ESTAVIS AG

THE REAL ESTATE INVESTMENT GROUP

ANNUAL REPORT 2007/2008

ESTAVIS AG

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Overview
Key Financial Data

ESTAVIS AG

Revenues and earnings	2007/2008 TEUR	2006/2007 TEUR
Revenues	147,452	198,398
Total operating performance	136,572	201,229
EBIT	–6,754	16,550
Pre-tax profit	–10,484	14,226
Net profit	–6,675	8,814

ESTAVIS AG

Structure of assets and capital	June 30, 2008 TEUR	June 30, 2007 TEUR
Non-current assets	38,644	32,563
Current assets	211,127	144,753
Equity	95,336	96,168
Equity ratio	38 %	54 %
Total assets/equity and liabilities	249,772	177,316

ESTAVIS AG

Share	
ISIN	DE000A0KFKB3
German Securities Code Number (WKN)	A0KFKB
Trading symbol	E7S
Number of shares on June 30, 2008	8,099,427
Free float	33 %
Issue date	April 2, 2007
Issue price	EUR 28.00
Share price high (July 2, 2007 – June 30, 2008*)	EUR 29.09
Share price low (July 2, 2007 – June 30, 2008*)	EUR 4.99
Closing price on June 30, 2008*	EUR 5.93
Market capitalisation on June 30, 2008*	EUR 48 million

* 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 2007/2008 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.

Content

Reports

LETTER TO THE SHAREHOLDERS

Dear Shareholders,
Ladies and Gentlemen,

The 2007/2008 financial year, which stood under the sign of the subprime crisis, is now behind us. The turbulences on the financing markets had repercussions for the real estate stock markets, too. In Germany, the E&G DIMAX real estate stock index lost around 40 % between July 2007 and June 2008. Some titles – particularly in the residential real estate segment – actually dropped by up to 80 %. This general downward spiral did not leave ESTAVIS stock untouched.

Aggravated financing conditions strained the business of many real estate customers – among them existing and potential customers of ESTAVIS AG – and temporarily led to a sharp decline on the transaction market. The transaction volumes on the German real estate investment market, which used to perk up during the second half of the year and thus exceed the volume of the first half-year, failed to repeat the pattern in 2007. The transaction volume in Germany did reach EUR 27.7 billion during the first six months, yet undercut this mark by well over half a billion euros at the end of the second half-year. Compared to the reference period in 2006, the second six months of 2007 reported a decline of about 10 %. According to figures released by Jones Lang LaSalle, the transaction volume actually plummeted by 57 % during the first half of 2008, compared the same period last year. Portfolio sales of ESTAVIS AG in the concluded financial year declined in a proportionate amount, dropping to EUR 76 million (down from EUR 180 million last year). Thanks to the expansion of our business on other segments, the total sales of ESTAVIS Group merely dropped by 26 %, from EUR 198 million down to EUR 148 million.

Diversification of the Income Sources

Very early on – in fact, before the onset of the financial market crisis – we initiated important steps toward a further expansion of our business in order to make ourselves less dependent on fluctuations of the market or of individual market segments. These include the accelerated expansion of appartment sales to private investors. While our core business segment of portfolio trading is highly dependent on market cycles, earnings from the sales of apartments to capital investors – and above all from property management – are characterised by steady cash flows and a comparatively low correlation to market cycles. The business segment of appartment sales to private investors is largely independent from developments on the international financial markets because, on the one hand, individual financing for private capital investors and principals remains unaffected by the loan crunch, and, on the other hand, this line of business addresses an entirely different target group than that of institutional investors. Private capital investors generally tend to pursue long-term goals that are less dependent on short-term market development, such as setting up a private pension plan. The diversification of our sources of income in these areas helps us to enhance our continuity of income and our autonomy from the cycles of individual market segments. As planned in conjunction with the IPO, we continued to expand the area of developments, too, and realised first projects together with joint venture partners in order to exploit additional income potential in this line of business as well.

Within a very short time, the acquisition of a majority interest in HAG/CWI Group in March 2007, and the takeover of B&V Bauträger- und Vertriebsgesellschaft für Immoblien mbH in October 2007, made us one of the leading providers in the area of appartment sales to private capital investors. Judging from today's perspective, the takeover was the right thing to do. During the concluded financial year, ESTAVIS Group sold 857 apartments to capital investors. The turnover in an amount of EUR 70.3 million generated in this segment accounted for an 48 % share of the overall turnover of ESTAVIS, and contributed definitively to the diversification of our income sources. At the onset of the new financial year, we further expanded our capacities in appartment sales by contracting two of Germany's leading sales organisations exclusively for our purposes. Between them, these two organisations retailed more than 1,000 appartments to individual private investors in 2007.

Sales Forecast Adjusted in the Course of the Financial Year

Despite the subprime crisis, the 2007/2008 financial year of ESTAVIS was off to a good start, as the company sold a real estate portfolio with a transaction volume of EUR 40 million to an institutional investor during the first quarter. On the strength of the positive results of Q1, we forecast a turnover of no less than EUR 300 million for the 2007/2008 financial year in October 2007. We confirmed the forecast as late as November 2007 in conjunction with the preparation of two portfolio sales that came to an aggregate transaction volume of EUR 95 million.

In February 2008, however, there was mounting evidence that the financial crisis would negatively impact the portfolio trade. Accordingly, we revised our initial sales forecast.

This was borne out by the fact that some of our institutional buyers postponed their transactions to the second half of the year – meaning, beyond the reporting period – although the equity capital for these investments in German real estate had already been collected. Also, the international loan crisis brought many institutional investors face to face with aggravated conditions when it came to financing their transactions with debt capital. During the first semester of 2008 – and thus during the second half of the financial year just concluded – this did affect the development of our business. At the end of the financial year, we were able to report the sale of two voluminous portfolios for a total of EUR 61 million, yet these will be included in the turnover and net income not of the past, but of the present financial year. However, approval for the financing of the larger one of these two portfolios, having a value of EUR 44.3 million, is still pending on the buyer side.

Good Prospects for the 2008/2009 Financial Year

The most recent events on the international financial markets make it rather difficult to venture any prediction regarding the future development of the German real estate investment market. It remains unclear just how the figures of the institutional investors now active on the market will develop. Out of the several business lines of ESTAVIS, the portfolio trading segment has been affected by the drastically slowed market environment more than others. We have braced ourselves for the possibility that this situation may not change before 2009. Moreover, there is the chance that we might see ramifications of a possible further economic slowdown in other business segments, although there have been no indications in our business performance to suggest as much.

All the more important therefore is the diversification of our income sources that we started to pursue just in time during the 2007/2008 financial year. This approach will make our earnings more scalable and steady in the future. We expect significant contributions to our turnover particularly from the business segments of “property sales to private investors,” “property management,” and “development.”

We are convinced that ESTAVIS is well positioned, and will benefit, in the course of the 2008/2009 financial year, from the potential that the German real estate market holds in store. On the basis of present estimates we assume that ESTAVIS will show a positive performance even if the appartment sales to private investors and the portfolio trade linger on the level of the financial year just concluded. We do, however, expect sales in the appartment segment to perk up. As the 2007/2008 financial year has shown, this line of business remains relatively autonomous from the cycles of the international financial markets.

We would like to size the opportunity to thank our investors and our business partners for the faith vested in us and for the loyalty shown toward our company. We are entering the 2008/2009 financial year with a sense of optimism, and are certainly proud to have you with us.

Rainer Schorr *Chief Executive Officer (CEO)*	Corina Büchold *Member of the Management Board*	Hans Wittmann *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 and operational challenges for ESTAVIS AG. With its systematic focus on a diversified business model, the company has laid the foundations for sustainable growth and earnings strength.

Monitoring the activities of the Management Board

In the 2007/2008 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, including 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 significant events immediately and in a timely manner. The Supervisory Board examined the documents submitted for approval by the Management Board and approved the proposed resolutions.

The Supervisory Board also addressed the topic of the company's expansive business policy and discussed aspects of its medium-term strategic planning with the Management Board. 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

In the past financial year, the Supervisory Board held a total of four ordinary meetings. With the exception of one member who was unable to attend one meeting, all of the members of the Supervisory Board participated in every meeting, in some cases by telephone.

In addition to the decisions taken at the meetings of the Supervisory Board, resolutions were passed outside meetings by way of votes held in writing or in text form. All of the members of the Supervisory Board participated in these resolutions.

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

27 September 2007:	Approval of the single-entity and consolidated financial statements for the 2006/2007 financial year
31 October 2007:	Approval of the acquisition of B&V Bauträger- und Vertriebsgesellschaft mbh, Berlin; approval of the advisory services provided by the law firm Heuking Kühn Lühr Wojtek; revision of the by-laws for the Supervisory Board
26 February 2008:	Amendment of the employment contracts of members of the Management Board; approval of guarantees and the conclusion of a loan agreement
13 June 2008:	Approval of an amendment to the Articles of Association; approval of a joint venture

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

In particular, the Supervisory Board meeting on 31 October 2007 approved the conclusion of an agency agreement with Heuking Kühn Lüer Wojtek. The Chairman of the Supervisory Board did not participate in this resolution.

The Supervisory Board has not yet formed any committees.

Composition of the Supervisory Board

Mr. Klaus-Dieter Jakob stepped down from the Supervisory Board with effect from 13 December 2007. A successor has not yet been appointed.

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 currently being complied with. In August 2008, the Supervisory Board adopted the declaration of conformity based on the version of the German Corporate Governance Code dated 6 June 2008 in conjunction with the Management Board.

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

The Annual General Meeting appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin (PwC), as the company's auditors. The Supervisory Board issued PwC with the corresponding audit engagement, including specifying the focuses of the audit. The Supervisory Board ensured that it was kept informed about the audit measures performed by PwC with a view to ensuring audit quality and auditor independence. The single-entity financial statements of ESTAVIS AG and the consolidated financial statements for the year ended 30 June 2008, the management report of ESTAVIS AG and the Group management report were audited by PwC 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 submitted 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 24 September 2008. 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 2007/2008 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 24 September 2008. 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.

Berlin, 24 September 2008

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 2008

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 currently being complied with.

Based on the version of the German Corporate Governance Code dated 6 June 2008, the Management Board and Supervisory Board issued a declaration of conformity in August 2008. 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:

ESTAVIS AG has complied with and continues to comply with the recommendations of the German Corporate Governance Code in the current version dated 6 June 2008 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.

No severance payment cap for Management Board members has been agreed. The Supervisory Board will examine the possibility of a corresponding amendment to the employment contracts of the members of the Management Board.

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)
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.

Section 7.1.2 (Discussion of interim reports by the Supervisory Board)
Quarterly reports are not currently discussed by the Supervisory Board prior to publication. The Supervisory Board will examine the possibility of establishing an Audit Committee."

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 other compensation.

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. Other compensation consists of non-cash benefits in the form of the use of a company car and a health insurance allowance.

In the 2007/2008 financial year, the compensation paid to the Management Board totalled TEUR 837.

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

ESTAVIS AG	Fixed compensation	Other compensation	Total compensation
	TEUR	TEUR	TEUR
Rainer Schorr	425	29	454
Corina Büchold	170	20	190
Hans Wittmann	170	23	193
Total	**765**	**72**	**837**

ESTAVIS AG has also taken out D&O and accident insurance policies for the members of the Management Board.

The Group has 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 TEUR 5 and the Chairman of the Supervisory Board receives fixed annual remuneration of TEUR 10 plus statutory VAT in each case, 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 development of the company's share price compared with the share price performance of its peer group, which 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.

In the 2007/2008 financial year, the compensation paid to the Supervisory Board totalled TEUR 39. 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	11,900	0	11,900
Michael Kremer	5,950	0	5,950
John W. Cutts	5,950	0	5,950
Denham Eke	5,950	0	5,950
Klaus-Dieter Jakob (until December 13, 2007)	2,975	0	2,975
Ulrich Wogart	5,950	0	5,950

Klaus-Dieter Jakob received fees and non-cash benefits totalling around TEUR 26 for consulting services provided in the past financial year.

Shareholdings of the Management Board and Supervisory Board

The number of ESTAVIS shares held by the members of the Management Board as of 30 June 2008 was as follows:

ESTAVIS AG	Number of shares
Rainer Schorr (directly/indirectly via R. Schorr Beteiligungsgesellschaft mbH)	3,532,264
Corina Büchold	80,937
Hans Wittmann	83,012

No members of the Supervisory Board held ESTAVIS shares at the reporting date.

Share transactions requiring notification in accordance with section 15a of the German Securities Trading Act (director's 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 director's dealings, on its website (www.estavis.de).

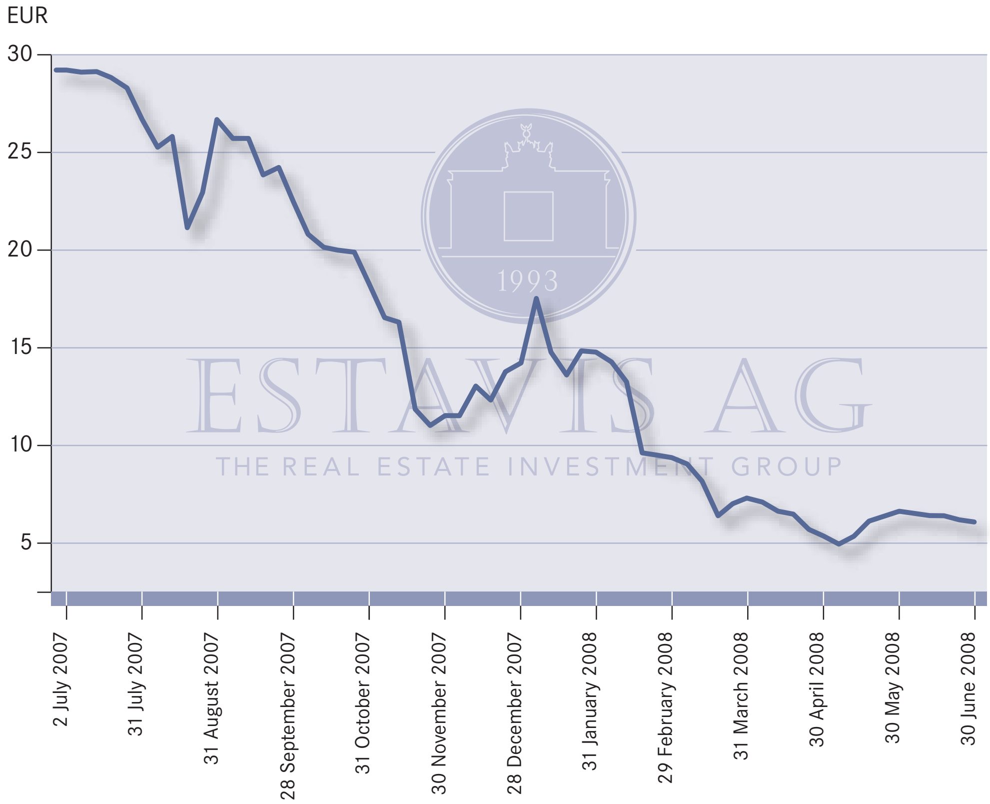
The following share transactions requiring notification were made in the period under review:

Date/name of security	Name of person submitting notification	Type of transaction	Stock ex-change	Number of shares	Price	Total volume
					EUR	EUR
16 May 2008 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	5,000	5.96	29,800
18 March 2008 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	3,000	7.04	21,120
14 March 2008 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	1,650	7.90	13,035
6 March 2008 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	1,500	9.05	13,575
19 February 2008 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	1,000	9.25	9,250
18 February 2008 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	1,000	8.60	8,600
15 February 2008 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	1,500	9.90	14,850
22 January 2008 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	2,000	10.80	21,600
3 December 2007 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	2,500	12.12	30,300
28 November 2007 DE000A0KFKB3	R. Schorr, CEO	Buy	Xetra	5,000	12.55	62,750

THE ESTAVIS SHARE

In the past financial year, the global financial crisis led to a significant deterioration in the market environment for property companies, including a slump in share prices. The German DIMAX index, which contains the largest German property companies, fell by around 40 % while some companies lost as much as 80 % of their market capitalisation.

ESTAVIS' shares were also affected by developments on the capital markets, resulting in a significant fall in our share price. On 30 June 2008, the last trading day of the 2007/2008 financial year, ESTAVIS' shares closed at EUR 5.93 – down from EUR 29.00 at the start of the financial year.



ESTAVIS' share price development in the 2007/2008 financial year

The Management Board of ESTAVIS AG is confident that the current share price offers an attractive opportunity for investors seeking to benefit from the company's future business development. Based on a share price of EUR 5.93 (as of 30 June 2008), the company has a market capitalisation of around EUR 48 million – significantly lower than its net book value.

