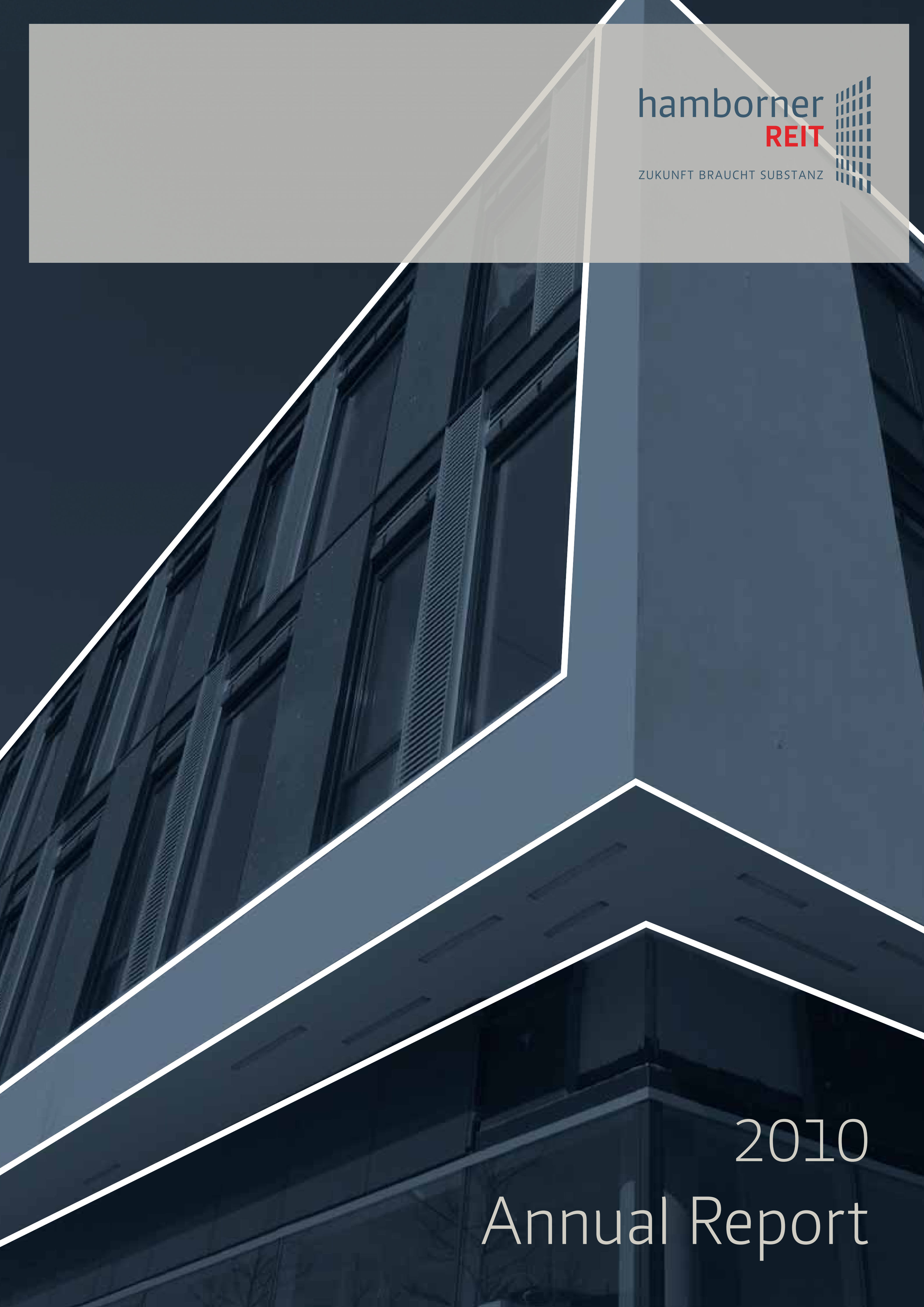
hamborner REIT

ZUKUNFT BRAUCHT SUBSTANZ



2010 Annual Report

2010

...was a successful year for the Company. Alongside the conversion into a Real Estate Investment Trust (REIT), the focus of 2010 was growth. We succeeded in buying 12 new, attractive properties which supplement our portfolio in line with our strategy.
In addition, we successfully placed a capital increase in the autumn: the basis for further growth!

