acquisition	–	–	246	246
Utilisation	510	–	269	779
Reversal	–	–	95	95
Addition	3,772	1,711	34	5,517
June 30, 2007	**3,772**	**1,711**	**364**	**5,847**

The provision for outstanding construction work includes the expected cost of the construction work to be performed after the possession, benefits, burdens and risks associated with ownership of the respective property are transferred to the buyer.

Other provisions include a provision for uncertain obligations at ESTAVIS AG relating to profit and loss transfer agreements between its legal predecessor (IMMCON GmbH) and its former subsidiaries in the amount of TEUR 179, as well as a provision for pension obligations in the amount of TEUR 159. The pension provision and a portion of the provision for rental guarantees (TEUR 182) are long-term in nature.

The pension provision relates to a retirement benefit obligation to the Management Board of a subsidiary. The obligation consists of a monthly pension from the age of 65 onwards, an invalidity pension and a surviving dependents' pension. The obligation will increase by 3 % p.a. until the pension is claimed for the first time. The company has concluded a reinsurance policy for the corresponding claims. The expected return of the plan assets amounts to 4.5 %.

The pension provision developed as follows in the past financial year:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Present value of pension obligation	350	–
Fair value of reinsurance claim	191	–
Pension provision	159	–

The present value of the obligation developed as follows:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Start of financial year	**–**	**–**
Addition due to acquisition of HAG Group	432	–
Pension expense	8	–
Interest cost	5	–
Payments made	–	–
Actuarial gains	–95	–
End of financial year	**350**	**–**

The fair value of the reinsurance claim developed as follows:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Start of financial year	**–**	**–**
Addition due to acquisition of HAG Group	186	–
Contribution to insurance policy	3	–
Income from insurance policy	2	–
Payments made	–	–
End of financial year	**191**	**–**

The following amounts are reported in the income statement (under staff costs):

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	TEUR	TEUR
Current service cost	–8	–
Interest cost	–5	–
Income from insurance policy	2	–
Actuarial gain	95	–
Pension expense (income)	**84**	**–**

The following actuarial assumptions were applied:

	June 30, 2007	March 31, 2007
Discount rate	5.3 %	4.5 %
Projected pension increase	1.5 %	1.5 %

Biometric probabilities were based on the 2005G mortality tables published by Dr. Klaus Heubeck.

6.12 Trade and other payables

The company had the following liabilities at the respective reporting dates:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Trade payables	3,443	5,016
Liabilities to related parties (sec. 6.23)	1,328	631
Miscellaneous other liabilities	14,278	1,554
Total	**19,049**	**7,201**

The carrying amount of liabilities is roughly equivalent to their fair value.

Miscellaneous other liabilities are primarily composed of liabilities relating to the interests in joint ventures that were sold by the company (see sec. 2.3).

6.13 Deferred taxes

The deferred tax assets and liabilities recognised by the company have the following expected realisation dates:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Deferred tax assets		
expected to be realised after more than 12 months	1,003	49
expected to be realised within 12 months	665	133
Total	**1,668**	**182**
Deferred tax liabilities		
expected to be realised after more than 12 months	1,434	48
expected to be realised within 12 months	1,232	–
Total	**2,666**	**48**

Deferred taxes developed as follows:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Deferred tax liabilities	–48	–21
Deferred tax assets	182	860
Balance of deferred taxes at start of financial year	**134**	**839**
Expense (–)/income (+) reported in income statement	905	–534
Contributions/withdrawals recognised directly in equity*	–	203
Other amounts recognised directly in equity	615	–
Additions due to acquisition (particularly acquisition of HAG Group: TEUR –2,701)	–2,651	–
Disposals due to change in consolidated group	–1	–374
Balance of deferred taxes at end of financial year	**–998**	**134**
Deferred tax liabilities	–2,666	–48
Deferred tax assets	1,668	182

* The amount reported for the short financial year 2006 is included in “Reclassification due to capital increase” in the statement of changes in equity.