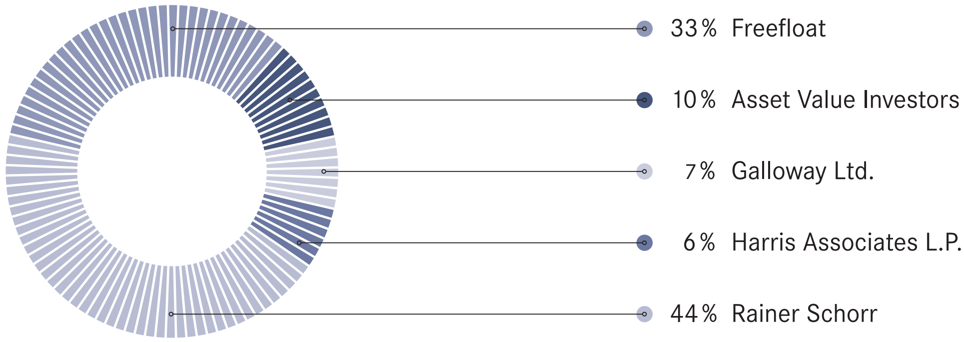
According to the majority of recent analyst reports, ESTAVIS' shares are considered to offer significant upside potential:

- WestLB, "Buy", target price EUR 7.00
- SES Research, "Buy", target price EUR 9.20
- SRC Research, "Buy", target price EUR 12.00
- Cazenove, "Underperform", no target price

Shareholder structure

As of 30 June 2008, the issued capital (share capital) of ESTAVIS AG amounted to EUR 8,099,427 and was composed of 8,099,427 no-par value bearer shares. The year-on-year increase of 375,000 shares is attributable to the acquisition of the B&V Group in October 2007.

The shareholder structure is shown in the following graph:



Shareholder structure on June 30, 2008

Investor relations activities

In the past financial year – the first full year since our IPO in April 2007 – we intensified our financial communications in order to present our business model to the investment community and outline the opportunities and potential it provides. This included participating in investor conferences and holding roadshows. We also expanded our analyst coverage to include SES Research and SRC Research.

In the first half of the 2008/2009 financial year, we intend to participate in the "Real Estate Share Initiative" conference, as well as the German Equity Forum organised by Deutsche Börse (see Financial Calendar).

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, 2008	8,099,427
Free float	33 %
Issue date	April 2, 2007
Issue price	EUR 28.00
Share price high (July 2, 2007 – June 30, 2008*)	EUR 29.09
Share price low (July 2, 2007 – June 30, 2008*)	EUR 4.99
Closing price on June 30, 2008*	EUR 5.93
Market capitalisation on June 30, 2008*	EUR 48 million

* Closing prices in Xetra trading

Management Report

PRELIMINARY REMARKS

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

Due to the external growth measures implemented by ESTAVIS AG in the past two financial years, the comparability of the figures for the period under review and the corresponding prior-period figures is limited. For example, Hamburgische Immobilien Invest SUCV AG (hereinafter also referred to as HAG) was acquired during the 2006/2007 financial year. As part of the company's continued expansion strategy, the 2007/2008 financial year saw the acquisition of B&V Bauträger und Vertriebsgesellschaft für Immobilien mbH, Berlin, and its affiliate Protect Vermittlungsgesellschaft für Kapitalanlagen mbH, Stuttgart (hereinafter referred to collectively as the B&V Group).

All monetary figures in this report 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, primarily in various conurbations in east and northern Germany. The Group invests in both residential and commercial properties. ESTAVIS' business activities can be subdivided into the following areas:

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. The company purchases individual properties in accordance with precisely defined criteria, bundles them to form structured portfolios and sells them to institutional investors in Germany and abroad. Where necessary, the properties are renovated and/or modernised as part of the resale process; partly renovation and modernisation is conducted after resale. Portfolios are structured in accordance with the specifications and investment criteria of the respective investors, and in particular their risk and return requirements.

Development
ESTAVIS is active in the area of development to the extent that a property acquisition entails the opportunity to purchase suitable properties at favourable conditions or with a view to making them viable for project development, e. g. in the case of portfolio acquisitions or realisations of bank security. Project development is only performed if it is certain that the respective project can be incorporated into a portfolio and the lease of most of the building or its resale is guaranteed prior to the start of construction.

Property sale to private investors
These retail trading operations comprise the sale of individual properties to private investors primarily for the purposes of retirement provision and as tax-advantaged investments.

Property asset management

The ESTAVIS Group holds limited property assets, particularly via the HAG Group. The aim of these assets is to generate above-average yields through continuous rental income and value appreciation.

Property management

The Group also performs property management services.

1.2 CORPORATE STRUCTURE

ESTAVIS AG is the parent company of the ESTAVIS Group. A presentation of the current corporate structure and a list of the individual subsidiaries and associates of ESTAVIS AG can be found in the notes to the consolidated financial statements.

The diagram below illustrates the breakdown of operating activities within the Group. The Group's original operations – portfolio trading and development – are primarily carried out by the operating units of the ESTAVIS subgroup, while the HAG Group and the B&V Group focus on the sale of properties to private investors and brokerage with different regional concentrations. Property asset management is performed by the HAG Group.

ESTAVIS AG, Berlin				
ESTAVIS subgroup			HAG and B&V subgroups	
Portfoliotrading	Development	Property Management	Property sale to private investors	Property asset management

Breakdown of operating activities in the ESTAVIS Group

The acquisition of 100% of the shares of B&V Bauträger und Vertriebsgesellschaft für Immobilien mbH, Berlin, and its affiliate Protect Vermittlungsgesellschaft für Kapitalanlagen mbH, Stuttgart (B&V Group) was completed in October 2007. This development reflects the Group's strategic focus on further reducing its dependency on its primary revenue driver – portfolio trading – by diversifying its service range and intensifying its retail activities. The companies acquired are largely active in the area of property trading, with a particular focus on the marketing of individual apartments in listed properties in need of renovation. In addition to a cash component of EUR 11.8 million, the purchase price for B&V included the issue of 375,000 ESTAVIS shares to the seller. The capital increase from authorised capital for the creation of the shares issued to the seller was approved by the Management Board and the Supervisory Board of ESTAVIS AG in October/November 2007 and entered in the commercial register on 27 December 2007.

As part of its growth and diversification strategy, the ESTAVIS Group has also expanded its property development operations. To this end, a joint venture was formed with an established property developer in the third quarter of the 2007/2008 financial year with the aim of developing and marketing various retail and commercial centres in the Stuttgart, Pforzheim and Limburg areas, as well as in other conurbations. The planned investment volume totals around EUR 14 million. The properties are scheduled to be completed and marketed in the 2008/2009 financial year.

1.3 ECONOMIC ENVIRONMENT

a) Macroeconomic development

In 2007, the macroeconomic environment in Germany was generally robust despite the unfavourable global developments triggered in particular by the U.S. real estate and financial crisis and the resulting turbulence on the international financial markets. Although real GDP growth in Germany declined slightly year-on-year, from 2.9 % to 2.5 %, this development was comparatively moderate in light of the negative external influences such as the pronounced appreciation of the euro, the sharp rise in energy prices and the deterioration in financing conditions.

By contrast, the German economy was affected by global developments to a greater extent in the first half of 2008. Following strong growth in the first quarter, Q2 saw the first quarterly decline in real GDP in four years. Taking the first half of the year as a whole, Germany enjoyed further real GDP growth of 1.7 %; however, there is now considerable uncertainty as to whether the downturn merely represents a temporary slowdown or the start of an imminent recession.

Private consumer spending remained the weak link in the German economy, failing to improve significantly during the period under review. This is due in particular to the development of consumer prices, which increased by 2.3 % in 2007 compared with 1.6 % in the previous year. This trend continued in the first half of the current calendar year, with inflation rising by 3.3 % in the period to June 2008.

In response to price stability risk in the eurozone, interest rates increased once again in the period under review. Despite the sharp rises in 2006 and 2007 (from 2.25 % to 4.0 %) and the weakness of the economic environment throughout the single-currency area, the European Central Bank raised its key interest rate to 4.25 %. This had a corresponding impact on lending rates in Germany.

The intensity of investment in the German property market, particularly on the part of foreign institutional investors, depends to a large extent on global economic developments. Since the end of the 2006/2007 financial year, the crisis on the international property and financial markets has led to a general slowdown in the growth of the major global economies, resulting in a significant increase in the degree of economic uncertainty. The U.S. economy in particular has recorded only negligible growth since mid-2007. In response to this development, which has had a corresponding impact on the European markets, the U.S. Federal Reserve has slashed interest rates with a view to countering the risk of recession at an early stage.

b) Sector development

Prior to the current economic downturn, the German housing market had shown signs of a moderate recovery after a long phase of stagnation, albeit with regional differences (high demand in structured conurbations but significant vacancy rates in structurally weak areas).

Following the temporary high in the German residential construction market in 2006 with a growth rate of 4.3 %, which was attributable to non-recurring and pre-emptive effects (termination of first-home buyer allowance, VAT increase), real residential construction growth returned to a level of 0.3 % in 2007. This reflects the fundamental trend towards stagnation in new construction activity in western Germany and the downturn in development in the east of the country. Housing demand is primarily driven by the energetic redevelopment of portfolio properties.

Due to this sustained period of weakness, prices for residential properties in Germany have fallen very slightly over the past ten years in nominal terms. This means that German residential property prices are comparatively attractive compared with the rest of western Europe, and especially the Anglo-Saxon countries. This applies in particular to resale properties. By contrast, rents have increased by an average of 0.5 % per year. The German property market has diverged from its western European counterparts in this respect, with domestic rental yields continuing to outperform the international average.

As a result of favourable economic conditions, institutional investment activity on the German property market has increased substantially over recent years – particularly among foreign investors, who have accounted for 80 % of the transaction volume. In 2007, property investment reached a new high with an estimated total volume of EUR 61–74 billion. Since the global property and real estate crisis started to take hold, however, institutional investors have shown significant restraint in terms of activity on the German property market. This has led to the current slump in demand in the portfolio trading sector.

This development is not indicative of a deterioration in the attractiveness of the German property market, but rather can be attributed to the negative impact of the crisis on financing conditions, which is posing a barrier to heavily debt-financed investments in particular. The fundamentals of the German property market remain positive, as does investor confidence in its underlying strength. This is reflected in the fact that rental growth in Germany remains relatively high compared with other western European markets. The downturn in property prices as a result of the turbulence on the global financial markets will also help to increase the available yields.

1.4 LEGAL CONDITIONS

ESTAVIS AG is a stock corporation (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 the Regulated Market of the Frankfurt Stock Exchange (Prime Standard).

a) Managing body

The legal managing and representative body of ESTAVIS AG is the Management Board. The composition of the Management Board and the appointment of its members are based on sections 76, 84 and 85 of the German Stock Corporation Act (AktG) in conjunction with Article 6 of the company’s Articles of Association. In accordance with these provisions, the Management Board is composed of one or several members. The Supervisory Board determines the number of members of the Management Board. The Supervisory Board may appoint up to five Management Board members and specify a Management Board member to act as Chairman. At present, the company’s Management Board consists of the Chairman and two additional members.

In accordance with section 84 of the AktG, the members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. They may be reappointed or their term extended for a maximum of five years in each case. The appointment and reappointment of members requires a corresponding resolution by the Supervisory

Board to be passed no more than one year before the expiration of the respective member's term. The Supervisory Board may revoke the appointment of a Management Board member prior to the expiration of his or her term for good cause.

b) Amendment of the Articles of Association

In accordance with section 179 of the AktG, any amendment to the Articles of Association requires a resolution by the General Meeting. This does not apply to amendments and additions to the Articles of Association that relate solely to their wording, the responsibility for which has been 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 by the General 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 a larger majority is prescribed by law or the Articles of Association in an individual case.

c) Capital structure

As of 30 June 2008, the issued capital (share capital) of ESTAVIS AG amounted to EUR 8,099,427 and was composed of 8,099,427 no-par value bearer shares. The year-on-year increase of 375,000 shares is attributable to the acquisition of the B&V Group, which included a corresponding capital increase in the amount of EUR 375,000 (see section 1.2). There are no different stock classes.

Following the partial utilisation of authorised capital in the course of the acquisition of the B&V Group, the Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital of the company by a maximum of EUR 2,125,000 by issuing new no-par value bearer shares in exchange for non-cash and/or cash contributions on one or more occasions up to and including 22 February 2012 (Authorised Capital I). Subject to the conditions described below, shareholders are granted statutory subscription rights.

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

- to adjust for fractional amounts;
- in the case of capital increases in exchange for cash contributions if the respective capital increase does not exceed 10 % of the company's 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 for 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 is deemed to be the amount that must be paid by the third party or parties;
- for the purpose of acquiring 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 considered to be in the interests of the company.

The Management Board is also responsible, with the consent of the Supervisory Board, for determining the further content of the stock rights and the other details of the implementation of capital increases from authorised capital.

Also, the Management Board is authorised, with the consent of the Supervisory Board, to further increase the share capital of the company by a maximum of EUR 1,362,213 by issuing new no-par value bearer shares in exchange for non-cash and/or cash contributions on one or more occasions up to and including 22 February 2012 (Authorised Capital II). Authorised Capital II is subject to the same provisions on the exclusion of shareholders' statutory subscription rights and the other conditions as described for Authorised Capital I above.

By resolution of the Annual General Meeting on 30 November 2007, the company's share capital was contingently increased by up to EUR 400,000 in order to service a stock option plan for the members of the Management Board of ESTAVIS AG (contingent capital). This contingent capital is composed of up to 400,000 no-par value bearer shares. The stock option plan has not been implemented.

As a condition of its IPO, ESTAVIS AG entered into a lock-up agreement under which it undertook not to implement certain measures with respect to its share capital and the shares issued by the company for a period of six months after the date of initial listing (2 April 2007) without the prior written consent of the underwriters. This agreement expired during the period under review.

At the balance sheet date, the Management Board was not authorised to buy back treasury shares.

d) Transfer and voting right restrictions

In connection with the IPO of ESTAVIS AG, the company's existing shareholders entered into a lock-up agreement under which they were required to observe certain transfer restrictions on their shares for a period of six or twelve months after the date of initial listing (2 April 2007) subject to the prior written consent of the underwriters. These restrictions expired during the period under review.

In conjunction with the acquisition of the B&V Group and the capital increase implemented for this purpose, the B&V shareholders who were granted the 375,000 new shares entered into a lock-up agreement under which they are not permitted to offer, pledge, allot, issue, sell, undertake to sell, sell a call option or purchase a put option on, or otherwise relinquish or dispose of the new shares, either directly or indirectly, for a period of one year after the issue date without the prior written consent of ESTAVIS AG. During this period, they are also prohibited from concluding or conducting transactions (including transactions in derivatives or other 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 the delivery of shares, the payment of money or another form of consideration. After the end of this (first) lock-up year, the B&V shareholders will be obliged for a further year not to perform any of the aforementioned transactions and measures for a total of 50 % of the shares acquired.

The Management Board is not aware of any other contractual transfer restrictions.

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 issued as of 30 June 2008 carry full voting rights and each grant the holder one vote at the General Meeting.

e) Equity interests and rights of control

As of the balance sheet date, Rainer Schorr Beteiligungsgesellschaft mbH, Berlin, directly held 38.5 % of the shares of ESTAVIS AG (previous year: 40.07 %). A total of 43.6 % of the shares of the company were attributable to Mr. Rainer Schorr directly as well as indirectly via Rainer Schorr Beteiligungsgesellschaft mbH (previous year: 43.89 %). By way of a letter dated 16 October 2007, Asset Value Investors Limited, London, UK, informed ESTAVIS AG that it indirectly held 10.27 % of the then share capital of EUR 7,724,427. The company is not aware of any other direct or indirect interests in its share capital that exceed 10 % of the voting rights.

None of the shares issued by ESTAVIS AG carry rights that grant the holders special rights of control.

There is no information on voting right controls for employees holding equity interests in the company who 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 would come into force, change or be terminated in the event of a change of control in the company as the result of a takeover bid.

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

1.5 ESTAVIS SHARE PRICE PERFORMANCE

Since 2 April 2007 (date of initial listing), ESTAVIS' shares have been traded on the Regulated Market of the Frankfurt Stock Exchange (Prime Standard). The company's shares are also traded on the Regulated Market of the Berlin Stock Exchange and the OTC markets of the Hamburg, Munich, Stuttgart and Düsseldorf Stock Exchanges.

At EUR 29.02 (XETRA), the company's shares opened the 2007/2008 financial year just down on the all-time high of EUR 29.40 recorded on 29 June 2007. Over the next 12 months, however, the global financial crisis led to a sharp downturn, with the share price closing the financial year at EUR 5.93. In the period under review a low of EUR 4.99 was recorded on 6 May 2008. In conjunction with this development, the average daily trading volume (XETRA) in the company's shares declined from 12,621 in the previous year to 11,760 in the 2007/2008 financial year.