JANUARY FEBRUARY MARCH APRIL MAY JUNE JULY

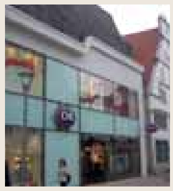
- JANUARY: Conversion of HAMBORNER AG to HAMBORNER REIT AG
- FEBRUARY: Inclusion in the REIT segment of Deutsche Börse
- MARCH: Purchase of a DIY store in Hilden and a commercial building in Kamp-Lintfort
- APRIL: Publication of the 2010 figures - the first time as a REIT
- MAY: Purchase of the two E-Centers in Stuttgart and Freiburg
- JUNE: Annual General Meeting 2010

KEY FIGURES ACCORDING TO IFRS AT A GLANCE

in T€			
From the profit and loss account	**2010**	**2009**	**2008**
Income from rents and leases	25,026	22,451	19,725
Net rental income	22,124	19,940	17,463
Operating profit	12,349	10,437	14,079
Net finance costs	-6,308	-5,019	-2,927
EBITDA	20,519	16,886	30,975
EBDA	11,433	11,075	26,673
EBIT	14,576	10,884	21,643
Funds from operations (FFO)	11,984	9,620	8,536
Net profit for the year	5,490	5,073	17,341
From the balance sheet			
Total assets	406,143	298,589	281,346
Non-current assets	322,067	260,116	225,848
Equity	225,551	155,297	160,050
Equity ratio in %	55.5	52.0	56.9
REIT equity ratio in %	74.9	67.2	77.1
Loan to value (LTV) in %	19.3	22.9	12.0
On the HAMBORNER share			
Earnings per share in €	0.22	0.22	0.76
Funds from operations (FFO) per share in €	0.35	0.42	0.37
Stock prices per share in € (Xetra)			
Highest share price	8.48	8.60	9.30
Lowest share price	7.03	5.41	5.10
Year-end share price	7.77	8.14	5.75
Dividend per share in €	0.37	0.37	0.35
Dividend yield in relation to the year-end share price in %	4.76	4.55	6.09
Price/FFO ratio	22.1	19.3	15.3
Market capitalisation at the year-end	265,112	185,348	130,928
Other data			
Fair value of the property portfolio	376,150	307,940	273,100
Net asset value (NAV)	300,228	236,059	240,710
Net asset value per share in €	8.80	10.37	10.57
No. of employees at the year-end including the Managing Board	24	24	26

PROPERTY LOCATIONS

Hilden:
DIY store,
Addition June 2010



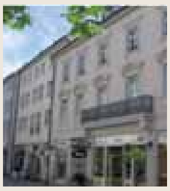
Lemgo:
Commercial building,
addition November
2010

Kamp-Lintfort:
Commercial building
Addition June 2010

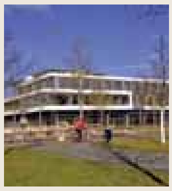
Ingolstadt:
Office property,
Addition September
2010

Erlangen:
Office property,
Addition February
2010

Leipzig:
DIY store,
Addition 2011

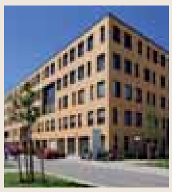


Bad Homburg:
Commercial building
Addition 2011

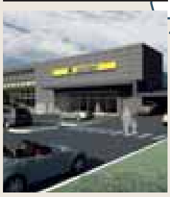


Erlangen:
Office and commercial
building, addition
2011

Stuttgart:
Large-scale
retail,
Addition July 2010



Regensburg:
Specialist medical
centre,
Addition 2011



Freiburg:
Large-scale
retail,
Addition 2012

Brunnthal:
Office property,
Addition 2011

● Portfolio ● Notarised and transfer of ownership in 2010 ● Notarised in 2010, transfer of ownership later

"The future needs a solid foundation"

AUGUST

Purchase of an office property in Ingolstadt and in a commercial property in Lemgo