The changes in deferred tax liabilities in the past two years were due to the following factors:

	Differences relating to investment property	Differences relating to property held as inventories	Differences relating to other items	Total
	TEUR	TEUR	TEUR	TEUR
January 1, 2006			**21**	**21**
Amounts recognised in income	–	–	37	37
Disposal due to change in consolidated group	–	–	–10	–10
June 30, 2006	**–**	**–**	**48**	**48**
Amounts recognised in income	39	–508	18	–450
Addition due to acquisition of HAG Group	1,263	1,648	154	3,066
Addition for deferred taxes on available-for-sale securities recognised directly in equity	–	–	3	3
June 30, 2007	**1,303**	**1,140**	**223**	**2,666**

The deferred tax liabilities relating to inventory differences resulted from the initial measurement of inventories from the acquisition of the HAG Group.

The changes in deferred tax assets were due to the following factors:

	Tax loss carryforward	Increases in going concern value for tax purposes	Other	Total
	TEUR	TEUR	TEUR	TEUR
January 1, 2006	**428**	**421**	**11**	**860**
Amounts recognised in income	–299	–239	41	–497
Addition due to contribution	0	203	–	203
Disposal due to change in consolidated group	0	–384	–	–384
June 30, 2006	**129**	**1**	**52**	**182**
Amounts recognised in income	466	–1	–10	455
Addition due to acquisition (particularly acquisition of HAG Group)	171	–	244	415
Disposal due to change in consolidated group	–1	–	–	–1
Addition taken directly to equity (tax reduction on transaction costs recognised in equity)	617	–	–	617
June 30, 2007	**1,383**	**0**	**285**	**1,668**

Deferred tax assets from tax loss carryforwards are carried at the amount of future taxable profit that is expected to be required to realise the corresponding tax benefits. The deferred tax assets from tax loss carryforwards relate to the parent company and a number of subsidiaries. Based on its forecasts, the company expects to be able to utilise the available tax loss carryforwards in the 2007/2008/2009 financial years. No deferred tax assets were recognised for the tax loss carryforwards in the amount of TEUR 1,543 at the HAG Group (of which in existence at the acquisition date: TEUR 1,048), as these tax loss carryforwards are not expected to be realised.

The deferred tax assets presented in the "Increases in going concern value for tax purposes" column are attributable to the contribution of ESTAVIS KG and SIAG Schorr Immobilien GmbH to ESTAVIS AG, which resulted in a tax base in excess of the amounts recognised in the IFRS consolidated balance sheet. The tax gains related to the interests in the limited partnership (KG), and hence in the real estate assets of the limited partnership and its interests in the special-purpose GmbH.

The Group had tax liabilities of around TEUR 386 due to outside basis differences. These liabilities were not recognised on the face of the balance sheet, as the reversal of the difference is controlled by the Group and is not expected to take place in the foreseeable future.

By way of a resolution dated July 6, 2007, the Bundesrat (upper house of the German Federal Parliament) adopted the German Corporate Tax Reform Act 2008. The corresponding amendments will come into force on January 1, 2008, including a reduction in the corporate income tax rate from 25% to 15%. In accordance with IAS 12.47, this amendment will have an effect on the calculation and measurement of deferred taxes from the first quarter of the 2007/2008 financial year. Accordingly, the company will be required to recognise the corresponding changes from the first quarter of the 2007/2008 financial year onwards.

6.14 Revenues

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	TEUR	TEUR
Property trading	196,962	44,048
Rental income from investment property	297	–
Other revenues	1,139	0
Total	**198,398**	**44,048**

Comparability with the prior-period figures is limited for all income statement items. It should be noted that the prior-year period only comprised six months, and that the amounts for the newly acquired HAG Group were added in the fourth quarter of the year under review.

6.15 Cost of materials

The cost of materials primarily relates to the carrying amounts of the properties sold in the respective periods and the cost of construction work. This also includes purchased services.

6.16 Staff costs

The Group had an average of 34 employees in the past financial year (H1 2006: 10.5). The staff costs incurred by the Group are composed as follows:

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	TEUR	TEUR
Salaries and other benefits	2,644	431
Employer contributions to statutory social insurance	223	33
Total	**2,867**	**464**

Employer contributions to statutory social insurance included contributions to statutory pension insurance in the amount of TEUR 97 (H1 2006: TEUR 16).