This share price performance resulted in total market capitalisation of EUR 48.0 million at the balance sheet date, compared with EUR 227.1 million at the end of the previous year. Around 33.0 % of the outstanding shares of the company were in free float at the balance sheet date, representing a market capitalisation of around EUR 15.8 million (previous year: EUR 86.8 million).

2 BUSINESS PERFORMANCE AND FINANCIAL POSITION

2.1 SUMMARY ASSESSMENT AND COMPARISON OF FORECAST AND ACTUAL BUSINESS PERFORMANCE

The economic development of the ESTAVIS Group in the 2007/2008 financial year was impacted to a large extent by the crisis affecting the global property and financial markets. The resulting uncertainty on the financial markets had a significant detrimental effect on financing conditions for institutional investors, and foreign investors in particular. The volatile portfolio trading segment, which represents the Group's key revenue driver, was particularly hard hit by the unexpectedly strong reluctance to buy among institutional investors. By contrast, property sale to private investors was subject to the usual fluctuations but otherwise performed in line with expectations.

With the acquisition of the B&V Group in the period under review, the ESTAVIS Group has expanded its market position in the area of property sales to private investors while stabilising its economic development. However, this was not sufficient to fully offset the slump in demand in the portfolio trading sector. As a result, the Group's key figures for the 2007/2008 financial year were significantly behind expectations. Instead of the projected growth, revenues fell by 25.7 % year-on-year. As a result, the Group recorded a loss in spite of the forecast increase in earnings. However, it should be noted that two large property portfolios were sold at the end of the financial year for a price of EUR 60.8 million. These transactions will only be recognised in the Group's revenues and earnings in the 2008/2009 financial year. At the balance sheet date, the completion of one of the transactions was subject to the buyer obtaining the necessary financing.

Contrary to expectations, the ESTAVIS Group's unfavourable business performance in the 2007/2008 financial year combined with a sharp increase in its assets meant that the equity ratio fell significantly by 16.0 %, while cash and cash equivalents decreased by EUR 10.3 million.

Despite the disappointing course of business in the period under review, the ESTAVIS Group's net assets, financial position and earning power remain strong. Our company enjoys an excellent strategic position and a solid financing base, and continues to hold a liquidity reserve as a result of its IPO. This allows it to successfully overcome difficult business situations, such as in the 2007/2008 financial year, while rapidly and systematically implementing the planned expansion of its regional focus and its business activities.

2.2 EARNINGS SITUATION

The ESTAVIS Group's key revenue and earnings figures developed as follows in the period under review:

	2007/2008	2006/2007	Change
	TEUR	TEUR	in %
Revenues	147,452	198,398	–25.7 %
EBIT	–6,754	16,550	–140.8 %
Net profit	–6,675	8,814	–175.7 %

In the 2007/2008 financial year, consolidated revenue fell by 25.7 % to EUR 147.5 million. This was primarily due to the slump in revenues in the portfolio trading segment, whereas the Group recorded strong revenue growth from the sale of residential property. The acquisition of the B&V Group made a significant contribution to the planned stabilisation of ESTAVIS' revenue development through retail trading. The B&V Group was consolidated with effect from 1 November 2007, meaning that it is included in the consolidated financial statements for a total of eight months. It accounted for EUR 44.6 million of the Group's revenue in the period under review.

The ESTAVIS Group's revenues are broken down into the following business segments for financial reporting purposes:

• Property trading	EUR 75.6m	(previous year: EUR 180.4m)
• Sale of residential property	EUR 70.3m	(previous year: EUR 17.6m)
• Other business activities	EUR 1.5m	(previous year: EUR 0.3m)

In the period under review, 1,402 units (previous year: 4,189) with a total residential and useful area of 92,651 m² (previous year: 388,000 m²) were sold in the portfolio trading segment, while 857 units with a total residential and useful area of 52,038 m² were sold in the residential property segment.

As a result of lower transaction volumes and the drop in revenues, earnings before interest and taxes (EBIT; operating result plus net income from associates) fell by EUR 23.3 million in the 2007/2008 financial year (– 140.8 %). This meant that ESTAVIS recorded a consolidated net loss of EUR 6.7 million, down EUR 15.5 million (– 175.7 %) on the consolidated net profit generated in the previous year. This development was primarily attributable to portfolio trading, which accounted for EBIT of EUR –4.1 million, whereas retail trading broke even in terms of EBIT. However, it should be noted that the earnings performance and profitability of this segment (HAG Group and B&V Group) was primarily driven by revenues that were already contractually agreed at the respective acquisition dates, meaning that the corresponding property portfolios were revalued accordingly in the course of purchase price allocation. This impacted EBIT in the amount of EUR 7.6 million in the period under review. At the same time, however, this effect serves to underline the future earnings potential of the expansion measures implemented by the Group.

In the 2007/2008 financial year, the gross margin (revenues less changes in inventories and cost of materials/revenues) remained largely stable at 13.6 % (previous year: 13.2 %) despite the negative impact of the macroeconomic environment. In absolute terms, gross profit declined by EUR 6.1 million year-on-year as a result of the Group's revenue development.

The operating result was impacted in particular by the sharp increase in staff costs, which rose by EUR 3.0 million. This was due to the expansion of the Group's property and asset management workforce and the acquisition of the B&V Group. Other operating expenses also increased significantly by EUR 14.4 million, largely as a result of the rise in selling costs due to the higher share of Group revenues attributable to retail trading (EUR 4.7 million) and costs relating to rental guarantees (EUR 2.8 million). Although consulting costs in the previous year were impacted by the acquisition of the HAG Group and the IPO to the tune of around EUR 1.8 million, they declined negligibly in the period under review due to costs arising in conjunction with the expansion of the Group's property and asset management services. Earnings were also adversely affected by changes in the value of investment property, which totalled EUR 1.3 million (previous year: 0).

Rental income from portfolio property accounted for EUR 1.4 million of the EUR 2.7 million increase in other operating income. This was due in particular to the longer holding period for property portfolios in the retail trading segment, which had a higher weighting than in the previous year, as well as the fact that some properties in the portfolio trading segment were held for longer periods.

Interest income increased by EUR 2.0 million year-on-year due to the recognition of the short-term investment of the Group's liquidity surplus resulting from IPO for a full financial year for the first time. Despite this development, net interest cost increased by EUR 1.4 million. This is primarily attributable to the longer holding period for property portfolios in the retail trading segment, which had a substantially higher overall weighting than in the previous year due to the acquisition of the B&V Group in particular.

As a result of the consolidated net loss for the period and the recognition of deferred tax assets from tax loss carryforwards, ESTAVIS recorded tax income of EUR 3.8 million in the period under review (previous year: income tax expense of EUR 5.4 million).

Further detailed information on the composition and amount of the Group's income and expenses can be found in the notes to the consolidated financial statements.

As a result of the developments presented above, the EBIT margin (EBIT/revenues) of the ESTAVIS Group declined from 8.3 % to –4.6 % and the return on sales (net profit/revenues) from 4.4 % to –4.5 % compared with the previous period.

2.3 FINANCIAL AND NET ASSET SITUATION

In particular, the development of the ESTAVIS Group's financial and net asset situation as of 30 June 2008 reflects the expansion of its business activities through the acquisition of the B&V Group and the company's earnings performance in the 2007/2008 financial year. As a result of the Group's external growth, its total assets increased significantly from EUR 177.3 million in the previous year to EUR 249.8 million at the end of the period under review. This was due in particular to the sharp rise in goodwill and inventories, which totalled EUR 89.7 million. This was partially offset by the reduction in current receivables (EUR –4.0 million) and cash and cash equivalents (EUR –10.3 million) as a result of the lower transaction volume and payments relating to the acquisition of B&V.

The ESTAVIS Group's noncurrent assets increased from EUR 32.6 million to EUR 38.6 million in the period under review. This was primarily due to the acquisition of the B&V Group, which resulted in a EUR 9.1 million rise in goodwill to EUR 20.6 million.

In the period under review, the Group invested EUR 0.7 million (previous year: EUR 0.4 million) in property, plant and equipment and intangible assets. These investments primarily related to IT hardware and software, as well as additions to office equipment and the vehicle fleet. Financial assets (excluding investment property) declined from EUR 1.6 million in the previous year to EUR 0.3 million.

The year-on-year growth in current assets, from EUR 144.8 million to EUR 211.1 million, is also primarily due to the expansion of the ESTAVIS Group's business activities and the effects of its external growth. At the balance sheet date, current assets were composed of the retail property portfolio (EUR 103.7 million; previous year: EUR 23.1 million), current receivables (EUR 81.7 million; previous year: EUR 85.6 million) and cash and cash equivalents (EUR 25.7 million; previous year: EUR 36.0 million).

As a result of the significant increase in total assets, the Group's equity ratio declined from 54.2 % in the previous year to 38.2 %, while its gearing (debt/total capital) rose from 45.8 % to 61.8 %. The negative cash flow situation also meant that the ratio of cash and cash equivalents to total assets fell from 20.3 % to 10.3 % in the period under review. This was accompanied by a reduction in the Group's liquidity ratio (cash and cash equivalents/current liabilities) from 56.4 % in the previous year to 19.5 % in the 2007/2008 financial year. Irrespective of this development, the ESTAVIS Group's key figures as presented above and its largely constant working capital (current assets less current liabilities) of EUR 78.9 million (previous year: EUR 80.9 million) serve to underline its highly stable financing base and liquidity position. This means that the Group is able to commit considerable capital funds to its further strategic expansion.

Despite the loss recorded in the period under review, equity remained essentially unchanged at EUR 95.3 million compared with EUR 96.2 million in the previous year. This is due in particular to the increase in capital reserves as a result of the capital increase implemented in connection with the acquisition of B&V. However, the return on equity (consolidated net profit/equity) declined from 9.2 % in the previous year to –7.0 % in the period under review. Minority interests in the ESTAVIS Group's equity are primarily attributable to the HAG Group.

The growth measures resulted in an increase in financial liabilities of EUR 53.5 million to EUR 100.8 million. This item primarily related to liabilities to banks and was composed of current liabilities in the amount of EUR 84.3 million and noncurrent liabilities of EUR 16.5 million. Advance payments received increased sharply by EUR 10.3 million compared with the previous year. Other current liabilities, which rose by EUR 7.2 million year-on-year to EUR 22.8 million, primarily consist of liabilities from interests in various special-purpose entities that have been sold by the Group.

The operating cash flow of the ESTAVIS Group totalled EUR –3.5 million in the period under review (previous year: EUR –32.0 million). While the figure for the previous year was largely impacted by the sharp rise in trade receivables and the reduction in advance payments received as a result of the realisation of the corresponding revenues, the negative cash flow in the period under review was primarily due to the Group's earnings situation. After investing and financing activities, which related in particular to the acquisition of B&V, total cash and cash equivalents declined by around EUR 10.3 million in the 2007/2008 financial year (previous year: increase of EUR 22.2 million).

Further details on the amount and composition of the Group's cash flows can be found in the cash flow statement contained in the consolidated financial statements.

2.4 OTHER NON-FINANCIAL SUCCESS FACTORS

The fast-moving nature of the German property market means that the technical expertise and commitment of our employees and executives and the investor- and portfolio-oriented selection of properties are key factors in the ESTAVIS Group's successful business performance.

To help retain employee knowledge and skills, the ESTAVIS Group places a strong emphasis on attractive working conditions. In particular, this includes a competitive remuneration and training system which is continuously monitored and adapted to reflect changes in the labour market as appropriate. In addition, we constantly make observations on employee satisfaction on the basis of changes in fluctuation rates and sickness levels. Both variables have shown low figures in the past.

With respect to senior management, too, we aim to engender a long-term commitment to the company in order to allow us to maintain our long-standing customer relationships. This is achieved in particular through the long-term incentives granted to the Management Board members, which allow them to participate in the sustained growth of the company (see also section 6).

In order to ensure that its property portfolios meet investor expectations, the ESTAVIS Group uses an internally developed software tool (due diligence software) to select individual properties and allocate them to portfolios. The relevant assessment criteria and their weighting are reviewed on a regular basis and adjusted as appropriate to reflect new findings and current market developments, and changes in investor requirements in particular.

3 RISK REPORT

3.1 RISK MANAGEMENT SYSTEM

The ESTAVIS Group's risk management system 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 fact that potentially adverse developments and events are addressed in a structured manner and at an early stage, thereby allowing the Management Board to initiate countermeasures in good time before significant damage is done.

With the function of detecting and communicating significant risk factors in a prompt manner, and particularly those that are highly relevant in terms of income and liquidity and that could therefore jeopardise the Group's continued existence, the ESTAVIS Group's risk management system is integrated within the Group's planning, reporting and controlling processes at an organisational level. The system is managed on a centralised basis by ESTAVIS AG and comprises the systematic identification, analysis, assessment and monitoring of material risks by the company's Management Board. In light of the Group's clearly defined corporate structures and business processes, the level of formalisation has been kept comparatively low to date for reasons of efficiency. The close involvement of the Management Board in the main business transactions and projects serves to ensure that any risks arising are monitored on an ongoing basis.

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

- a structured and standardised controlling and reporting system that is capable of identifying adverse business developments at an early stage and communicating them to the company's management;
- the documentation of relevant risks for the purposes of informing the company's management on a regular or case-by-case basis;
- the frequent and regular assessment of the identified risks and the resolution of decisions on any countermeasures or the conscious acceptance of transparent 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 company's economic development. Another objective of financial risk management is to ensure optimised Group financing. To this end, appropriate credit line agreements concluded by the parent company are used for the centralised financing of the operating Group units, while continuous, rolling liquidity control serves to ensure that the company always has sufficient funds available.

To date, derivative financial instruments have not been recognised separately in the ESTAVIS Group's risk management system, as they are only used to a negligible extent. With regard to the individual risks arising from primary financial instruments, we refer in particular to the statements below on the Group's bad debt and financing risks and the information contained in the notes to the consolidated financial statements.

The appropriateness and functionality of the risk early warning system implemented by the Group is examined by the auditor in the course of the annual audit of ESTAVIS AG's external financial reporting. Potential improvements identified as a result are subsequently incorporated into the system.

3.2 INDIVIDUAL RISKS

The ESTAVIS Group is exposed to a large number of different risks which, individually or collectively, could adversely affect the net asset, financial and earnings situation of the company and its further economic development. According to the Management Board of ESTAVIS AG, the following company- and market-specific individual risks should be taken into account in particular.

Additional risks of which the company is not currently aware or whose significance is not yet known could also have a significant adverse effect on the business development of the ESTAVIS Group.

Company-specific risks

a) Project selection risks

The economic success of the ESTAVIS Group depends to a large extent on the selection and acquisition of suitable properties. This gives rise to the risk of incorrectly estimating or failing to identify the negative structural, legal, commercial and other encumbrances of the properties to be purchased. Furthermore, the assumptions made in relation to the income potential of the properties could subsequently prove to be partially or entirely incorrect. In particular, incorrect estimates relating to the attractiveness of property locations and other factors that investors consider to be crucial to decisions to buy could result in properties not being sold at the planned terms and conditions or within the forecast timeframe.

These property-specific risks are countered by a thorough examination of the relevant properties and their portfolio compatibility. An internally developed software tool is employed to this extent. As part of the property assessment, factors such as expected renovation, maintenance and modernisation requirements and the earnings power and debt service coverage ratio are examined using standard banking benchmarks.

b) Property portfolio risks

The ESTAVIS Group primarily holds its property portfolios on a short-term basis, but some properties are held for longer periods. As long as properties are held by the company, there is a risk of devaluation due to a deterioration in the social structures of the respective locations, excessive levels of wear and tear, unexpectedly high renovation requirements or similar factors.

Property portfolio risks will be countered by the measures described in section 3.2 a. In addition, in order to protect against the risk, that a sale cannot be realised on a short-term basis, rights of cancellation are sometimes included in the purchase agreement. In such cases, the risk is generally restricted to downpayments that are primarily payable at a high level and that cannot be reimbursed in the event of withdrawal from the purchase agreement.

c) Construction risks

To the extent that construction measures are required for the properties traded or leased by the Group, there is a risk that the resulting construction costs could significantly exceed forecasts. This risk is countered through detailed construction cost planning and strict monitoring.

d) Sales risks

A key factor in the ESTAVIS Group's corporate development is the long-standing, established business relationships and personal contacts between its management and existing and potential investors. This applies in particular to the portfolio trading segment, where transactions are conducted with a relatively transparent group of investors. In order to protect the existing customer base and ensure its continuous expansion, the members of the Management Board are granted an interest in the company's share capital with a view to retaining their personal expertise and guaranteeing their commitment on a long-term basis. Risk limitation through the reduction of dependence on individual investors also forms part of the Group's continuous risk controlling activities.