SEPTEMBER

OCTOBER

HAMBORNER SUCCESSFULLY CONCLUDES CAPITAL INCREASE

- Net issue proceeds of approximately €76.0 million
- Basis for further growth

NOVEMBER

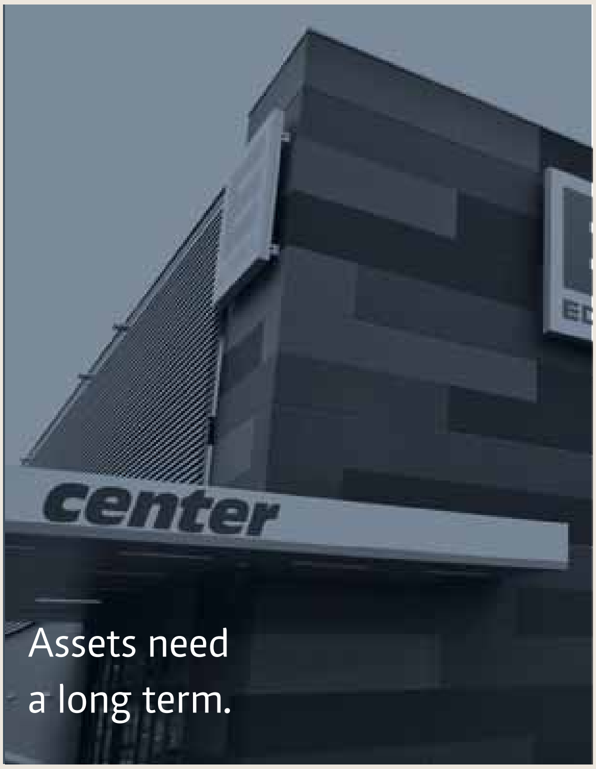
Purchase of a specialist physician centre in Regensburg and an office property in Brunnthal

DECEMBER

Acquisition of the office and commercial property Campus Röthelheimpark in Erlangen

2010


Assets require
growth which creates value.


center
Assets need
a long term.


SFC
Assets need
protection.


Assets need
potential.

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Assets require growth which creates value.

In financial year 2010, HAMBORNER REIT AG bought twelve attractive properties with an investment volume of approximately €160 million. As of 31 December 2010, 40% of this had been transferred into the portfolio.

CORPORATE GOVERNANCE

"ACQUISITIONS IN THE FINANCIAL YEAR SUPPORT THE LONG-TERM STRATEGY"

The corporate strategy at HAMBORNER is aligned to value-creating growth on the basis of a profit-oriented expansion of the existing commercial property portfolio.

The objective is to increase further the profitability of the property portfolio by acquiring above-average properties with strong yields. To increase profitability, properties with strongly below-average absolute market value (fair value) are to be sold, as are properties at locations with lower prospects and to be replaced with properties with a higher fair value and with considerably improved cost-revenues structures.

The Company plans to make future purchases of commercial properties, particularly in south and southwest Germany, as these regions promise long-term growth. At the same time, it is further diversifying the portfolio on a regional basis. In east Germany only selective investments are to be made, and only in the metropolitan regions.

WITH ITS PROPERTY PORTFOLIO, HAMBORNER CONCENTRATES ON A BALANCED MIX OF THE FOLLOWING THREE PROPERTY CLASSES:

- Large-scale retail properties
- Commercial buildings in 1A locations (so-called High Street properties)
- High-quality office buildings


RETAIL PROPERTIES
OFFICE PROPERTIES
HIGH STREET PROPERTIES

Portfolio

VIEWING THE NEW PROPERTY CAMPUS RÖTHELHEIMERPARK IN ERLANGEN

DR RÜDIGER MROTZEK
Managing Board of Hamborner Reit AG

HANS RICHARD SCHMITZ
Managing Board of Hamborner Reit AG

Letter to shareholders

Dear Shareholders,

Today for the second time we are presenting the annual report of our company as a REIT. Last year the focus was on the announcement, while 2010 was the first business year as an operating REIT. It pleases us all the more to state that this year was again a very successful one in several ways.