6.17 Other operating income and expenses

Other operating income can be broken down as follows:

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	TEUR	TEUR
Rental income from properties held as inventories	2,366	0
Foreign exchange gains	47	–
Miscellaneous other operating income	269	259
Total	**2,682**	**259**

Other operating expenses can be broken down as follows:

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	TEUR	TEUR
Consulting costs	4,199	423
Sales costs	1,151	250
Costs relating to rental guarantees	1,894	186
Miscellaneous other operating expenses	2,972	189
Total	**10,216**	**1,048**

Consulting costs contain expenses of around EUR 1.8 million incurred in connection with the company's IPO. Miscellaneous other operating expenses contain write-downs on other receivables in the amount of TEUR 177.

6.18 Income tax expense

The income tax expense reported in the income statement consists of current and deferred taxes as follows:

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	TEUR	TEUR
Current income tax expense	6,317	167
Deferred income tax expense	–905	534
Total	**5,412**	**701**

The reported tax expense differs from the theoretical amount calculated by applying the company's average income tax rate to its pre-tax profit:

Tax reconciliation

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	TEUR	TEUR
Pre-tax profit	14,648	5,570
Taxes calculated on the basis of the parent's income tax rate	–5,736	–2,172
Portion of taxes attributable to:		
Differences in tax rates	156	1,145
Effects of changes in the consolidated group	0	–374
Non-deductible or partially deductible expenses	–670	–
Additions and deductions for trade tax purposes	439	–
Effects of change in legal form	–	763
Other factors	376	–64
Reported income tax expense	**–5,412**	**–701**

A tax rate of 39 % was applied for the parent company.

The effects of the change in legal form in the previous year primarily relate to the lower tax liability on the disposal of shares in corporations (share deals), which are now taxed at the level of ESTAVIS AG.

6.19 Earnings per share

Basic earnings per share is calculated as the ratio of the net profit attributable to the shareholders of the parent company to the average number of shares in circulation during the financial year, excluding treasury shares held by the company.

	July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
Net profit attributable to the shareholders of the parent company (in TEUR)	8,767	4,578
Average number of shares in circulation (in thousands)	5,679	5,000
Basic earnings per share (in EUR)	**1.54**	**0.93**

In the 2006/2007 financial year, no dividend was paid for the previous financial year. It is assumed that no dividend distribution for the 2006/2007 financial year will be proposed to the Annual General Meeting of ESTAVIS AG on November 30, 2007.

6.20 Cash flow statement

The cash flow statement distinguishes between cash flows from operating activities, investing activities and financing activities.

The net cash used in operating activities as determined in accordance with the indirect method amounted to TEUR –76,368 (H1 2006: TEUR 8,200). This includes income taxes paid in the amount of TEUR 390 (H1 2006: TEUR 25), income taxes recovered in the amount of TEUR 28 (H1 2006: 0), interest received in the amount of TEUR 733 (H1 2006: TEUR 83) and interest paid in the amount of TEUR 1,162 (H1 2006: TEUR 57). Other non-cash income and expenses in the past financial year and the first half of 2006 primarily resulted from the recognition of the sale of special-purpose real estate companies (share deal) as an asset deal in the consolidated balance sheet. The financial liabilities derecognised in connection with the sale of the properties resulted in a non-cash increase in the net profit for the period, which is reversed when calculating the cash flow from operating activities in accordance with the indirect method. As the reduction of liabilities resulting from the disposal of the special-purpose real estate companies constitutes a non-cash transaction, a corresponding outflow may not be reported in the cash flow from financing activities.

The negative cash flow from operating activities is primarily due to the sharp increase in trade receivables and the significant decline in advance payments received.