In the area of residential property trading, ESTAVIS draws upon an extensive network of experienced external sales partners. This means that its commercial success is dependent to a large extent on recruiting qualified brokers and retaining their services on a long-term basis. This is achieved in particular through attractive remuneration conditions.

The primary risk to the Group's property rentals is that the properties offered will fail to meet tenants' expectations, resulting in vacancies. ESTAVIS strives to reduce this risk by intensively monitoring the rental market on an ongoing basis, including analysing tenant requirements, as well as improving the attractiveness of its properties by performing modernisation work as appropriate.

e) Financing, liquidity and interest rate risks

In relation to the existing loans for financing the properties held by the Group and the new borrowing required to acquire additional property portfolios, there is a risk that company-specific and market-specific developments may make it harder to borrow funds and/or make such borrowing possible only on less favourable terms. This risk is countered by high regular turnover rates (90–180 days between the purchase of the individual property and the sale of the corresponding portfolio).

The cash and cash equivalents held by the ESTAVIS Group provide it with sufficient liquidity reserves to finance its cash flow from operating activities. In order to prevent risks affecting the ESTAVIS Group's solvency, cash and cash equivalents are invested in such a way as to ensure that they are always available at short notice. Furthermore, continuous liquidity planning is performed with the aim of ensuring a minimum level of cash and cash equivalents at all times. Accordingly, no liquidity risks are expected as long as the Group continues to meet the corresponding targets in general.

The Group's financial liabilities do not currently embody a significant degree of interest rate risk, as they primarily consist of current financial liabilities and long-term loans with fixed rates of interest. A change in overall interest rates could have a certain impact on the Group's cash flow and the interest income generated from its cash and cash equivalents; however, based on the volumes held at present, any such effect would likely be minimal. Far more important is the potential indirect effect of changes in overall interest rates on property demand (see the corresponding information on economic risks).

There are no other significant risks relating to the financial instruments held by the Group at present.

f) Bad debt risks

The Group primarily sells its properties to customers who form special-purpose entities for acquisition purposes, and not directly to corporations or individuals. As such, recourse to the shareholders of the buyer is only possible to a limited extent in the event of the buyer's insolvency. To reduce this risk, the ownership of properties is not generally transferred to the buyer until the purchase price has been paid into an escrow account. In retail trading the risk will be reduced by handing over the property only after the full purchase price has been paid.

To the extent that renovation measures are required, it is generally agreed that certain purchase price components will only be due after the completion of such measures. These purchase price components could be at risk of default if a customer were to file for insolvency prior to the completion of renovation. The company also bears the credit risk in the event that it enforces rights of rescission or warranty against the seller of a property and the seller defaults on the repayment of the purchase price or the fulfilment of the warranty rights.

Finally, property purchases are subject to a certain credit risk, as rent payments frequently continue to be paid to the seller even after the respective rights, entitlements and obligations have been transferred, meaning that the seller is then required to pass these payments on to the ESTAVIS Group.

g) Legal risks

In the context of their business activities, ESTAVIS Group companies may, in particular, become involved in legal disputes and be 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, as the exclusion of liability is generally not agreed in such cases. By contrast, this risk is either reduced or eliminated when special-purpose entities themselves are sold (share deals), as the exclusion of liability for the properties held by the special-purpose entity is generally agreed in such cases.

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 such a guarantee has already been concluded. In addition, if such measures have not been performed properly, a portion of the agreed selling price may be given up. Significant additional costs may also arise in the event of delays to the renovation and modernisation work.

A number of property sale contracts contain contractual commitments on the amount of rent payable. If it is not possible to furnish evidence of such commitments, either in general or at a specific point in time, certain purchase price components may be due at a later date or may even be waived. Short- to medium-term rental guarantees that could lead to corresponding equalisation obligations are also issued in individual cases.

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

Adequate provisions have been recognised for the legal risks to which the Group is currently exposed. At present, there are no legal risks, particularly arising from legal disputes, that could have a significant adverse effect on the financial position of the ESTAVIS Group.

Market-specific risks

a) Economic risks

To date, the ESTAVIS Group has generated revenues exclusively within Germany. As such, a deterioration in the domestic economic climate or the actual occurrence of the recession that is currently considered to be unlikely could lead to a (significant) decline in demand for property investments, have a negative impact 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 global economic trends. Consequently, a cooling of the economic climate in Europe could have an adverse effect on the purchasing behaviour of foreign investors.

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

Given the fact that the majority of institutional property investments in Germany are made by investors from Anglo-Saxon countries, the development of the currency markets could also have a sustained impact on the German property market. In the event of a turnaround on the currency markets resulting in the sustained appreciation of the U.S. dollar and the pound sterling in conjunction with a deterioration in forecast yields on the German property market, foreign investors could choose to withdraw from Germany. This would have a corresponding adverse effect on selling prices.

b) Sector risks

In the recent past, the German property market has been characterised by the excess supply of residential properties, which has allowed the ESTAVIS Group to benefit in the form of favourable purchase prices. However, there is a risk that this favourable situation may not continue. The increased penetration of new competitors on the German property market could also contribute to this development.

The property sector is characterised by intense competition among numerous providers. As such, there is a risk that the competition will adopt 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, thereby serving to exacerbate the aforementioned price/margin risk.

Finally, demand for residential properties could also be negatively impacted by the expected decline in the German population and the resulting potential downturn in living space requirements.

c) Legal conditions

As the business activities of the ESTAVIS Group are regulated by the specific legal conditions applying to property, they may be adversely affected by amendments to national and/or European legislation or the changed interpretation or application of existing legislation, including tenancy law, public construction law, preservation law and tax law.

3.3 OTHER INFLUENCES

In addition to the risks described above, the Group is subject to general influences that are not foreseeable and that are difficult to counteract, including political changes, social influences and risk factors such as natural disasters and terrorist attacks. These factors could have an adverse effect on the economic environment and hence indirectly impair the further business development of the ESTAVIS Group.

3.4 ASSESSMENT OF THE OVERALL RISK

Based on the available information, the Management Board of ESTAVIS AG does not consider there to be any specific current risks that could jeopardise the continued existence of the company or that are likely to materially impact its net asset, financial and earnings situation, either individually or cumulatively.

4 FORECAST REPORT

The following statements on the future business performance of the ESTAVIS Group and the factors considered to be crucial in terms of the development of the market, the sector and the company are based on the estimates made by the Management Board of ESTAVIS AG. Based on the available information, the assumptions made are currently considered to be realistic. All forecasts involve the risk that the developments predicted will not actually occur, either in terms of their extent or the general trend. The material risks to which the ESTAVIS Group believes it is exposed are explained in the Risk Report.

4.1 MARKET AND BUSINESS OPPORTUNITIES

Demographic and social trends in Germany present considerable opportunities for the domestic property market. The number of households and the average per-capita space requirements are expected to continue to grow in future. This could have a positive impact on the business development of the ESTAVIS Group.

Additional sales opportunities, primarily in the Group's core portfolio trading operations, could also arise if the existing price differential between the German and international property markets remains in place. The low level of prices compared with the rest of the world makes the German property market highly attractive to foreign investors in terms of yield considerations. This attractiveness could be further enhanced by the sustained weakness of the U.S. dollar and the pound sterling in particular.

With its focus on property trading through portfolio acquisition, the ESTAVIS Group occupies a niche position in the German property market. To the best of our knowledge, there is no other company operating throughout Germany with a comparable business model at present. This presents ESTAVIS with the opportunity to utilise and further expand its existing competitive edge in future, irrespective of the forecast increase in competitive intensity in its core business area of portfolio trading.

The HAG Group and the acquisition of the B&V Group are expected to generate additional positive momentum for the ESTAVIS Group's business development. As well as improving access to its target regions for property acquisitions, the incorporation of the HAG Group has given rise to long-term synergy effects from additional services that complement the existing service range of the ESTAVIS Group. The aim of the B&V acquisition was to diversify ESTAVIS' service range, and hence reduce its reliance on portfolio trading as a primary revenue driver. This strategic measure and the sale of owner-occupied apartments helped to contribute to the stabilisation of the Group's economic development in the period under review.

The continued strong liquidity position of the ESTAVIS Group, which is attributable to the funds generated from the company's IPO, means that it is in a position to further expand its business activities and hence systematically leverage the business opportunities it has identified and implement the necessary measures.

4.2 DEVELOPMENT OF ECONOMIC CONDITIONS

The broad opinion among analysts and market research institutes is one of cautious optimism with regard to the macroeconomic prospects for Germany for the next two financial years. The economic upturn is expected to continue to slow, with growth in real GDP forecast at around 2.0 % in 2008 and up to 1.5 % in 2009. At the same time, uncertainty with regard to the forecast developments has increased significantly, although the majority of observers do not expect the German economy to move into a recession in the near future. The downturn that is expected to continue for some time reflects the general macroeconomic prospects for western industrialised nations. A successive decline in growth momentum is also forecast in the eurozone, with growth rates expected to be slightly lower than for the German economy in 2008 and slightly higher in 2009. The USA is expected to perform less well, with growth forecast at around 1.4 % in 2008 and 1.3 % in 2009. Growth is likely to be driven to a significant extent by the economic outlook for the emerging economies, which remains positive.

The crisis on the U.S. financial markets and the resulting global turbulence are expected to continue to have a material adverse effect on the economic environment. In the USA in particular, the crisis has led to more subdued consumer spending and a deterioration in corporate and private financing conditions. Global economic development is also being impacted by inflation, which has accelerated significantly over recent months on the back of rising energy prices. Experts believe that the rise of consumer prices will reach a high of 3.0 % in Germany, 3.3 % in the eurozone and 4.3 % in the USA in 2008 before tailing off again in 2009 (to 2.2 % in Germany and the eurozone and 3.1 % in the USA).

As such, despite the forecast economic growth, the central banks are likely to have only limited scope in terms of (further) reducing interest rates in order to boost the economic performance of industrialised nations. Accordingly, capital market interest rates are expected to remain relatively stable over the next two years. However, it should be noted that the U.S. Federal Reserve has already slashed its key interest rate to 2.0 % in an attempt to stave off the risk of recession.

The volume of investment in the German property market is expected to recover slightly following the recent slump in demand. Although long-term demographic trends (decreasing population, change in the age structure) could have an adverse effect on demand for residential property, these effects will be at least partially offset by certain positive factors (increase in one- and two-person households, decrease in average household size, increase in per-capita living space). Accordingly, the German property market is likely to remain fundamentally attractive.

Given the extremely low level of new residential construction activity in recent years, Germany is expected to see a shortage of living space in the medium term. This is likely to help gradually change the long-standing stagnation of property prices into an upward trend in the foreseeable future. With the apparent market shortage, an increase in rent levels is also expected. However, changes in purchase prices and rents are likely to differ significantly between regions.

As a result of low prices combined with the expectation of higher property values and rentals in the foreseeable future, and hence a positive yield situation, the German property market is likely to remain attractive for (institutional) investors. However, restrictions on bank lending as a result of the global property and financial market crisis and the shortage of adequate properties could lead to a downturn in demand, the extent of which cannot be reliably estimated at present.

Based on the factors presented above, analysts and market research institutes expect the transaction volume on the German property market in 2008 to be at least 25 % lower than in 2007.

4.3 CORPORATE DEVELOPMENT

a) Overall assessment

In light of the forecasts and developments discussed in this report, the ESTAVIS Group expects to record significant revenue growth over the next two financial years, with a sustained return to profitability accompanied by appropriate yields. This will allow our company to reinforce its current market position through profitable growth.

However, this development will depend to a large extent on a tangible improvement in market sentiment, which is currently being impacted by the global property and financial market crisis, and a recovery in portfolio trading in particular. At the same time, the diversification measures implemented by the ESTAVIS Group to date are expected to allow us to generate the forecast income across a wide range of independent business segments.

b) Revenue growth

The ESTAVIS Group's revenue planning is based on the assumption that demand among domestic and foreign institutional investors will recover after the disappointing 2007/2008 financial year, resulting in an increase in the transaction volume in the portfolio trading segment. The acquisition of the B&V Group, which will be included in consolidation for a full financial year for the first time, and the development joint venture that was agreed in the period under review are also expected to have a positive impact on Group revenues. Furthermore, the expansion of sales capacities is likely to allow the Group to generate higher business volumes.

A further key factor in the expansion of the ESTAVIS Group's business activities will remain its financial strength. In particular, the funds generated from the IPO mean that we are able to implement additional organic and external growth measures, both in our traditional core business area of portfolio trading and in the expansionary segments of property sales to private investors and development.

We expect the ESTAVIS Group to record significant revenue growth over the next two financial years. This estimate is based on the current volume of contractually agreed and impending transactions, as well as an upturn in economic conditions.

c) Earnings growth

The recovery in demand over the next two financial years is likely to be accompanied by a further improvement in the margin situation in the portfolio trading segment. In our retail activities margins are expected to remain largely stable.

Accordingly, the forecast revenue growth will lead to a significant improvement in the operating result (EBIT) over the next two years, thereby allowing the Group to return to profitability.

As a result of its most recent growth measures, the ESTAVIS Group's earnings performance is exposed to the effect of changes in interest rates to a greater extent than previously. However, the potential impact of an increase in interest rates and interest payments on its profitability remains relatively minor.

d) Financing

On the basis of these developments, we are forecasting a continuous improvement in the liquidity and financing situation of the ESTAVIS Group over the next two financial years, with a slight increase in equity and liquidity ratios.

As the main asset movements take place between liquid funds and working capital and the ESTAVIS Group has a low capital utilisation rate, our investment and financial planning is based on the assumption that investment requirements can be covered via our operating cash flow. Unless external growth measures are implemented, we do not consider it necessary to raise external interest-bearing funds for capital investment purposes.

5 SUPPLEMENTARY REPORT

On 1 July 2008, the ESTAVIS Group entered into an exclusive contractual agreement with two of Germany's leading organisations for the sale of owner-occupied apartments. With this step, ESTAVIS has further expanded its sales capacities for property sales to private investors with a view to pressing ahead with the company's dynamic growth path and the diversification of its product range.

At the end of the period under review, two large property portfolios comprising a total of 749 units and an area of 75,386 m² were sold for a price of EUR 60.8 million. This transaction will only be recognised in the Group's revenues and earnings in the 2008/2009 financial year. At the balance sheet date, the completion of one of the transactions was subject to the buyer obtaining the necessary financing.

No other events of particular significance to the business development of the ESTAVIS Group have occurred since the end of the 2007/2008 financial year.

6 KEY FEATURES OF THE REMUNERATION SYSTEM FOR BOARD MEMBERS

The contracts of the members of the Management Board of ESTAVIS AG have been concluded for a period of between two and three years and may not be terminated by either party during this period other than for good cause. The remuneration paid to the Management Board members of ESTAVIS AG consists of fixed annual basic remuneration and a variable bonus that depends on the EBIT generated by the company. In addition, the Management Board members are granted the use of a company car, and ESTAVIS AG has taken out D&O and accident insurance policies on their behalf.

The interest of the Management Board members in the long-term positive growth of the ESTAVIS Group is guaranteed by way of 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 at present. A stock option program authorised by the General Meeting has not been implemented. 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 their statutory 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 the 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. They are also granted variable remuneration, which is currently limited to a maximum of 200 % of the respective fixed remuneration per year and is dependent on ESTAVIS' share price performance relative to the share prices of a specific peer group of property companies to be determined by the General Meeting. ESTAVIS AG has also taken out D&O insurance for the members of the Supervisory Board.

The total remuneration of the Management Board and Supervisory Board members and the individual remuneration paid to the Management Board members can be found in the notes to the consolidated financial statements.