Alongside the transformation into a REIT at the beginning of the year, a further important event for HAMBORNER was the capital increase utilising authorised capital which was implemented in the autumn of the year. For the first time in its history, the Company increased its equity by issuing new shares, thus laying the foundation for further growth. Growth is not an end to itself. Rather it strengthens profitability and the assets of the Company, securing the sustainable nature of our income. At the same time, the shareholder basis was expanded, both within Germany and on an international basis. In the process, we increased the importance and awareness on the capital market. This is also an important aspect in respect to the further strategic development.

Contributory factors to this ongoing development were also the investments to which particular attention is devoted in this annual report. In financial year 2010, a total of six properties in Erlangen, Hilden, Kamp-Lintfort, Stuttgart, Ingolstadt and Lemgo with an investment volume of €65 million were transferred into our ownership. Further purchase agreements in relation to properties in Freiburg, Bad Homburg, Brunnthal near Munich, Regensburg, Leipzig and Erlangen with a total volume of approximately €98 million have been notarised. The property in Brunnthal was transferred into our ownership in January 2011. The other acquisitions will follow in the course of the year and the E-Center in Freiburg after completion which is expected in 2012. With these acquisitions we have expanded our portfolio not only in terms of value, but in line with the strategy. HAMBORNER now has a considerably stronger representation in south Germany.

It is not only growth, but also the optimisation of the portfolio which is the focus of successful business operations. A balanced composition of the overall portfolio, a sound tenant structure, efficient administration and maintenance of the properties secure sustainable cash flows. In 2010, we achieved an operating result amounting to €12.3 million and a profit for the financial year in accordance with IFRS of €5.5 million. The FFO (funds from operations) as a decisive key figure of our control system and measure of the liquid funds generated from the ongoing operating activity amounted to approximately €12.0 million, up roughly 25% year-on-year.

On the basis of this good performance and the positive outlook for 2011, we are again proposing the Annual General Meeting to distribute €0.37 per share for the 2010 financial year, despite the increased number of shares. This would increase the dividend amount by 50%. An attractive dividend yield of 4.8% arises in relation to the year-end share price of €7.77.

We look optimistically to operating performance continuing to be positive in 2011. Even if unexpected economic developments can always impact operating activities, we have already laid the foundation for further growth, in line with our motto - THE FUTURE NEEDS A SOLID FOUNDATION. In 2011, we will again rigorously leverage not only the fact that sentiment on the property transaction market is again positive after two years but also our financial strength.

We would be happy if you continue to accompany us on this journey!

Dr Rüdiger Mrotzek | Hans Richard Schmitz

Managing Board and Supervisory Board

The Managing Board

Dr Rüdiger Mrotzek, Hilden
born 1957,
member of the Managing Board since 8 March 2007,
appointed to 7 March 2013,
responsible for the areas of Finance / Accounting, Asset Management, Maintenance / Technology, Taxes, IT, Risk Management / Controlling

Hans Richard Schmitz, Duisburg
born 1956,
member of the Managing Board since 1 December 2008,
appointed to 31 December 2012, responsible for the areas of Portfolio Management, Legal, Investor Relations / Public Relations, Human Resources, Corporate Governance, Insurance

Supervisory Board

Dr Josef Pauli, Essen
– Honorary Chairman –

Dr Eckart John von Freyend, Bad Honnef
– Chairman –
shareholder of Gebrüder John von Freyend Vermögens- und Beteiligungsgesellschaft m.b.H.

Dr David Mbonimana, Seevetal
– Vice Chairman –
member of the Managing Board of HSH Real Estate AG

Volker Lütgen, Wentorf
broker, Volker Lütgen Immobilien

Robert Schmidt, Datteln
Managing Director at Evonik Immobilien GmbH
Managing Director at THS GmbH

Christel Kaufmann-Hocker, Düsseldorf
Management consultant

Mechthilde Dordel, Oberhausen*
Clerical employee

Edith Dützer, Moers*
Clerical employee

Hans-Bernd Prior, Dinslaken*
Technician

* Employee member of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

After the REIT Articles of Association were entered in the Commercial Register at the beginning of the 2010 financial year, in autumn HAMBORNER REIT AG realised a further important step. For the first time in the history of the Company, HAMBORNER accessed the capital market, successfully placing a considerable capital increase. As a result there was a large increase in international shareholders. This opens up the way for further organic growth. In operating terms, due to its healthy balance sheet and the stable property portfolio, the Company has developed in a very positive fashion.