In the year under review, the Group acquired a 79.69 % interest in Hamburgische Immobilien Invest SUCV AG, Hamburg, in exchange for the issue of shares (see sec. 6.22, in particular the disclosures on the fair values of the net assets acquired). This acquisition is reported in the cash flow from investing activities as follows:

	TEUR
Transaction costs payable in cash	61
– Cash and cash equivalents acquired	3,118
Net cash inflow	**3,057**

The liquidity reported under cash and cash equivalents consists of cash-in-hand and bank balances.

6.21 Other financial commitments and contingent liabilities

At the balance sheet date, the company had liabilities under pending real estate purchase agreements in the amount of TEUR 39,991 (June 30, 2006: TEUR 8,350). The company has only entered into obligations for the acquisition of property, plant and equipment and intangible assets to an insignificant extent.

The company has entered into non-cancellable operating leases relating to business premises, office equipment and motor vehicles.

The future cumulative minimum lease payments under non-cancellable operating leases are as follows:

	June 30, 2007	June 30, 2006
	TEUR	TEUR
Up to 1 year	374	89
Between 1 and 5 years	1,008	257
More than 5 years	1	30

The company is the fully liable partner, either directly or indirectly, for a total of six unincorporated civil law associations via two of its subsidiaries (a special-purpose entity and the general partner of the latter). At the balance sheet date, these companies had total liabilities of TEUR 78,376. Another subsidiary is the fully liable partner of the associate 3. CWI Wohnen AG & Co. KG. At the balance sheet date, this company had liabilities in the amount of TEUR 1,003.

6.22 Acquisition

On March 30, 2007, the Group acquired a 79.69 % interest in Hamburgische Immobilien Invest SUCV AG (HAG), Hamburg, in exchange for the issue of 724,427 shares at a price of EUR 28.00 per share (issue price of the shares under the simultaneous cash capital increase), resulting in an acquisition price of TEUR 20,284. The companies of the HAG Group are active in the areas of real estate trading and brokerage. The HAG Group also holds properties as financial investments. At the acquisition date, the HAG Group had the following structure:

Hamburgische Immobilien Invest SUCV AG, Hamburg

Equity interest of	in
100.00 %	Hanseatischen Immobilienbörse HIB GmbH, Hamburg
54.76 %	CWI Real Estate AG, Bayreuth

CWI Real Estate AG, Bayreuth:

Equity interest of	in
86.34 %	CWI Immobilien AG, Berlin
94.00 %	CWI Wohnen AG & Co. KG, Berlin
94.00 %	2. CWI Wohnen AG & Co. KG, Berlin
94.50 %	4. CWI Wohnen AG & Co. KG, Bayreuth
94.50 %	5. CWI Wohnen AG & Co. KG, Bayreuth
100.00 %	6. CWI Wohnen GmbH & Co. KG, Bayreuth
100.00 %	8. CWI Wohnen GmbH, Bayreuth
100.00 %	9. CWI Wohnen GmbH, Bayreuth
100.00 %	10. CWI Wohnen GmbH, Bayreuth
100.00 %	11. CWI Wohnen GmbH, Bayreuth
100.00 %	CWI Consult GmbH, Bayreuth
43.00 %	3. CWI Wohnen AG & Co. KG, Berlin

The goodwill resulting from the acquisition was calculated as follows:

	TEUR
Value of shares issued	20,284
Costs directly attributable to the acquisition	61
Total cost	20,345
Fair value of net assets acquired (see below)	11,130
Goodwill	**9,215**

The goodwill resulting from the acquisition is attributable to the strong market position of the companies acquired, their forecast growth rates, and the expected synergies with the business activities of the other ESTAVIS Group companies.

The assets and liabilities acquired are composed as follows:

	Fair value	Carrying amount at acquired company
	TEUR	TEUR
Cash and cash equivalents	3,118	3,118
Goodwill attributable to minority interests already recognised at the acquired group	2,277	2,277
Intangible assets	11	11
Property, plant and equipment	295	295
Investment property	16,492	15,034
Investments in associates	180	0
Other financial assets	369	369
Properties held as inventories	30,606	26,782
Receivables	10,137	10,137
Provisions	–246	–246
Liabilities	–38,946	–39,206
Deferred taxes	–2,701	–937
Minority interests	–10,461	–8,423
Net assets acquired	**11,130**	**9,211**

Following its initial consolidation in the fourth quarter of the year under review, the newly acquired HAG Group contributed TEUR 17,915 to consolidated revenues and TEUR 203 to consolidated net profit for the period. Of the latter figure, TEUR 4 was attributable to minority interests and TEUR 199 to the shareholders of the parent company. If the acquisition had been implemented on July 1, 2006, consolidated revenues would have amounted to TEUR 212,993, and the consolidated net profit for the period before profit distribution would have amounted to TEUR 9,745.