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

ESTAVIS AG

Assets	Section	June 30, 2008 TEUR	June 30, 2007 (adjusted) TEUR
Non-current assets			
Goodwill	6.1, 6.3	20,581	11,492
Other intangible assets	6.1, 6.3	141	50
Property, plant and equipment	6.2	1,113	775
Investment property	6.4	12,840	16,939
Investments in associates	6.5	32	917
Other non-current financial assets	6.6	252	721
Deferred income tax receivables	6.14	3,684	1,668
Total		**38,644**	**32,563**
Current assets			
Inventories	6.7	103,703	23,057
Trade receivables	6.8	27,604	50,139
Other receivables	6.8	52,328	35,323
Current income tax receivables		1,759	185
Cash and cash equivalents	6.9	25,733	36,048
Total		**211,127**	**144,753**
Total assets		**249,772**	**177,316**

CONSOLIDATED BALANCE SHEET

ESTAVIS AG	Section	June 30, 2008	June 30, 2007 (adjusted)
Equity		TEUR	TEUR
Issued capital	6.10	8,099	7,724
Capital reserves		77,065	70,577
IAS 39 reserve		16	73
Retained earnings		1,413	7,280
Equity attributable to the shareholders of the parent company		86,594	85,654
Minority interests		8,742	10,514
Total equity		**95,336**	**96,168**
Liabilities			
Non-current liabilities			
Provisions	6.12	429	341
Non-current financial liabilities	6.11	16,517	14,243
Deferred income tax liabilities	6.14	5,238	2,666
Total non-current liabilities		**22,184**	**17,250**
Current liabilities			
Provisions	6.12	4,416	5,506
Current financial liabilities	6.11	84,281	33,022
Advance payments received		11,055	768
Current income tax liabilities		4,430	5,553
Trade payables	6.13	5,297	3,443
Other liabilities	6.13	22,774	15,606
Total current liabilities		**132,252**	**63,898**
Total equity and liabilities		**249,772**	**177,316**

CONSOLIDATED INCOME STATEMENT

ESTAVIS AG

	Section	2007/2008	2006/2007 (adjusted)
		TEUR	TEUR
Revenues	6.15	147,452	198,398
Change in investment property	6.4	–1,345	29
Other operating income	6.18	5,428	2,682
Changes in inventories		–14,962	119
Total operating performance		**136,572**	**201,229**
Cost of materials	6.16	112,440	172,338
Staff costs	6.17	5,874	2,867
Depreciation and amortisation	6.3	312	137
Other operating expenses	6.18	24,647	10,216
Operating profit		**–6,701**	**15,671**
Net income from associates	6.5	**–53**	**879**
Interest income	6.19	2,983	969
Interest expenses	6.19	6,713	3,293
Financial result		**–3,730**	**–2,324**
Pre-tax profit		**–10,484**	**14,226**
Income taxes	6.20	–3,809	5,412
Net profit		**–6,675**	**8,814**
attributable to parent company shareholders		–5,435	8,767
attributable to minority interests		–1,240	48
Earnings per share (EUR)	6.22	**–0.68**	**1.54**

CONSOLIDATED CASH FLOW STATEMENT

ESTAVIS AG

		2007/2008	2006/2007 (adjusted)
		TEUR	TEUR
	Net profit	–6,675	8,814
+	Depreciation/amortisation of non-current assets	312	137
+/–	Increase/decrease in provisions	–2,715	4,640
+/–	Change in investment property	1,345	–29
+/–	Other non-cash expenses/income	345	–437
–/+	Gains/losses from the disposal of non-current assets	–22	4
–/+	Increase/decrease in inventories, trade receivables and other assets that are not attributable to investing or financing activities	–28,738	–27,323
+/–	Increase/decrease in trade payables and other liabilities that are not attributable to investing or financing activities	32,678	–17,797
=	**Cash flow from current operating activities**	**–3,469**	**–31,991**
+	Payments received from the disposal of property, plant and equipment	0	5
+	Payments received for the disposal of financial assets	259	0
+	Payments received from the disposal of investment property	3,020	0
–	Payments for investments in intangible assets	–118	–40
–	Payments for investment property	–229	–418
–	Payments for investments in property, plant and equipment	–576	–405
–	Payments for investments in non-current financial assets	–2	0
+	Payments from the addition of fully consolidated companies	0	3,057
+	Payments from the disposal of fully consolidated companies	0	5
–	Payments from the additions of fully consolidated companies	–8,048	0
=	**Cash and cash equivalents at the beginning of the period**	**–5,693**	**2,204**
	Payments made by shareholders	25	51,111
–	Payments to shareholders	–931	0
+	Payments from issuing bonds and raising (financial) loans	2,842	1,252
–	Repayment of bonds and financial loans	–3,089	–335
=	**Cash flow from financing activities**	**–1,152**	**52,029**
	Net change in cash and cash equivalents	–10,315	22,241
+	Cash and cash equivalents at the beginning of the period	36,048	13,807
=	**Cash and cash equivalents at the end of the period**	**25,733**	**36,048**

Explanations on individual positions can be found in the Notes to the Consolidated Financial Statements, sec. 6.23.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year from July 1, 2007 to June 30, 2008

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, 2007	**7,724**	**70,577**	**73**	**7,280**	**85,654**	**10,514**	**96,168**
Changes in the value of available-for-sale financial assets	–	–	–57	–	–57	–	**–57**
Net profit for the period July 1, 2007 – June 30, 2008	–	–	–	–5,435	–5,435	–1,240	**–6,675**
Total recognised income and expenses	–	–	**–57**	**–5,435**	**–5,491**	**–1,240**	**–6,732**
Capital increase from retained earnings	–	–	–	–	0	25	**25**
Capital increase against contributions in kind (acquisition of B&V-Gruppe)	375	6,488	–	–	6,863	–	**6,863**
Acquisition of shares of consolidated companies	–	–	–	–431	–431	–557	**–988**
As of June 30, 2008	**8,099**	**77,065**	**16**	**1,413**	**86,594**	**8,742**	**95,336**

Explanations on individual positions can be found in the Notes to the Consolidated Financial Statements, sec. 6.10.

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	–	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	**0**
Capital increase against contributions in kind	724	19,560	–	–	20,284	10,461	**30,745**
Capital increase against cash contributions	2,000	54,000	–	–	56,000	0	**56,000**
Equity-raising costs (after income taxes)	–	–2,982	–	–	–2,982	0	**–2,982**
As of June 30, 2007	**7,724**	**70,577**	**73**	**7,280**	**85,654**	**10,514**	**96,168**

* The figure as of July 1, 2006 contains the “Retained earnings to be used for capital increase” amounting to TEUR 3,425 reported separately in the Consolidated Balance Sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BASIC INFORMATION

ESTAVIS AG and its subsidiaries trade in property upon which they undertake maintenance work partly for the purpose of resale. Furthermore, property is held as financial investments. The company is domiciled in Berlin, Germany. The company's shares are listed on the Frankfurt Stock Exchange for trading on the Regulated Market (Prime Standard).

As of 30 June 2008, ESTAVIS AG acts as the operating holding company for a number of special-purpose entities. Its major operating subsidiaries are Hamburgische Immobilien Invest SUCV AG, Hamburg, CWI Real Estate AG, Bayreuth (together: the HAG Group) and B&V Bauträger- und Vertriebsgesellschaft für Immobilien mbH, Berlin (B&V) acquired in the financial year.

The figures in the reporting period are comparable only to a limited extent with those of the previous year's period in view of the expansion of the consolidated group following the addition of the HAG Group and B&V Group as well as the significantly strengthened equity base due to the IPO of the company.

The present consolidated financial statements were approved for publication by the company's Management Board in September 2008.

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 for the 2007/2008 financial year 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 19 July 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 in the European Union with an orientation to the capital market.

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 of knowledge of the company's management and on the basis of current events and measures, actual results may ultimately differ from these estimates.

The accounting methods employed in the consolidated financial statements are the same as those on which the consolidated financial statements as at 30 June 2007 are based, with the exception of three changes in reporting and presentation.

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 2007/2008 financial year:

Standard/Interpretation		amended/new
IAS 1	Presentation of Financial Statements	amended
IAS 32	Financial Instruments: Presentation	amended
IFRS 7	Financial Instruments: Disclosures	new
IFRIC 10	Interim Financial Reporting and Impairment	new
IFRIC 11	IFRS 2: Group and Treasury Share Transactions	new

With the exception of several additional statements in the notes, the first-time application of the new accounting standards did not affect the IFRS consolidated financial statements of ESTAVIS AG. In addition, IFRS 8 „Operating Segments“ was applied early. This resulted in a change in the segment breakdown as against the previous year. The figures for the previous year were adjusted accordingly.

The following accounting standards that have been newly published or amended 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 (amendments)	2009/2010
IAS 23	Borrowing Costs (amendments)	2009/2010
IAS 27	Consolidated and Separate Financial Statements under IFRS (amendments)	2009/2010
IAS 32 + IAS 1	Amendments: Puttable Financial Instruments and Obligations Arising on Liquidation	2009/2010
IAS 39	Amendments: Eligible Hedged Items	2009/2010
IFRS 1 + IAS 27	Amendments: Cost of Subsidiaries, Joint Ventures and Associates	2009/2010
IFRS 2	Amendments: Vesting Conditions and Cancellation	2009/2010
IFRS 3	Business Combinations (revised 2008)	2009/2010
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
IFRIC 15	Agreements on the Construction of real Estate	2009/2010
IFRIC 16	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	2009/2010
Various	IFRS Improvements 2008	2009/2010

With the exception of the revised IAS 23, the company does not expect the future application of the new accounting standards to have a significant impact on the consolidated financial statements. IAS 23 prescribes the capitalization of borrowing costs in the construction phase of qualifying assets from the 2009/2010 financial year. Particularly for properties which are renovated before being transferred to customers this is likely to result in a capitalization of borrowing costs and to higher balance sheet earnings during the introduction phase.

The changes in reporting as against the most recent consolidated financial statements concern the change in segment reporting and reporting of minority interests in subsidiaries with the legal form of partnerships. To date, these minority interests were reported separately in the Group's liabilities and the change in these liability items reported separately in the income statement. Due to the materially reduced significance of these items for the Group, they will be reported in the balance sheet under the items financial liabilities and the corresponding expenses and income reported in the income statement under the items interest income and interest expenses (see section 6.19). This will improve the clarity of presentation in the balance sheet and the income statement. This item will no longer be shown separately. The values for the comparable period were adjusted accordingly.

A further change concerns the allocation of cash flows from the borrowing and repayment of loans for refinancing inventory property in the cash flow statement. These cash flows were previously reported as cash flows from financing activities. In cases where property was sold partly against the assumption of credit in connection with their refinancing (typical of share deals), this led to transactions with a negative cash flow from operating activities and a positive cash flow from financing activities. To avoid this separate presentation, cash flows from borrowing and repayment of loans for refinancing inventory property are allocated to the cash flow from operating activities. Regardless of whether a property purchase takes place in part against the assumption of credit liabilities, a positive cash flow from operating activities is now shown if the sales price exceeds the costs of the property and a negative cash flow is shown if the sales price is below the costs of the property. The meaningfulness of the cash flow statement will thereby be improved.

In view of both changes in reporting and presentation, the values for the comparable period were also adjusted. This resulted in the following changes: Payments from issuing bonds and borrowing (financial) loans in the previous period now amount to TEUR 1,252 instead of TEUR 92,095; payments for the repayment of bonds and the (financial) loans now amount to TEUR –335 instead of TEUR –46,800. As a result, the reported cash flow from financing activities in the previous period changed from TEUR 96,406 to TEUR 52,029. Accordingly, the cash flow from operating activities in the previous period changed from TEUR –76,368 to TEUR –31,991. The increase/reduction in trade payables and other liabilities that are not attributable to investing or financing activities changed from TEUR –22,301 to TEUR –17,797. Other non-cash expenses/income now amount to TEUR –437 rather than TEUR –40,742. The last change also included the waiver of separate presentation of the non-cash change in other shareholder capital of TEUR 431.

All amounts contained in the notes and tables are disclosed in thousands of euro unless stated otherwise. Both individual and total figures represent the value 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 Consolidation

a) Subsidiaries

All 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 section 2.2 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.

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. Acquisitions of shares in subsidiaries after control has been established are accounted for as equity transactions. The difference between the purchase price of the shares and the outgoing minority interest is offset directly against retained earnings in equity.

The sale of special-purpose entities (share deals) is reported in the same way as a comparable direct sale of real estate (asset deals), 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. For any residual interests the cost of acquisition is taken as the net total of the pro rata Group carrying amounts in the assets and liabilities leaving the Group as a result of the sale.

Intra-group 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 of the joint ventures of ESTAVIS AG are included in the consolidated financial statements on the basis 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. A list of the companies included in the consolidation on the basis of proportionate consolidation over which joint management is exercised with other companies can be found under 2.2 d.

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 %. These investments are accounted for using the equity method. A list of the associates consolidated at equity can be found under 2.2 d.

Investments in associates are initially carried at cost. The Group's interest in associates contains the goodwill arising on acquisition (adjusted for accumulated impairment losses as applicable). As a result the carrying amount of the interest changes in equity in line with the capital contributions and withdrawals of the Group and through profit and loss according to the Group's share in the profit or loss of associates or, for earnings of associates recognised directly in equity, directly against the Group's equity. As soon as the Group's interest in the net loss of an associated company reduces the carrying amount of the Group in this company, 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 associated company. Earnings are only recognised again when the adjustment of the carrying amount results in a positive investment value.

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 30 June 2008, the consolidated financial statements of ESTAVIS AG included 64 subsidiaries, a joint venture and two associates. The consolidated group changed as follows compared with 30 June 2007:

In the financial year a further eleven property management companies were added to the consolidated group. One property management company was partially disposed of to leave a residual interest of 5.5 % as part of a share deal, thus leaving the consolidated group.

Since the first quarter of the financial year, the Group's interest in ESTAVIS Property-Management GmbH declined from 100 % to 50.1 % as a result of the addition of other shareholders.

In the second quarter of the 2007/2008 financial year, the companies of the B&V Group (2 companies) were added to the consolidated group expanded (see section 6.25).

Since the third quarter of the financial year, the Group has held at 50 % share in SP Center Verwaltungsgesellschaft mbH, Stuttgart. The company is managed with a partner as a joint venture for project developments.

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 %
Erste SIBA Wohnen GmbH	Berlin	100 %
SIAG 28. Wohnen GmbH & Co. KG	Berlin	100 %
SIAG 29. Wohnen GmbH & Co. KG	Berlin	100 %
Estavis 30. Wohnen GmbH & Co. KG	Berlin	100 %
Estavis 31. Wohnen GmbH & Co. KG	Berlin	100 %
Estavis 26. Property GmbH	Berlin	100 %
Estavis Property Management GmbH	Berlin	50.1 %
Estavis 28. Property GmbH	Berlin	100 %
Estavis 29. Property GmbH	Berlin	100 %
Estavis 30. Property GmbH	Berlin	100 %
Estavis 31. Property GmbH	Berlin	100 %
Estavis 32. Wohnen GmbH & Co. KG	Berlin	100 %
Estavis 33. Wohnen GmbH & Co. KG	Berlin	100 %
Estavis 34. Wohnen GmbH & Co. KG	Berlin	100 %
Estavis 35. Wohnen GmbH & Co. KG	Berlin	100 %
Estavis 36. Wohnen GmbH & Co. KG	Berlin	100 %
B&V Bauträger und Vertriebsgesellschaft für Immobilien mbH (retail)	Berlin	94.8 %

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

Company	Domicile	Equity interest*
Protect Vermittlungsgesellschaft für Kapitalanlagen mbH	Stuttgart	100%
Hamburgische Immobilien Invest SUCV AG (retail)	Hamburg	80.36%
Hanseatische Immobilienbörse HIB GmbH (broker)	Hamburg	100%
CWI Real Estate AG (retail)	Bayreuth	54.76%
CWI Immobilien AG (investment property)	Berlin	90.38%
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%
8. CWI Wohnen GmbH	Bayreuth	94%
9. CWI Wohnen GmbH	Bayreuth	100%
10. CWI Wohnen GmbH	Bayreuth	100%
Zemaitat & Partner 11. Immobilien GbR	Bayreuth	94%
Zemaitat & Partner 12. Immobilien GbR	Bayreuth	94%
Zemaitat & Partner 13. Immobilien GbR	Bayreuth	94%
11. CWI Wohnen GmbH	Bayreuth	100%
12. CWI Wohnen GmbH & Co. KG	Bayreuth	100%
Objektges. Schöneberger Str. 1,3,5 Monheim GmbH	Bayreuth	100%
14. CWI Wohnen GmbH	Bayreuth	100%
15. CWI Wohnen GmbH & Co. KG	Bayreuth	100%
CWI Consult GmbH	Bayreuth	100%
CWI Bau und Boden AG (financial property)	Chemnitz	100%

* The equity interest describes the percentage interest held by the immediate parent company in each case. The remaining shares in B&V, 4. CWI, 5. CWI and 8. CWI are held by other Group companies. ESTAVIS AG directly holds an additional 2,33% interest in CWI Real Estate AG.

In accordance with section 264b of the German Commercial Code, the commercial partnerships/unincorporated civil law associations 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.

Interests in joint ventures

Company	Domicile	Equity interest*
SP Center Verwaltungsgesellschaft mbH	Stuttgart	50%

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.

2.3 Segment reporting

Segment reporting is in line with internal reporting to the Estavis AG Management Board, which is the highest management body as defined by IFRS 8 („Management Approach“). It covers the business segments Portfolio Trading, Retail Trading, Development, Property Management and Investment Property.

2.4 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. Transactions in other currencies are thus foreign currency transactions.