Changes in the Supervisory Board

Effective 31 July 2010, the Vice Chairman of the Supervisory Board, Dr Weinstock, resigned his mandate. We would like to thank Dr Weinstock for his always constructive and untiring work on the corporate body. On 3 August 2010, Dr Mbonimana, after the court application on the part of the Managing Board, was appointed as member of the Supervisory Board.

Monitoring the conduct of business and cooperation with the Managing Board

In the 2010 reporting year, we intensively and regularly monitored the management of the Managing Board. In doing so, we secured in-depth information about all significant business transactions and upcoming decisions. The Managing Board reported regularly, promptly and comprehensively, both verbally and in writing, about the strategic orientation of the Company and all the relevant aspects of the business plan including financial, investment and personnel planning. We were also informed comprehensively about the economic situation and the profitability of the company, as well as the course of the transactions, including the risk position and risk management. Our key focus here was increasing the capital, making full use of the capital authorised by the Annual General Meeting.

In 2010, the Supervisory Board met seven times. Additionally, we effected resolutions outside meetings in the case of six transactions in need of a speedy response. This involved the purchase of properties. Between the meetings, as Chairman of the Supervisory Board, I had regular contact with the Managing Board. Key areas of discussion with the Managing Board were the growth strategy, important outstanding decisions and details relating to the capital increase.

Central elements of activity in the Supervisory Board plenum

The turnover, earnings and personnel development of the company, the financial position as well as the letting rate and the current situation with purchases and sales were explained to us in detail by the Managing Board in all meetings and then discussed collectively by us. Furthermore, we thoroughly discussed numerous individual topics with the Managing Board in the meetings.

In the financial statement meeting of 23 March 2010, the Supervisory Board approved the separate financial statements in line with IFRS and the consolidated financial statements of HAMBORNER REIT AG as of 31 December 2009 after its own review and discussion of significant aspects with the statutory auditor, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. We also endorsed the Managing Board's proposal for the appropriation of profits. In addition, we resolved the agenda of the 2010 Annual General Meeting. All members of the Supervisory Board took part in the meeting.

The meeting on 15 April 2010 took place in the form of a telephone conference. The subject was extending the Supervisory Board to nine persons. In addition, the shareholder members agreed on the candidates for the election to the Supervisory Board as proposed by the Nomination Committee. Five members of the Supervisory Board took part in this meeting.

The constitutive meeting of the Supervisory Board took place on 10 June 2010 subsequent to the Annual General Meeting. At that meeting I was re-elected Chairman of the Supervisory Board and Dr Weinstock Deputy Chairman of the Supervisory Board. Furthermore, the members of the Executive Committee were confirmed in office. Dr Weinstock was elected as Chairman of the Audit Committee, with Ms Kaufmann-Hocker together with Mr. Schmidt and Mr. Prior as members. Dr Weinstock and Mr. Lütgen were elected as members of the Nomination Committee and myself as Chairman. All members of the Supervisory Board took part in this meeting.

The meeting on 12 August 2010, which also took place as a telephone conference, was necessary due to the resignation of Dr Weinstock and the court appointment of Dr Mbonimana. Dr Mbonimana was elected Vice Chairman. Dr Mbonimana was also elected to perform the committee mandates previously exercised by Dr Weinstock. In addition, the Managing Board reported on the status of preparations for a capital increase. Seven members of the Supervisory Board took part in this meeting.

The meeting on 23 September 2010 also took place as a telephone conference. In the meeting the Supervisory Board voted on the decision prepared by the Managing Board to use authorised Capital I and II. In addition, the Managing Board reported on the final composition of the issue consortium and the status of marketing efforts to place the new shares. Seven members of the Supervisory Board took part in this meeting.