6.23 Related party transactions

Until March 30, 2007, ESTAVIS AG was controlled by its indirect majority shareholder, Mr. Rainer Schorr. Since this date, Mr. Schorr remains an indirect major shareholder of ESTAVIS AG, but is no longer the majority shareholder. At the balance sheet date, Mr. Rainer Schorr was the Chief Executive Officer of ESTAVIS AG with power of sole representation. Mr. Schorr and his wife hold minority interests in the following ESTAVIS Group companies:

Company	Domicile	Equity interest
ESTAVIS Beteiligungs GmbH & Co. KG (interim holding company)	Berlin	6%
Dritte CRSR Wohnen GmbH & Co. KG	Berlin	6%
SIAG Achte Wohnen GmbH & Co. KG	Berlin	6%
SIAG Zehnte Wohnen GmbH & Co. KG	Berlin	6%
SIAG Elfte Wohnen GmbH & Co. KG	Berlin	6%
SIAG Zwölfte Wohnen GmbH & Co. KG	Berlin	6%
SIAG Vierzehnte Wohnen GmbH & Co. KG	Berlin	6%
SIAG Fünfzehnte Wohnen GmbH & Co. KG	Berlin	6%
Estavis Immobilienverwaltungs GmbH (general partner)	Berlin	6%

Following the formation of ESTAVIS KG, which was incorporated into ESTAVIS AG by way of a non-cash contribution effective June 30, 2007, Mr. Rainer Schorr made a number of disbursements for expenses incurred by ESTAVIS KG and, in turn, ESTAVIS KG made a number of disbursements for expenses incurred by other companies controlled by Mr. Rainer Schorr. The residual balances of these transactions and the construction work performed by the Group for companies of the Schorr subgroup in the year under review, which amounted to TEUR 637, resulted in receivables of TEUR 565 and liabilities of TEUR 39 at the balance sheet date (30 June 2006: TEUR 701 and TEUR 631 respectively). Interest is charged on these balances at a rate of 6 %.

Rainer Schorr Unternehmensberatung has entered into lease arrangements for office equipment and motor vehicles that are used by ESTAVIS KG. The corresponding lease instalments are oncharged to ESTAVIS KG on a quarterly basis including a premium of 5 % (H1 2006: 20 %). In the past financial year, the payments made by ESTAVIS KG in relation to these leases amounted to TEUR 34 (H1 2006: TEUR 63). Rainer Schorr Unternehmensberatung accounted for TEUR 46 (June 30, 2006: TEUR 96) of the finance lease liabilities reported under financial liabilities (see sec. 6.10).

Mr. Rainer Schorr has taken out a loan on behalf of ESTAVIS AG, under which ESTAVIS AG has declared itself to be the debtor. Within the internal relationship between ESTAVIS AG and Mr. Rainer Schorr, ESTAVIS AG has assumed the corresponding liability. Mr. Schorr has remained the economic guarantor towards the bank extending the loan. At the balance sheet date, the loan had a carrying amount of TEUR 432.

The company and Mr. Rainer Schorr have entered into an agreement under which Mr. Schorr has agreed to offset any losses incurred by the company in the event that interest is not charged on intragroup settlement accounts with the result that an excessive profit entitlement is attributed to the minority interests held by Mr. Schorr. An interest rate of 6 % is applied in calculating potential losses. No losses were required to be offset in the year under review.

The wife of Mr. Rainer Schorr receives a monthly salary of TEUR 5 under an employment contract with the company.