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.

2.5 Investment property

Investment property primarily relates to residential property held on a long-term basis to earn rentals or for capital appreciation. In contrast to properties held as inventories, active resale activities for these properties generally occur only after a longer holding period in the context of portfolio realignments. They are recognized at cost at the time of acquisition and subsequently at fair value. Changes in fair value are reported separately in the income statement.

The fair value of the property is the price at which the property could be exchanged between knowledgeable willing parties in an arm‘s length transaction. The fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

All investment property in the Group is measured as at the reporting date by independent property appraisers. The valuation as of 30 June 2008 was determined by the property appraisers based primarily on the expert reports for the previous year. The fair value is determined by the property appraisers largely in accordance with the income capitalisation approach on the basis of the principles of the Valuation Ordinance. The net value is calculated as the total of the land value and the net value of any construction. In addition, other adjusting items must be taken into account, particularly deviations from normal circumstances as a result of omitted maintenance work or for construction defects or damages, if these have not already been taken into consideration by recognising reduced income or a shorter remaining term.

The net value of construction is calculated by multiplying the lettable space by the long-term net basic rent less any management costs incurred for maintenance, administration and taking into account the risk of loss of rent. The net annual income calculated thus is divided by a “property yield”, which is calculated taking into account risk-adequate comparative rents and the estimated remaining useful life of the building, to produces the IAS 40 fair value for the respective property.

2.6 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. It is reported as an intangible asset. 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. Goodwill is not amortised.

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 to five years.

2.7 Property, plant and equipment

Property, plant and equipment primarily consist of computer hardware, other office equipment and motor vehicles, and is carried at cost less cumulative depreciation and impairment. Depreciation is recognised 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

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 (see also section 2.8).

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.

2.8 Impairment of assets

Goodwill is tested for impairment annually. Property, plant and equipment and intangible assets that are subject to depreciation or amortisation 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. 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 can be reversed up to a maximum of the amortised cost of the respective asset. Goodwill impairment losses may not be reversed.

2.9 Financial assets

Financial assets are divided into the following measurement 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.

2.10 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.

If there is no active market for an available-for-sale financial asset, particularly in the case of investments in property companies, they are measured at the lower of cost or fair value in the event of impairment. Impairment is recognised in income. Reversals of impairment are not recognised.

2.11 Inventories

The inventories of the ESTAVIS Group consist of property acquired for resale. They are carried at the lower of cost and net realisable value. The cost includes the purchase price for the respective properties plus directly attributable 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. Interest on debt capital is not included in the cost. 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.

2.12 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.

2.13 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.

2.14 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.

Provisions are measured at the amount of the probable outflow of resources. The measurement of non-current provisions includes discounting using a risk-adequate interest rate.

2.15 Non-current financial liabilities

On first-time recognition, financial liabilities (not including derivatives) are carried at 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.

In both first-time and subsequent measurement, derivatives are carried at fair value. Changes in value are recognised in income.

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.

2.16 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 using biometric principles and taking into account future forecast pension increases. 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.

2.17 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.

Changes in deferred tax items are recognised in income. Exceptions to this are the addition in equity of deferred tax items as part of the purchase price allocation of company acquisitions and deferred tax items in connection with changes in value recognised directly against reserves, which are also recognised directly against reserves.

2.18 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 as construction progresses. In the case of renovation work before transferring property to the buyer, the entire proceeds are only recognised once the property has been transferred.

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. The incidental expenses invoiced to tenants is offset against the corresponding expenses as the allocable expenses are considered to have been advanced in the interests of the tenants.

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

2.19 Brokerage commission

Commission for brokering an actual business contract is recognised by the Group as an expense when the brokered transaction is fulfilled. Any commission paid before this time is reported under other receivables.

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 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 section 2.18.

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 CAPITAL AND FINANCIAL RISK MANAGEMENT

Using its capital management, ESTAVIS pursues the goal of sustainably strengthening the Group's liquidity and equity basis, providing funds for the Group‘s equity-financed growth and generating an appropriate return on capital employed. In the context of the ESTAVIS Group‘s property activities, as far as possible purchasing volumes are financed by debt capital in line with tax consideration on account of the continuing relatively favourable refinancing situation. The Group‘s accounting equity acts as a passive control criterion. The active control variables are revenues, gross margin and EBIT.

Financial risk management describes the management and limitation of the financial risks resulting from the Group's operating activities. Particular risks are the liquidity risk (avoiding disruptions to solvency) and risk of default (risk of a loss when a contractual party does not meet its contractual obligations).

Responsibility for liquidity risk management lies with the Management Board, which has established an appropriate system for controlling short, medium and long-term finance and liquidity requirements. The Group controls liquidity risks by maintaining appropriate liquid funds, lines of credit at banks and other facilities as well as constant monitoring of forecast and actual cash flows as part of ongoing, rolling liquidity controlling and by coordinating the maturity profiles of financial assets and liabilities. The Group also reduces its liquidity risks including a right to rescind for the Group in purchase agreements for inventory property in the event that the purchase cannot be refinanced.

In order to avoid risks of default, the Group only enters into sales relationships with parties of good credit standing. To further limit default risk, ownership of sold properties is only transferred to the buyer after the purchase price has been paid into a notary trust account.

The predominantly short-term nature of the Group's borrowings for portfolio and retail trading on account of the high turnover rate between the acquisition and sale of properties means that interest rate risks are not a significant factor. The Group only held a limited volume of derivative financial instruments for interest rate hedging purposes during the financial year.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the consolidated financial statements, the company uses estimates and assumptions about expected future developments on the basis of conditions on the balance sheet date. 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.

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 Retail Trading segment requires the use of estimate ranges in respect of future revenues and trading margins in particular.

5 SEGMENT REPORTING

The ESTAVIS Group is divided into the following segments:

1. Portfolio Trading: The purchase and sale of property in the context of portfolio trading, in which generally large portfolios of property are sold to investors. This includes the Group's construction activities, which merely constitute a secondary function of this segment.
2. Property sale to private investors: The purchase and sale of property in the context of retail trade, in which generally individual apartments are sold to investors. This segment was expanded considerably by the acquisition of the B&V Group in November 2007 (see also section 6.25).
3. Development: This segment develops properties with the intention of selling them at a later date. The Development segment commenced its activities this financial year as part of a joint venture.
4. Property Management: This segment offers property management services for portfolio customers in particular and third parties.
5. Investment Property: Holding properties for investment purposes.

The Group only deals in property located in Germany. There is therefore no need for any geographical segmentation.

The segment results for the financial year ended 30 June 2008 are shown below.

	Portfolio trading	Retail trading	Property management	Investment property	Development	Consolidation	Group
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Revenues (external only)	75,589	70,340	574	948	–	–	147,452
Revenues (internal only)	–	–	97	–	–	–97	0
Segment result	**–4,111**	**15**	**–1,244**	**–985**	**–201**	**–**	**–6,526**
Unallocated						–	–191
Currency gains						–	16
Operating result						–	–6,701
Net income from investments carried at-equity	29	–82	–	–	–	–	–53
Financial result						–	–3,730
Net profit before income taxes						–	–10,484

Following the transition from two to five segments, the segment earnings for the previous year are as follows:

	Portfolio trading	Retail trading	Property management	Investment property	Development	Consolidation	Group
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Revenues (external only)	180,426	17,618	57	297	–	–	198,398
Revenues (internal only)	–	–	57	–	–	–57	0
Segment result	**16,803**	**475**	**–4**	**150**	**–**	**–**	**–17,424**
Unallocated						–	–1,800
Currency gains						–	47
Operating result						–	15,671
Net income from investments carried at-equity	778	101	–	–	–	–	879
Financial result						–	–2,324
Net profit before income taxes						–	14,226

The unassigned costs relate to the write-down on a portfolio of securities in the financial year and to consulting costs in connection with the company's IPO in the previous year.

The company has generated revenues with major customers accounting for more than 10 % of total consolidated revenues:

Financial year 2007/2008
Major customer (1) with revenues of TEUR 74,132

Financial year 2006/2007
Major customer (1) with revenues of TEUR 77,131
Major customer (2) with revenues of TEUR 62,838
Major customer (3) with revenues of TEUR 39,776

The revenues relate to the Portfolio trading segment and, to a smaller extent, to the Retail trading segment in financial year 2007/2008.

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

	Portfolio trading	Retail trading	Property management	Investment property	Development	Group
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Depreciation and write-downs of property, plant and equipment	120	81	85	–	–	285
Depreciation and write-downs of intangible assets	11	8	7	–	–	27
Changes in value of investment property	–	–	–	–1,345	–	–1,345

The segment breakdown for the previous year was as follows:

	Portfolio trading	Retail trading	Property management	Investment property	Development	Group
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Depreciation and write-downs of property, plant and equipment	89	43	0	–	–	132
Depreciation and write-downs of intangible assets	5	1	0	–	–	6
Changes in value of investment property	–	–	–	29	–	29

Segment assets, segment liabilities and segment investments were as follows as of 30 June 2008:

	Portfolio trading	Retail trading	Property management	Investment property	Development	Unallocated	Consolidation	Group
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Segment assets	97,541	105,986	781	13,327	691	31,428	–14	249,740
Investments carried at equity	32	0	–	–	–	–	–	32
Total segment assets	97,573	105,989	781	13,327	691	31,428	–14	249,772
Segment liabilities	36,378	7,028	438	127	14	110,465	–14	154,436
Segment investments	312	9,305	365	227	–	–	–	10,209

Following the transition from two to five segments, the figures for the previous year are as follows:

	Portfolio trading	Retail trading	Property management	Investment property	Development	Unallocated	Consolidation	Group
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Segment assets	84,230	36,381	54	17,195	–	38,658	–120	176,399
Investments carried at equity	782	135	–	–	–	–	–	917
Total segment assets	85,012	36,516	54	17,195	–	38,658	–120	177,316
Segment liabilities	23,556	1,820	49	360	–	55,484	–120	81,148
Segment investments	438	11,931	1	16,910	–	–	–	29,280

Segment assets primarily relate to property, plant and equipment, investment property, inventories and receivables. Goodwill is allocated to the Retail trading segment. This does not include cash and cash equivalents, tax receivables or financial assets. In contrast to the previous year, cash and cash equivalents are not broken down by segments. The values of the previous period have been adjusted accordingly.

Segment liabilities relate to operating liabilities. This does not include tax liabilities or financial liabilities.

Segment investments include additions to property, plant and equipment and intangible assets (see section 6.3) and investment property, in each case including items resulting from company acquisitions (see section 6.4). The investment in goodwill from the acquisition of the B&V Group amounted to TEUR 9,089 in the financial year and to TEUR 11,492 from the acquisition of the HAG Group in the previous year.

6 SUPPLEMENTARY NOTES TO THE INDIVIDUAL ITEMS OF THE FINANCIAL STATEMENTS

6.1 Intangible assets

The table under section 6.3 shows the changes in intangible assets over the last two years.

For the purposes of impairment testing goodwill has been assigned to the Retail Trading segment. The recoverable amount is determined by calculating the segment's value in use. The calculation is based on forecast cash flows derived from the three-year planning drawn up by the management.

For reasons of simplification, no growth in cash flows is assumed after this three-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 12 % is a pre-tax interest rate that reflects the specific risks to which the segment is exposed. Impairment testing showed that no impairment losses were required.

6.2 Property, plant and equipment

The table under section 6.3 shows the changes in non-current assets over the last two years.

The carrying amounts of operating and office equipment include TEUR 28 (previous year: TEUR 147) relating to assets for which the Group is the lessee under a finance lease (for information on lease liabilities, see section 6.11). These assets are legally owned by the lessor.

The Group has concluded operating leases for office space, motor vehicles and business equipment. Lease expenses are recognised in the income statement in the amount of TEUR 628 (previous year: TEUR 181).

6.3 Statement of changes in non-current assets

for the financial year from 1 July 2007 to 30 June 2008:

	Goodwill	Other intangible assets	Property, plant and equipment
	TEUR	TEUR	TEUR
As of 1 July 2007			
Cost	11,492	56	893
Cumulative depreciation, amortisation and write-downs	–	6	119
Carrying amounts as of 1 July 2007	**11,492**	**50**	**775**
Addition for acquisition of B&V-Group (+)	9,089	–	145
Additions (+)	–	118	630
Disposals (–)	–	–	– 152
Depreciation, amortisation and write-downs (–)	–	–27	–285
Carrying amounts of 30 June 2008	**20,581**	**141**	**1,113**
As of 30 June 2008			
Cost	20,581	178	1,792
Cumulative depreciation, amortisation and write-downs	–	36	679

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

	Goodwill	Other intangible assets	Property, plant and equipment
	TEUR	TEUR	TEUR
As of 1 July 2006			
Cost	–	–	182
Cumulative depreciation, amortisation and write-downs	–	–	20
Carrying amounts as of 1 July 2006	**–**	**–**	**162**
Addition for acquisition of HAG Group (+)	11,492	11	295
Additions (+)	–	45	527
Disposals (–)	–	–	–79
Depreciation, amortisation and write-downs (–)	–	–	–131
Carrying amounts of 30 June 2006	**11,492**	**50**	**775**

6.4 Investment property

Investment property developed as follows:

	2007/2008	2006/2007
	TEUR	TEUR
Start of financial year	**16,939**	**–**
Additions from company acquisitions	–	16,492
Additions	–	418
Restructuring	227	–
Disposals	–2,981	–
Reversals of write-downs	117	29
Write-downs	–1,462	–
End of financial year	**12,840**	**16,939**

Carrying amounts of TEUR 12,840 of investment property are encumbered with land charges as collateral for liabilities to banks. The fair values of the investment property were calculated by the property appraiser as totalling TEUR 12,840 as of the balance sheet date based mainly on the expert opinions for the previous year. If the underlying interest rate for this calculation had been 0.5 percentage points higher, the total fair value at the balance sheet date would have been TEUR 12,227. By contrast, if the interest rate had been 0.5 percentage points lower, the total fair value would have been TEUR 13,134.

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:

Income and expenses from investment property

	2007/2008	2006/2007
	TEUR	TEUR
Rental income (revenues)	948	297
Cost of materials	–162	–16
Administrative expenses	–481	–112

TEUR 42 of these expenses (previous year: TEUR 12) relate to vacancies in investment property.

6.5 Investments in associates

Investments in associates developed as follows:

	2007/2008	2006/2007
	TEUR	TEUR
Start of financial year	**917**	**–**
Additions	–	184
Distributions	–850	–145
Shares in gains and losses	–53	879
Loss offsetting with receivable	18	–
End of financial year	**32**	**917**

The shares of the ESTAVIS Group in the two associated companies that are not listed and that have since fulfilled their essential business purpose and are now being wound down are as follows:

	Equity interest	Assets	Liabilities	Income	Net profit
		TEUR	TEUR	TEUR	TEUR
SIAG Sechzehnte Wohnen GmbH & Co. KG	50 %	4,896	4,864	39	28
3. CWI Wohnen AG & Co. KG	43 %	424	442	1,248	–82

6.6 Other non-current financial assets

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

	June 30, 2008	June 30, 2007
	TEUR	TEUR
Available-for-sale securities	155	677
Other non-current financial assets	97	44
Total	**252**	**721**

The available for sale securities are listed shares and fund units. A write-down of TEUR 191 was recognised on share holdings in the financial year. This expense is included in other operating expenses. A subsequent reversal of TEUR 16 was recognised directly in equity via a reserve.

The other non-current financial assets essentially include six (residual) investments (6 % each) in unincorporated civil law associations and one further (residual) investment in a limited partnership (5.5 %) from share deals. As their fair value cannot be reliably estimated these investments are carried at cost.

6.7 Inventories

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

	June 30, 2008	June 30, 2007
	TEUR	TEUR
Properties	81,737	20,949
Construction work in progress	19,496	268
Advanced payments	2,470	1,840
Total	**103,703**	**23,057**

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.

6.8 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, 2008	June 30, 2007
	TEUR	TEUR
Trade receivables	27,611	50,139
Write-downs/derecognition	–7	0
Trade receivables (net)	**27,604**	**50,139**
Receivables from related parties (see sec. 6.27)	1,310	7,791
Other receivables	51,018	27,532
Total	**79,932**	**85,462**

The following trade receivables were overdue as at 30 June 2008:

	June 30, 2008	June 30, 2007
	TEUR	TEUR
Trade receivables	27,604	50,139
Of which neither impaired as of the reporting date nor overdue	27,121	37,283
Of which not impaired as of the reporting date and overdue by up to 30 days	0	3,753
Of which not impaired as of the reporting date and overdue by between 31 and 60 days	0	177
Of which not impaired as of the reporting date and overdue by between 61 and 90 days	108	8,851
Of which not impaired as of the reporting date and overdue by between 91 and 180 days	224	0
Of which not impaired as of the reporting date and overdue by between 181 and 360 days	125	50
Of which not impaired as of the reporting date and overdue by more than 360 days	25	25

Other receivables largely include receivables from investment companies for short-term loans and settlement accounts.