In a meeting on 7 October 2010, the Supervisory Board agreed on the resolution prepared by the Managing Board to increase the authorised capital from €22,770,000 to €34,120,000 by issuing 11,350,000 bearer shares, to set the issue price at €7.00 per share and for the new shares to be entitled to receive dividends from 1 January 2010. In addition, the Supervisory Board dealt with resolutions to take account of changes in the German Corporate Governance Code so as to be able to give a largely unrestricted declaration of compliance. Seven members of the Supervisory Board took part in this meeting.

The budget and medium-term planning of the company for the period 2011 – 2015 was the main topic of the planning meeting on 17 November 2010. The planned turnover and earnings trend was discussed intensively with the Managing Board. In addition, the Supervisory Board voted on acquiring a property in Erlangen. Furthermore, the declaration of compliance in accordance with Section 161 of the German Stock Company Act was adopted.

Report from the committees

Part of the Supervisory Board activities also take place in committees. The Supervisory Board again formed three committees in the financial year 2010. The Executive Committee met once. The subject was Management Board matters.

The Audit Committee met four times in the 2010 financial year with the involvement of the statutory auditor. It discussed in detail the 2009 annual financial statements and had the 2010 interim reports for the quarters and for the half-year explained by the Managing Board. In addition, it dealt with preparing the election proposals to the Annual General Meeting for the Supervisory Board, with granting the audit mandate to the statutory auditor and the determinate the focal point of the audit.

The Nomination Committee met twice in the reporting year. The topics were nominating candidates for the election into the Supervisory Board and the court appointment of one member of the Supervisory Board. The Supervisory Board was informed comprehensively about the activity of the committees by the respective Chairman at the start of each meeting

Corporate Governance and Declaration of Compliance

The Supervisory Board and Managing Board again dealt intensively with the further development of intra-company Corporate Governance in the financial year 2010 as well. We report on this together with the Managing

Board in the Corporate Governance report for the year 2010 in accordance with Section 3.10 of the German Corporate Governance Code.

Conflicts of interest within the meaning of Section 5.5.3 of the German Corporate Governance Code have not arisen with any of our members. A Declaration of Independence in accordance with Section 7.2.1 of the German Corporate Governance Code was obtained from the statutory auditor.

The Supervisory Board together with the Managing Board published an updated Declaration of Compliance with the German Corporate Governance Code in December 2010, in accordance with Section 161 of the German Stock Company Act. This declaration of compliance is publicly accessible on the company's website at www.hamborner.de in the section Investor Relations/Corporate Governance.

Adoption of the annual financial statements in accordance with HGB and IFRS

On 23 March 2011, the annual financial statements for 2010 were dealt with at length with the participation of the auditor, initially in the Audit Committee and then at the Supervisory Board meeting. In preparation, all members of the Supervisory Board received copies of the audit reports early. The certifying auditors reported at length on the audit results and were available to the Supervisory Board to answer supplementary questions and provide information.

The Supervisory Board thoroughly examined and discussed the annual financial statements under commercial law and the individual IFRS financial statements of the company in accordance with Article 325 Paragraph. 2a of the German Commercial Code with the management report and the proposal for the appropriation of profits. There were no objections, with the result that the Supervisory Board approved the HGB and IFRS financial statements for 2010 at its meeting on 23 March 2011. As a result, the 2010 annual financial statements prepared by the Managing Board under commercial law have been adopted. The Supervisory Board has endorsed the proposal of the Managing Board for the distribution of the unappropriated surplus.

Unqualified audit certificate of the statutory auditor

The annual financial statements of the company as of 31 December 2010 prepared by the Managing Board in accordance with the rules of the German Commercial Code, the German Stock Company Act and the German REIT Act as well as the financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) and the management report, as well as the proposal for the appropriation of profits, were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf. The Supervisory Board had assigned the audit mandate commensurate with the resolution of the Annual General Meeting of 10 June 2010. The statutory auditor granted unqualified audit certificates for the respective financial statements.