At the balance sheet date, the ESTAVIS Group had short-term receivables from the associate SIAG Sechzehnte Wohnen GmbH & Co. KG in the amount of TEUR 6,642 and short-term liabilities to the same associate in the amount of TEUR 1,289. These amounts result from the settlement transactions between the two companies, and in particular a disbursement for the repayment of a bank loan taken out by SIAG Sechzehnte Wohnen GmbH & Co. KG.

At the balance sheet date, the Group had short-term receivables from the associate 3. CWI Wohnen AG & Co. KG in the amount of TEUR 429. These receivables primarily relate to the Group’s proportionate profit entitlements and advance costs.

The members of the Management Board of ESTAVIS AG received the following compensation:

			July 1, 2006 – June 30, 2007	Jan. 1, 2006 – June 30, 2006
	Fixed	Variable	Total	Total
	TEUR	TEUR	TEUR	TEUR
Rainer Schorr (CEO)	377	249	626	180
Corina Büchold	153	116	269	–
Hans Wittmann	144	95	239	–

The members of the Supervisory Board received total compensation of TEUR 48 for the past financial year. The company has extended a loan to a member of the Supervisory Board. The corresponding receivable amounted to TEUR 156 at the balance sheet date (June 30, 2006: TEUR 141). An interest rate of 5 % is charged. The loan is agreed for an unlimited term and can be terminated by giving six months' notice to the end of the year. Mr. Schorr acts as the guarantor towards the company.

6.24 Other disclosures

The declaration of conformity with the German Corporate Governance Code in accordance with section 285 (1) no. 16 of the German Commercial Code (HGB) in conjunction with section 161 of the German Stock Corporation Act was submitted on August 28, 2007 and made permanently available to shareholders on the company's website (www.estavis.de).

The auditors received total fees of TEUR 1,070 for the services performed on behalf of the Group, of which TEUR 281 related to audits of financial statements, TEUR 761 to other audit services and TEUR 28 to other services.

7 STATEMENT OF CHANGES IN NON-CURRENT ASSETS

for the financial year from July 1, 2006 to June 30, 2007

	Goodwill	Other intangible assets	Property, plant and equipment
	EUR'000	TEUR	TEUR
As of June 30, 2006			
Cost	–	–	182
Cumulative depreciation, amortisation and write-downs	–	–	20
Carrying amount	–	–	162
Carrying amount as of July 1, 2006	**–**	**–**	**162**
Addition due to acquisition of Hamburgische Immobilien Invest SUCV AG	11,492	11	295
Other additions	–	45	527
Disposals	–	0	79
Depreciation, amortisation and write-downs	–	6	131
Carrying amount as of June 30, 2007	**11,492**	**50**	**775**
As of June 30, 2007			
Cost	**11,492**	**56**	**893**
Cumulative depreciation, amortisation and write-downs	–	6	119

for the financial year from January 1, 2006 to June 30, 2006

	Goodwill	Other intangible assets	Property, plant and equipment
	TEUR	TEUR	TEUR
As of January 1, 2006			
Cost	–	–	85
Cumulative depreciation, amortisation and write-downs	–	–	3
Carrying amount	–	–	82
Carrying amount as of January 1, 2006	–	–	**82**
Additions	–	–	103
Disposals	–	–	0
Depreciation, amortisation and write-downs	–	–	23
Carrying amount as of June 30, 2006	–	–	**162**

Berlin, September 11, 2007

Rainer Schorr
Chief Executive Officer (CEO)

Corina Büchold
Member of the Management Board

Hans Wittmann
Member of the Management Board

AUDITORS' CERTIFICATE

We have audited the consolidated financial statements of ESTAVIS AG, consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, as well as the Group management report for the financial year from July 1, 2006 to June 30, 2007. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs as adopted by the EU, the additional requirements of German commercial law set out in section 315a (1) of the German Commercial Code and the supplementary provisions of the Articles of Association is the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the German Commercial Code and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the single-entity financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Managing Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law set out in section 315a (1) of the German Commercial Code and the supplementary provisions of the Articles of Association, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, September 11, 2007
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Hartman)	(ppa. Schultz)
Auditor	*Auditor*