6.9 Cash and cash equivalents

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

6.10 Equity

As of the balance sheet date, the issued capital of ESTAVIS AG was EUR 8,099,427. EUR 8,099,427 fully paid in shares with a nominal value of EUR 1 each have been issued. As a result of the capital increase against non-cash contributions on 31 October 2007, which was entered in the commercial register on 27 December 2007, issued capital rose by EUR 375,000. The non-cash contribution was shares in the companies of B&V Group (see section 6.25 Acquisitions).

The capital reserves result from amounts paid in the past in capital increases exceeding the amount of issued capital.

The retained earnings result from the Group’s earnings up to the balance sheet date that have not yet been distributed.

The minority interests reflect the net assets of the Group relating to the other shareholders in subsidiaries.

The composition of and changes in equity are shown in the statement of changes in equity.

6.11 Non-current financial liabilities

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

	June 30, 2008	June 30, 2007
	TEUR	TEUR
Non-current financial liabilities		
Other shareholder capital attributable to minority interests	99	708
Liabilities to banks and other lenders	16,402	13,425
Finance lease liabilities	16	110
Total non-current financial liabilities	**16,517**	**14,243**
Current financial liabilities		
Current portion of liabilities to banks and other lenders	84,265	32,999
Current portion of finance lease liabilities	16	23
Total current financial liabilities	**84,281**	**33,022**

On account of the change in reporting for shareholder capital relating to minority interests, the non-current financial liabilities of the previous year have been increased by the items reported separately in the previous year.

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 one and five years (TEUR 10,176; previous year: TEUR 7,147) and liabilities with a remaining term of more than five years (TEUR 6,341; previous year: 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 4.9 % and 9.0 % (previous year: between 5.0 % and 7.7 %). In addition, the company entered into short-term financing arrangements under master agreements with interest rates of between 1.25 % and 2.5 %, corresponding to short-term Euribor or Eonia plus margins. This resulted in interest rates of between 5.64 % and 6.77 % (previous year: between 4.39 % and 8.0 %.

All loans are denominated in euro.

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

	June 30, 2008	June 30, 2007
	TEUR	TEUR
Up to 1 year		
Total minimum lease payments	17	34
Finance charge	1	1
Present value of minimum lease payments	17	33
Between 1 and 5 years		
Total minimum lease payments	17	125
Finance charge	2	25
Present value of minimum lease payments	15	100
More than 5 years		
Total minimum lease payments	–	–
Finance charge	–	–
Present value of minimum lease payments	–	–
Total		
Total minimum lease payments	34	159
Finance charge	3	26
Present value of minimum lease payments	31	133

As in the previous year, the interest rate for lease liabilities was between 8.2 % and 10.1 %. Some of the liabilities are to a related party.

6.12 Provisions

Provisions developed as follows in the financial year:

	Outstanding construction work	Rental guarantees	Other	Total
	TEUR	TEUR	TEUR	TEUR
July 1, 2007	**3,772**	**1,711**	**364**	**5,847**
Company acquisition	–	995	717	1,712
Utilisation	3,670	2,227	229	6,126
Reversal	–	9	19	28
Addition	985	2,159	295	3,439
June 30, 2008	**1,087**	**2,629**	**1,128**	**4,844**

The provision for outstanding construction work includes the expected cost of the construction work to be performed after the possession, benefits, expenses and risks incident to ownership of the respective property are transferred to the buyer provided that this is not offset by any further proceeds. The provision is current.

The provision for rent guarantees covers obligations of the Group for minimum rental income promised to the purchasers of property for specific periods. Some of this provision is non-current (TEUR 224; previous year: TEUR 182).

The other provisions include a provision for uncertain obligations of TEUR 179 for ESTAVIS AG arising from profit transfer agreements by its legal predecessor (IMMCON GmbH) with its former subsidiaries. The time at which this will be transferred is uncertain. It has been reported as current. Other provisions also include a (non-current) provision for a pension obligation of TEUR 131.

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, 2008	June 30, 2007
	TEUR	TEUR
Present value of pension obligation	339	350
Fair value of reinsurance claim	208	191
Pension provision	131	159

The present value of the obligation developed as follows:

	2007/2008	2006/2007
	TEUR	TEUR
Start of financial year	**350**	**–**
Addition due to acquisition of HAG Group	–	432
Pension expense	26	8
Interest cost	19	5
Payments made	–	–
Actuarial gains	–56	–95
End of financial year	**339**	**350**

The fair value of the reinsurance claim developed as follows:

	2007/2008	2006/2007
	TEUR	TEUR
Start of financial year	**191**	**–**
Addition due to acquisition of HAG Group	–	186
Contribution to insurance policy	9	3
Income from insurance policy	8	2
Payments made	–	–
End of financial year	**208**	**191**

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

	2007/2008	2006/2007
	TEUR	TEUR
Current service cost	–26	–8
Interest cost	–18	–5
Income from insurance policy	8	2
Actuarial gains	56	95
Pension expense (income)	**20**	**84**

The following actuarial assumptions were applied:

	June 30, 2008	June 30, 2007
Discount rate	6,0%	5,3%
Projected pension increase	1,5%	1,5%

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

6.13 Trade payables and other liabilities

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

	June 30, 2008	June 30, 2007
	TEUR	TEUR
Trade payables	5,297	3,443
Liabilities to related parties (sec. 6.27)	1,342	1,328
Miscellaneous other liabilities	21,432	14,278
Total	**28,071**	**19,049**

The miscellaneous other liabilities primarily include liabilities to investment companies for short-term loans and settlement accounts.

6.14 Deferred taxes

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

	June 30, 2008	June 30, 2007
	TEUR	TEUR
Deferred tax assets		
expected to be realised after more than 12 months	1,797	1,003
expected to be realised within 12 months	1,887	665
Total	**3,684**	**1,668**
Deferred tax liabilities		
expected to be realised after more than 12 months	3,782	1,434
expected to be realised within 12 months	1,456	1,232
Total	**5,238**	**2,666**

Deferred taxes developed as follows:

	2007/2008	2006/2007
	TEUR	TEUR
Deferred tax liabilities	–2,666	–48
Deferred tax assets	1,668	182
Balance of deferred taxes at start of financial year	**–998**	**134**
Expense (–)/income (+) reported in income statement	3,334	905
Expense (–)/income (+) reported in income statement due to changes in tax rates	522	–
Other amounts recognised directly in equity	2	615
Additions due to acquisition of B&V Group (previous year: HAG Group)	–4,415	–2,651
Disposals due to change in consolidated group	–	–1
Balance of deferred taxes at end of financial year	**–1,554**	**–998**
Deferred tax liabilities	–5,238	–2,666
Deferred tax assets	3,684	1,668

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 receivables	Differences relating to other items	Total
	TEUR	TEUR		TEUR	TEUR
July 1, 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**
Amounts recognised in income	–458	–5,942	2,764	73	–3,563
Addition due to acquisition of B&V Group	–	6,137	–	–	6,137
Disposal for deferred taxes on available-for-sale securities recognised directly in equity	–	–	–	–2	–2
June 30, 2008	**845**	**1,335**	**2,764**	**294**	**5,238**

The deferred taxes from differences in inventory assets essentially result from the initial measurement of inventories from the acquisition of the HAG Group in the previous year and the acquisition of the B&V Group this year.

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
July 1, 2006	**129**	**1**	**52**	**182**
Amounts recognised in income	466	– 1	– 10	455
Addition due to acquisition (particularly 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**
Amounts recognised in income	425	–	– 131	294
Addition due to acquisition of B&V Group	1,480	–	242	1,722
June 30, 2008	**3,288**	**0**	**396**	**3,684**

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 a portion of the available tax loss carryforwards in the 2008/2009/2010 financial years. No deferred tax assets were recognised for some existing trade tax loss carryforwards in the amount of TEUR 4,935 (previous year: TEUR 1,543) or existing corporation tax loss carryforwards in the amount of TEUR 128 (previous year: TEUR 0) as these are no longer expected to be realised.

No deferred tax liabilities were recognised on outside basis differences in the amount of TEUR 24,706 (previous year: TEUR 19,819) as the Group controls the reversal of the difference and does not intend to do this in the foreseeable future.

6.15 Revenues

	2007/2008	2006/2007
	TEUR	TEUR
Property trading	143,494	196,962
Rental income from investment property	948	297
Other revenues	3,010	1,139
Total	**147,452**	**198,398**

Comparability with the figures for the previous year is limited for all items in the income statement as the HAG Group was fully included in consolidation for the first time in the financial year and the B&V Group was included for eight months.

6.16 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.

6.17 Staff costs

The Group employed an average of 88 people over the year (previous year: 34). The staff costs incurred by the Group are composed as follows:

	2007/2008	2006/2007
	TEUR	TEUR
Salaries and other benefits	5,274	2,644
Employer contributions to statutory social insurance	599	223
Total	**5,874**	**2,867**

Employer contributions to statutory social insurance included contributions to statutory pension insurance in the amount of TEUR 275 (previous year: TEUR 97).

6.18 Other operating income and expenses

Other operating income can be broken down as follows:

	2007/2008	2006/2007
	TEUR	TEUR
Rental income from properties held as inventories	3,768	2,366
Foreign exchange gains	16	47
Miscellaneous other operating income	1,644	269
Total	**5,428**	**2,682**

Other operating expenses can be broken down as follows:

	2007/2008	2006/2007
	TEUR	TEUR
Consulting costs	4,175	4,199
Sales costs	5,877	1,151
Costs relating to rental guarantees	4,697	1,894
Miscellaneous other operating expenses	9,898	2,972
Total	**24,647**	**10,216**

Miscellaneous other operating expenses include a write-down on securities of TEUR 191 and on other receivables of TEUR 202 (previous year: TEUR 177).

6.19 Minority interests

Interest income includes TEUR 117 (previous year: TEUR 17) of losses relating to other shareholder capital (minority interests in subsidiaries with the legal form of limited partnerships). Interest expenses include TEUR 17 (previous year: TEUR 439) of profit shares relating to other shareholder capital. The figures for the previous year have been adjusted in line with the change in reporting of these earnings components. In the previous year's financial statements these earnings components were reported under the separate item „Change in other capital of minority shareholders".

6.20 Income tax expense

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

	2007/2008	2006/2007
	TEUR	TEUR
Current income tax expense	47	6,317
Deferred income tax expense	–3,856	–905
Total	**–3,809**	**5,412**

The reported tax expense differs from the theoretical amount calculated by applying the company's average income tax rate to its earnings before taxes:

Tax reconciliation

	2007/2008	2006/2007
	TEUR	TEUR
Pre-tax profit	–10,484	14,226
Taxes calculated on the basis of the parent's income tax rate	3,164	–5,548
Effect of:		
Differences in tax rates	–40	156
Change in tax rates		
Original taxes	162	–
Deferred taxes	522	–
Changes in consolidated group	203	0
Non-deductible or partially deductible expenses	–205	–670
Additions and deductions for trade tax purposes	–178	439
Tax loss carry forwards not recognised	–389	–
Taxes for previous years		
Original taxes	875	–
Utilisation/reporting of previously unreported loss carry forwards	127	–
Discontinuation of previously reported loss carry forwards	–330	–
Other factors	–102	211
Reported income tax expense	**3,809**	**–5,412**

A tax rate of 30.175 % (previous year: 39 %) was used for the parent company. This change is due to the lowering of the corporation tax rate from 25 % to 15 % and the basic rate of trade tax from 5.0 % to 3.5 %, and the discontinued deductibility of trade tax from the assessment base for trade and corporation tax. The trade tax rate of assessment is still 410 %. The solidarity surcharge has been reduced from 1.375 % to 0.825 %.

6.21 Joint venture

The following items are included in the consolidated financial statements for the proportionately consolidated joint venture:

	2007/2008	2006/2007
	TEUR	TEUR
Non-current assets	–	–
Current assets	712	–
Non-current liabilities	–	–
Current liabilities	747	–
Income	17	–
Expenses	–214	–

6.22 Earnings per share

Basic earnings per share are 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, not including treasury shares held by the company.

	2007/2008	2006/2007
Net profit attributable to the shareholders of the parent company (in TEUR)	–5,435	8,767
Average number of shares in circulation (in thousands)	7,973	5,679
Basic earnings per share (in EUR)	**–0.68**	**1.54**

In the 2007/2008 financial year, no dividend was paid for the previous financial year. In addition, no dividend will be proposed for financial year 2007/2008.

6.23 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 –3,469 (previous year: TEUR –31,991). This includes income taxes paid in the amount of TEUR 2,845 (previous year: TEUR 390), income taxes recovered in the amount of TEUR 103 (previous year: TEUR 28), interest received in the amount of TEUR 2,008 (previous year: TEUR 733) and interest paid in the amount of TEUR 5,871 (previous year: TEUR 1,162). As a result of the reduction in working capital the cash flow from operating activities improved significantly as against the previous year.

The changes in the presentation of the cash flow statement and the effects on the values for the comparable period are explained in section 2.1.

On 31 October 2007, against the issue of 375,000 shares with a value of EUR 18.30 each and a cash purchase price of TEUR 11,825, the ESTAVIS Group acquired 100 % of shares in B&V Bauträger und Vertriebsgesellschaft für Immobilien mbH, Berlin, and its affiliate

Protect Vermittlungsgesellschaft für Kapitalanlagen mbH Grundstücksvermittlung, Stuttgart (referred to collectively as the B&V Group). This acquisition is reported in the cash flow from investing activities as follows:

Outflow of cash for the acquisition of the B&V Group

	TEUR
Purchase price paid in cash (incl. incidental costs of acquisition)	12,299
– cash and cash equivalents acquired	4,250
= Outflow of cash and cash equivalents	**8,048**

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

6.24 Other financial obligations and contingent liabilities

At the balance sheet date, the company had liabilities under pending real estate purchase agreements in the amount of TEUR 26,281 (previous year: TEUR 39,991). 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, 2008	June 30, 2007
	TEUR	TEUR
Up to 1 year	689	374
Between 1 and 5 years	1,177	1,008
More than 5 years	0	1

Via various subsidiaries, the Group is a fully liable partner in an associate and several investment companies. This resulted in a liability for their liabilities on the balance sheet date of TEUR 70,746 (previous year: TEUR 79,379).

6.25 Acquisitions

On 31 October 2007, against the issue of 375,000 shares with a value of EUR 18.30 each and a cash purchase price of TEUR 11,825, the ESTAVIS Group acquired 100 % of shares in B&V Bauträger und Vertriebsgesellschaft für Immobilien mbH, Berlin, and its affiliate Protect Vermittlungsgesellschaft für Kapitalanlagen mbH Grundstücksvermittlung, Stuttgart (referred to collectively as the B&V Group). The companies of the B&V Group operate in property trading, primarily in the marketing of listed residential property in need of renovation.

The goodwill resulting from the acquisition was calculated as follows:

	TEUR
Value of shared issues	6,863
Cash purchase price	11,825
Costs directly attributable to the acquisition	473
Total cost	19,161
Fair value of net assets acquired	10,072
Goodwill	**9,089**

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 companies
	TEUR	TEUR
Cash and cash equivalents	4,250	4,250
Property, plant and equipment	145	145
Properties held as inventories	38,622	20,555
Receivables	9,569	9,569
Provisions	–1,712	–1,652
Liabilities	–36,387	–36,387
Deferred taxes	–4,415	224
Net assets acquired	**10,072**	**–3,297**

The definitive purchase price will depend in particular on the results of the tax audit of the companies acquired for the financial years ended prior to 1 January 2007. If deviations from the tax debt assumed to date should result, these will give rise to corresponding adjustments of the purchase price and thereby of the goodwill.

Since 1 November 2007, newly acquired companies have contributed TEUR 44,619 to revenues and TEUR –622 to consolidated net profit. If the acquisition had been implemented on 1 July 2007, consolidated revenues would have amounted to around TEUR 170,000 and the consolidated net profit for the period would have amounted to TEUR –6,975.