Report on relationships with associated companies

The report to be prepared by the Managing Board, pursuant to Article 312 of the German Stock Company Act [AktG], regarding the company's relationships with associated companies has been audited by the statutory auditor and furnished with the following unqualified audit certificate:

"Following our compulsory audit and evaluation, we confirm that

- 1. the factual details of the report are correct, and
- 2. in the case of the legal matters recorded in the report, the company's payment was not unduly high."

The statutory auditor's representatives were also available for further explanation of this report at the Supervisory Board meeting on 23 March 2011. The Supervisory Board approved the audit result of the statutory auditor after its own review. There were also no reasons for objections with regard to the statement of the Managing Board at the end of the report regarding relationships with associated companies.

Thanks

The Supervisory Board expresses its gratitude and appreciation to the directors and all employees for their high personal application. Together - with their continuous commitment - they again achieved a very good result in the past financial year. Naturally, we would also like to thanks our shareholders for the confidence shown.

Duisburg, 23 March 2011

The Supervisory Board

Dr Eckart John von Freyend
(Chairman)

Corporate Governance

Principles of responsible company management and control are geared to the long-term creation of value. Key aspects of good corporate governance are efficient cooperation between Managing Board and Supervisory Board, respecting shareholder interests as well as openness and transparency of company communication.

Commensurate with the recommendations in Section 3.10 of the German Corporate Governance Code in the version of 26 May 2010, the Managing Board and Supervisory Board report in this section on the application of Corporate Governance guidelines at HAMBORNER:

Corporate Governance report

Transparency and good company management always rank very highly for the Managing Board and Supervisory Board of HAMBORNER. For this reason we regularly, promptly and comprehensively inform our shareholders, all other capital market participants, financial market analysts as well as the relevant media, but also our employees, about the position of the company and any significant changes. We use a multitude of possible information and communication channels for this purpose.

Worth mentioning here in particular are our annual report, the regular interim reports for the quarters and for the half-year, our publications on disclosure under capital market legislation such as "ad-hoc announcements" or notifications on "directors' dealings", but also the attendance at events with financial analysts or the publication of press releases on current topics about the company. In the process, we primarily use the Internet for the distribution of information. We provide all the above-mentioned company information to the interested public on our website.

Since the entry into force of the German Corporate Governance Code, the Managing Board and Supervisory Board have dealt with the recommendations of the code at regular intervals and – as far as possible and necessary – implemented them promptly. The objective was and always is to ensure a good and reliable company development geared to sustainability in the interests of all stakeholders.

The code as such was recently one of the subjects discussed intensively at the Supervisory Board meeting on 7 October 2010. At this meeting the changes of the new version of the Code dated 26 May 2010, which was published on 2 July 2010 in the electronic Federal Gazette and has applied since that time was discussed in detail.

The regulations resulting from the change to the Code on appropriate consideration of women in filling management positions in the future and in the future composition of the HAMBORNER Managing Board were implemented. The requirements in the new version of Section 5.4.1 of the German Corporate Governance Code of the Government Commission for the German Corporate Governance Code in respect to the composition of the Supervisory Board were implemented. Thus the procedural rules of the HAMBORNER Supervisory Board were adjusted accordingly and concrete objectives formulated for its composition. In addition to taking account of the necessary knowledge, abilities and specialist experience for fulfilling their functions, an appropriate participation of women also plays an important role. It was thus stated that the share of female Supervisory Board members at HAMBORNER should be at least one third – a level that HAMBORNER already achieves. In addition, the rules of procedure state that when electing a Supervisory Board member to the Supervisory Board, the member may not be more than 75. Even though the Company currently operates entirely in Germany, in the medium term the Supervisory Board has the objective of nominating an international candidate. At HAMBORNER, due account is given to the provisions of the Code according to which the members of the Supervisory Board must take personal responsibility to ensure training and seminars necessary to carry out their activities. The Company supports them in doing so to an appropriate extent.

Since the introduction of the Code in the year 2002, at HAMBORNER we have already complied with the obligation to substantiate possible deviations from the code recommendations, which had only been designated up to now as a recommendation in Section 3.10 of the Code and is now cast into written law of a compulsory nature on the basis of the amendment of Article 161 of the German Stock Company Act.