Other Informations

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DIRECTORS AND OFFICERS

Supervisory Board

Dr. Karl-Josef Stöhr (Chairman)
Lawyer, Heuking Kühn Lüer Wojtek Partnerschaftsgesellschaft, Berlin

Michael Kremer (Deputy Chairman)
Managing Director, Strategic Value Partners, Frankfurt
Other mandates:
Deputy Chairman of the Supervisory Board of Hamburgische Immobilien Invest SUCV AG, Hamburg;
Member of the Supervisory Board of Aveco Holding AG, Frankfurt;
Member of the Supervisory Board of Deutsche Operating Leasing AG, Frankfurt

John W. Cutts (since March 30, 2007)
Managing Director, Pall Mall Capital Ltd., London
Other mandates:
Member of the Supervisory Board of Dussmann AG & Co. KGaA, Berlin
Chairman of BPL Holdings Ltd.

Denham Eke (since February 2, 2007)
Managing Director, Jimsam Trust, Isle of Man

Klaus-Dieter Heinken (until December 22, 2006)
Managing Director, ASA GmbH, Berlin

Klaus-Dieter Jakob (since March 30, 2007)
Consultant
Other mandates:
Deputy Chairman of the Supervisory Board of CWI Real Estate AG, Bayreuth;
Vice-President of Conféderation Européenne Des Indépendants (CEDI)

Ulrich Wogart (since March 30, 2007)
Member of the Management Board of RUPAG Grundbesitz und Beteiligungen AG, Hamburg
Other mandates:
Chairman of the Management Board of BKN Biokraftstoff Nord AG, Sprakensehl

Management Board

Rainer Schorr (Chairman)
First elected: June 30, 2006
Elected until: June 30, 2009
Responsibility on the Board of Management of ESTAVIS AG:
Strategy, Communication, Key Accounting
Other mandates:
Chairman of the Supervisory Board of Hamburgische Immobilien Invest SUCV AG, Hamburg
Chairman of the Supervisory Board of CWI Real Estate AG, Bayreuth

Corina Büchold
First elected: June 30, 2006
Elected until: June 30, 2009
Responsibility on the Board of Management of ESTAVIS AG:
Personnel, Coordination and Property Acquisition

Hans Wittmann
First elected: June 30, 2006
Elected until: June 30, 2008
Responsibility on the Board of Management of ESTAVIS AG:
Finance, Accounting, Controlling, Construction and Development

FORWARD-LOOKING STATEMENTS

This annual report contains specific forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events. This applies, in particular, to statements relating to future financial earning capacity, plans and expectations with respect to the business and management of ESTAVIS, growth, profitability and the general economic and regulatory conditions and other factors to which ESTAVIS is exposed.

Forward-looking statements are based on current estimates and assumptions made by the company to the best of its knowledge. Such forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors that may cause the actual results including the net asset, financial and earnings situation of ESTAVIS to differ materially from or disappoint expectations expressed or implied by these statements. The operating activities of ESTAVIS are subject to a number of risks and uncertainties that may also cause a forward-looking statement, estimate or prediction to become inaccurate.

FINANCIAL CALENDAR 2007/2008

2007

October 8	DVFA Investor Conference, EXPO REAL 2007, Munich
October 25/26	Investor Conference Real Estate Share Initiative, Frankfurt
November 12–14	German Equities Forum, Frankfurt
November 16	Quarterly Report – 1st Quarter 2007/2008
November 30	Annual General Meeting, Berlin

2008

February 15	Quarterly Report – 2nd Quarter 2007/2008
May 16	Quarterly Report – 3rd Quarter 2007/2008
September 26	Full Year Results 2007/2008

CREDITS

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ESTAVIS AG
THE REAL ESTATE INVESTMENT GROUP

Management Board

Rainer Schorr (Chairman)
Corina Büchold
Hans Wittmann

Chairman of the Supervisory Board

Dr. Karl-Josef Stöhr, Berlin

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ESTAVIS AG
THE REAL ESTATE INVESTMENT GROUP