6.26 Additional information on financial instruments

a) Classes and measurement categories

The following tables show the reconciliation of the carrying amounts of financial instruments to the IAS 39 measurement categories and the fair values of the financial instruments with the source of measurement for each class:

	Carrying amount June 30, 2008	Of which within scope of IFRS 7	IAS 39 measurement category[1]	Fair value of financial instruments within scope of IFRS 7	Of which calculated using stock market prices
	TEUR	TEUR		TEUR	TEUR
Other non-current financial assets	252	252		252	150
Investments	*187*	*187*	*AfS*	*187*	*125*
Securities	*30*	*30*	*AfS*	*30*	*25*
Miscellaneous financial assets	*35*	*35*	*LaR*	*35*	*0*
Trade receivables	27,604	27,604	LaR	27,604	0
Other receivables	52,328	40,590	LaR	40,590	3
Cash and cash equivalents	25,733	25,733	LaR	25,733	0
Total assets	**105,917**	**94,179**		**94,179**	**153**
Non-current financial liabilities	100,798	100,798		100,756	0
Lease liabilities	*31*	*31*	*n/a*	*31*	*0*
Other financial liabilities	*100,767*	*100,767*	*AmC*	*100,725*	*0*
Trade payables	5,297	5,297	AmC	5,297	0
Other liabilities	22,774	21,016	AmC	0	0
Total liabilities	**128,869**	**127,112**		**127,070**	**0**

[1] AfS: available-for-sale financial assets; LaR: loans and receivables; AmC: amortised cost (financial assets carried at cost)

	Carrying amount June 30, 2007	Of which within scope of IFRS 7	IAS 39 measurement category[1]	Fair value of financial instruments within scope of IFRS 7	Of which calculated using stock market prices
	TEUR	TEUR		TEUR	TEUR
Other non-current financial assets	721	721		721	682
Investments	*391*	*391*	*AfS*	*391*	*375*
Securities	*307*	*307*	*AfS*	*307*	*307*
Miscellaneous financial assets	*23*	*23*	*LaR*	*23*	*0*
Trade receivables	50,139	50,139	LaR	50,139	0
Other receivables	35,323	33,130	LaR	33,029	0
Cash and cash equivalents	36,048	36,048	LaR	36,048	0
Total assets	**122,232**	**120,039**		**119,937**	**682**
Non-current financial liabilities	47,265	47,265		47,265	0
Lease liabilities	*133*	*133*	*n/a*	*133*	*0*
Other financial liabilities	*47,132*	*47,132*	*AmC*	*47,132*	*0*
Trade payables	3,443	3,443	AmC	3,443	0
Other liabilities	15,606	15,128	AmC	15,128	0
Total liabilities	**66,314**	**65,835**		**65,835**	**0**

[1] AfS: available-for-sale financial assets; LaR: loans and receivables; AmC: amortised cost (financial assets carried at cost)

Cash and cash equivalents, trade receivables and other receivables predominantly have short remaining terms. Their carrying amounts as of the reporting date are therefore approximately their fair values. The same applies to trade payables and other liabilities. If the other financial investments are listed on an active market their market price is the fair value. The fair value of non-current papers not actively traded is also calculated by discounting future cash flows.

Discounting is based on a matched maturity market interest rate. The individual features of the financial instruments being measured are taken into account using standard credit and liquidity spreads. Investments in the amount of TEUR 62 (previous year: TEUR 16) for which there is not active market were not measured at fair value as the cash flows could not be reliably measured. Similarly, it was not possible to derive the fair value from comparable transactions. These are measured at amortised cost. At present there are no specific intentions to sell these investments.

Net earnings in line with IAS 39 measurement categories are therefore as follows:

	Loans and Receivables (LaR) July 1 to June 30		Available-for-Sale Financial Assets (AfS) July 1 to June 30		Financial Liabilities measured at Amortised Cost (AmC) July 1 to June 30	
	07/08	06/07	07/08	06/07	07/08	06/07
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Interest income	2,982	969				
Interest expenses					6,710	3,287
Income from currency translation					16	47
Expense of currency translation					0	21
Valuation allowance	202	177	191			
Gain on disposal			3			
Loss on disposal		25	18			
Net earnings	**2,780**	**767**	**–206**	**0**	**–6,693**	**–3,262**

The interest income and interest expenses are shown in the corresponding positions of the consolidated income statement. All other expenses and income are included in the items other operating expenses and income respectively. Income in the amount of TEUR 21 from an interest swap is included in the interest income.

b) Financial risks

The Group's business activities expose it to a variety of risks. In particular, these include liquidity, default and interest rate risks. Targeted financial risk management is intended to minimise the negative effects of these risks on the Group's net asset, financial and earnings situation and cash flows. For a description of the risk management system please see section 3 and the management report (section 3.1).

Liquidity risk

The following tables show the undiscounted, contractually agreed interest and principal payments of the financial liabilities covered by IFRS 7:

	June 30, 2008			
	Carrying amount	Outflow in next reporting period	Outflow in next but one reporting period	Later outflow
	TEUR	TEUR	TEUR	TEUR
Finance lease liabilities	31	17	11	6
Other financial liabilities	100,767	88,392	8,440	12,209
Cash outflow for financial liabilities		**88,409**	**8,451**	**12,215**
Trade payables	5,297	5,297	0	0
Other liabilities	22,774	22,774	0	0
Cash outflow for trade payables and other liabilities		**28,071**		
Cash outflow for liabilities within scope of IFRS 7		**116,480**	**8,451**	**12,215**

	June 30, 2007			
	Carrying amount	Outflow in next reporting period	Outflow in next but one reporting period	Later outflow
	TEUR	TEUR	TEUR	TEUR
Finance lease liabilities	133	34	34	91
Other financial liabilities	47,132	35,004	3,192	16,723
Cash outflow for financial liabilities		**35,038**	**3,226**	**16,814**
Trade payables	3,443	3,443	0	0
Other liabilities	15,606	15,606	0	0
Cash outflow for trade payables and other liabilities		**19,049**		
Cash outflow for liabilities within scope of IFRS 7		**54,087**	**3,226**	**16,814**

The interest rates at the respective balance sheet date were used to determine interest payments for interest-bearing loans with variable interest rates in future reporting periods.

The ESTAVIS Group has cash and cash equivalents of TEUR 25,733 (previous year: TEUR 36,048) to cover its liquidity risk. On the balance sheet date there were lines of credit of TEUR 107,000 (previous year: TEUR 56,000) for buying inventory property, of which TEUR 78,000 (previous year: TEUR 40,000) was unutilised. One line of credit of TEUR 50,000 must be renegotiated at the end of the year. In addition, there are unutilised lines of credit to complete specific projects of TEUR 48,000.

Risk of default

The maximum default risk of the ESTAVIS Group is determined by the carrying amounts of its financial assets. It is higher as the Group is a fully liable partner in an associate and several investment companies. This resulted in a liability for their liabilities on the balance sheet date of TEUR 70,746 (previous year: TEUR 79,379).

The following risk concentrations exist: On the balance sheet date, 55 % of trade receivables were in respect of one major customer (1). On the reporting date of the comparative period, 56 % of trade receivables related to this major customer (1), 27 % related to a major customer (2) and a further 7 % to a major customer (3). On the reporting date, 29 % of other receivables related to an investment company (1) and 17 % to an investment company (2). On the reporting date of the comparative period, 16 % of other receivables related to investment company (1) and 19 % related to an associate. Defaults on receivables were insignificant in the reporting year and the previous year.

Interest rate risk

The interest rate risk is incurred by concluding floating rate credit facilities. These are predominantly short-term. To a limited extent, changes in interest rates can therefore lead to higher interest payments for the financial liabilities entered into. In the context of interest rate risks, a sensitivity analysis is used to calculate the effects of changes in interest rates on net profit as of the balance sheet date. It is assumed that the respective portfolio of financial instruments subject to interest rate risks on the balance sheet date will be representative for the reporting period and the comparative period. If the market interest rate as of the balance sheet date (reporting date of the comparative period) had been 100 basis points higher (lower), the net interest figure as of the balance sheet date would have been TEUR 304 worse (better). In the comparative period, the net interest figure would have been TEUR 310 better (worse). The effects on equity are insignificant.

6.27 Related party transactions

Until 30 March 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)	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 30 June 2006, 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. As of the reporting date, the residual balances of these transactions and the construction work performed by the Group for companies of the Schorr Group in the financial year in the amount of TEUR 200 (previous year: TEUR 637) and those performed by the companies of the Schorr Group for the Group in the amount of TEUR 284 resulted in receivables of TEUR 700 (previous year: TEUR 565) and liabilities of TEUR 829 (previous year: TEUR 39). The liabilities also include the profits from the minority investments held by Mr. Schorr in the financial year 2006/2007. 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 the ESTAVIS Group. The corresponding lease instalments are oncharged to the ESTAVIS Group on a quarterly basis including a premium of 5 %. In the financial year, the payments by the ESTAVIS Group on this basis amounted to TEUR 20 (previous year: TEUR 34). Rainer Schorr Unternehmensberatung accounted for TEUR 31 (previous year: TEUR 46) of the finance lease liabilities reported under financial liabilities (see section 6.11).

Mr. Rainer Schorr has taken out a loan on behalf of ESTAVIS AG in 2006, under which ESTAVIS AG declared itself to be the debtor also in 2006. Within the internal relationship between ESTAVIS AG and Mr. Rainer Schorr, ESTAVIS AG has assumed the 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 418.

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 intra-group 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. This resulted in a receivable on the part of the company of TEUR 7.

The wife of Mr. Rainer Schorr received an annual salary of TEUR 31 under an employment contract with the company in the financial year. The employment contract ended as of the end of the financial year.

The ESTAVIS Group had a current liability of TEUR 513 as of the reporting date in respect of the associate SIAG Sechzehnte Wohnen GmbH & Co. KG. This amount resulted from the settlement transactions between the two companies.

At the balance sheet date, the Group had current receivables from the associate 3. CWI Wohnen AG & Co. KG in the amount of TEUR 610. These receivables primarily relate to the Group’s pro rata profit entitlements and advance costs.

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

	2007/2008			2006/2007		
	Fixed	Variable	Total	Fixed	Variable	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Rainer Schorr (CEO)	454	–	454	377	249	626
Corina Büchold	190	–	190	153	116	269
Hans Wittmann	193	–	193	144	95	239

The members of the Supervisory Board received total compensation of TEUR 39 for the past financial year (previous year: TEUR 48).

7 OTHER DISCLOSURES

The auditor performed the following services for the ESTAVIS Group:

	2007/2008	2006/2007
		TEUR
Audits of financial statements	538	281
Other audits or valuation services	–	761
Tax advisory services	–	–
Other services	49	28
Total	**586**	**1,070**

All values in the table above are gross figures as the Group is not entitled to the deduction of input tax.

The declaration on the Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act was issued on 27 August 2008 and made permanently available to the shareholders on the homepage of ESTAVIS AG (*www.estavis.de*).

Berlin, 19 September 2008

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, comprising 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, prepared by ESTAVIS AG, for the business year from 1 July 2007 to 30 June 2008. The preparation of the consolidated financial statements and group management report in accordance with International Financial Reporting Standards (IFRS) as to be applied in the EU and the supplementary commercial law provisions under Section 315a (1) HGB, as well as the supplementary provisions in the articles of incorporation, 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.

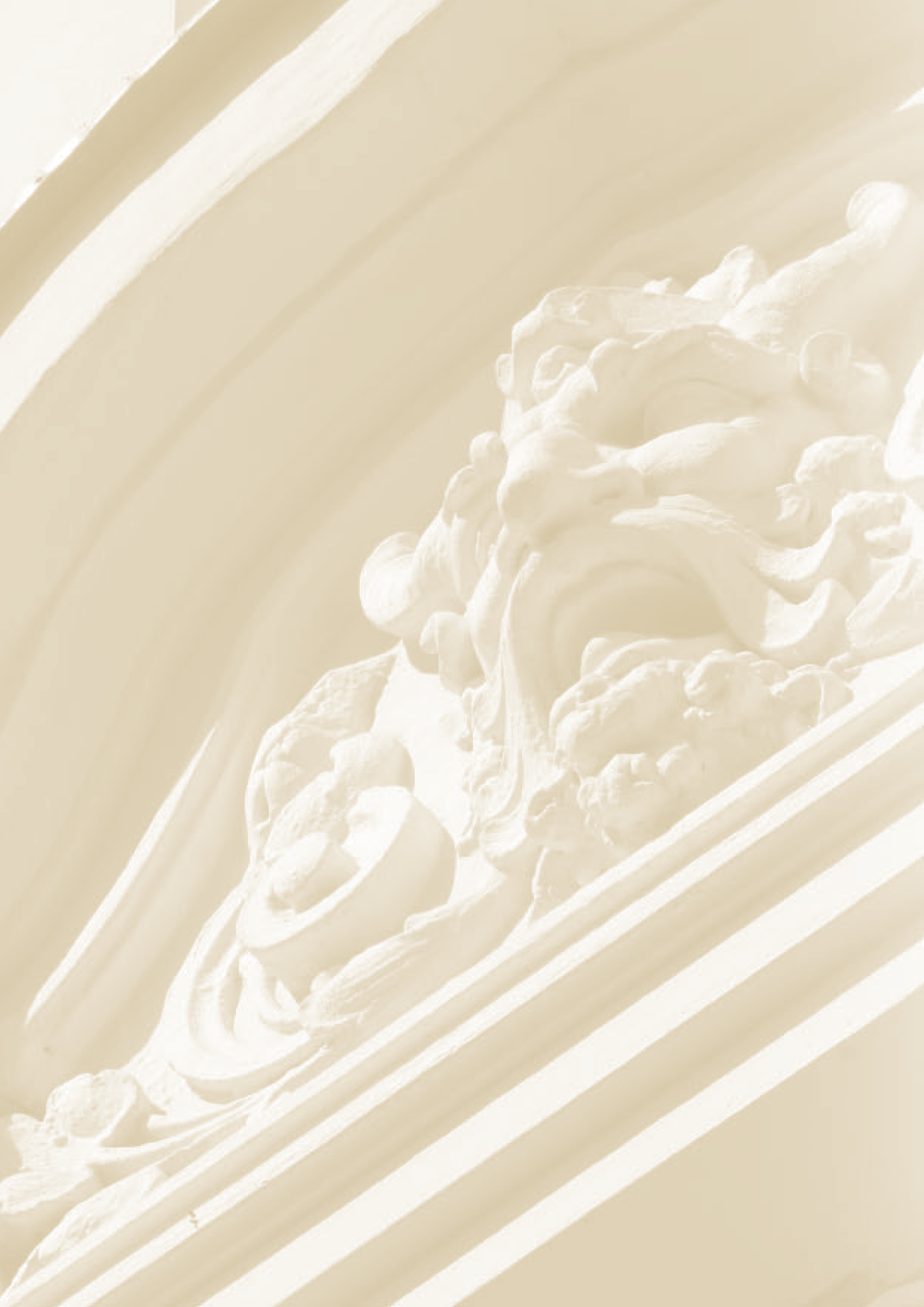
We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB [Handelsgesetzbuch – German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with [German] principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management 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 conclusions of our audit, the consolidated financial statements comply with the International Financial Reporting Standards (IFRS) as to be applied in the EU and the supplementary commercial law provisions under Section 315a (1) HGB, as well as the supplementary provisions in the articles of incorporation, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with [German] principles of proper accounting. 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, 22 September 2008
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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



Other Informations

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 (Deutschland) GmbH, Frankfurt
Other mandates:
Chairman of the Supervisory Board of Deutsche Operating Leasing AG, Frankfurt
Deputy Chairman of the Supervisory Board of Hamburgische Immobilien
Invest SUCV AG, Hamburg;
Member of the Supervisory Board of Aveco Holding AG, Frankfurt;

John W. Cutts
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
Managing Director, Jimsam Trust, Isle of Man

Klaus-Dieter Jakob (until 13 December 2007)
Consultant

Ulrich Wogart
Banker
Other mandates:
Chairman of the Management Board of BKN Biokraftstoff Nord AG, Sprakensehl
(until 30 June 2008)
Member of the Supervisory Board of Sparelog AG, Knesebeck (since 1 July 2008)

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: December 31, 2011
Responsibility on the Board of Management of ESTAVIS AG:
Personnel, Coordination and Property Acquisition

Hans Wittmann

First elected: June 30, 2006
Elected until: December 31, 2011
Responsibility on the Board of Management of ESTAVIS AG:
Finance, Accounting, Controlling, Construction and Development
Other mandates:
Deputy Chairman of the Supervisory Board of CWI Real Estate AG, Bayreuth

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Corporation, and the management report of the Corporation includes a fair review of the development and performance of the business and the position of the Corporation, together with a description of the principal opportunities and risks associated with the expected development of the Corporation.

Berlin, 19 September 2008

ESTAVIS AG
The Executive Board

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 2008/2009

2008

20/21 October	8th Investor Conference Real Estate Share Initiative, Frankfurt
12 November	German Equities Forum, Frankfurt
14 November	Quarterly Report – 1st Quarter 2008/2009

2009

13 February	Quarterly Report – 2nd Quarter 2008/2009
20 February	Annual General Meeting, Berlin
15 May	Quarterly Report – 3rd Quarter 2008/2009
25 September	Full Year Results 2008/2009

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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