The Managing Board and Supervisory Board of the company adopted the following Declaration of Compliance in December 2010 in accordance with Article 161 of the German Stock Company Act. According to this, the company has complied with the recommendations of the German Corporate Governance Code in the reporting year with insignificant limitations. Reference is made to the text of the declaration of compliance with regard to the explanations on the deviations from the code recommendations:

Current Declaration of Compliance in December 2010

Declaration of the Managing Board and Supervisory Board of HAMBORNER REIT AG
the recommendations of the Government Commission
for the German Corporate Governance Code pursuant
to Article 161 of the German Stock Company Act

"The Managing Board and Supervisory Board of Hamborner REIT AG declare that Hamborner REIT AG has complied with the recommendations of the Government Commission for the German Corporate Governance Code in the version dated 18 June 2009 with the limitation of the recommendation in Section 4.2.1 Clause 1 since submission of its last Declaration of Compliance in December 2009. Hamborner REIT AG will comply with the Code in the code version dated 26 May 2010 with the limitation of the recommendation in Section 4.2.1 Clause 1."

Explanation: Section 4.2.1 of the Code recommends that the Managing Board should have a Chairman or spokesperson. The nomination of a Chairman or spokesperson was and is waived on account of the Managing Board consisting of just two people.

The Managing Board and the Supervisory Board will publish the next Declaration of Compliance in December 2011.

Duisburg, December 2010

Managing Board Supervisory Board

Internet information for our shareholders

Both the current Declaration of Compliance and all declarations of previous years can be downloaded from our website at www.hamborner.de in the section Investor Relations/Corporate Governance.

In addition, we offer our shareholders the possibility of obtaining information in the section "Investor Relations/ Financial Calender" regarding the dates of recurring publications of financial reports and the date of the Annual General Meeting. Furthermore, on our website we provide information in detail to our shareholders regarding the previous financial year through the annual report, in advance of the Annual General Meeting.

In addition, we also make other information available there for anyone who is interested – about the company and published by the company – such as notifications in accordance with the German Securities Trading Act and the German Securities Prospectus Act, press releases, as well as an up-to-date company presentation.

Collaboration of the Managing Board and the Supervisory Board

The Managing Board and Supervisory Board are collaborating closely for the well-being of the company. At regular intervals the Managing Board promptly and comprehensively notifies the Supervisory Board about all relevant issues of the business plan, about the course of transactions and the position of the company, including the risk position. Questions on the strategic orientation and further development are discussed jointly between the Supervisory Board and Managing Board. Important Managing Board decisions are linked to the agreement of the Supervisory Board in accordance with the former's procedural rules and the Articles of Association.

No consultancy or other service or work contracts were concluded directly between the company and individual members of the Supervisory Board in the financial year 2010.

No other potential or actual conflicts of interest of members of the Managing Board and Supervisory Board, which should be disclosed to the Supervisory Board without delay, have arisen in the reporting period.

Director Dealings

In accordance with Article 15a of the German Securities Trading Act, a duty of disclosure regarding the purchase and sale of the company's securities is incumbent on members of the Managing Board and Supervisory Board, as well as people who carry out management functions with an issuer of shares, as soon as the total amount of transactions of a person with management functions and people in a close relationship with that person reaches or exceeds the total negligible value of €5,000 by the end of the calendar year.

The following transactions carried out were notified to the company during the reporting year 2010:

- On 20 May 2010, Mr. Hans Richard Schmitz (member of the Managing Board) bought 1,500 shares at a price of €7.80 per share.

- On 21 June 2010, John von Freyend Future KG (company with close relation to a person with management functions: Chairman of the Supervisory Board Dr Eckard John von Freyend) sold 2,000 shares at a price of €7.80 per share.

- On 24 June 2010, John von Freyend Future KG (company with close relation to a person with management functions: Chairman of the Supervisory Board Dr Eckard John von Freyend) bought 4,000 shares at a price of €7.80 per share.

- On 5 July 2010, Dr Eckard John von Freyend (Chairman of the Supervisory Board) bought 1,000 shares at a price of €7.40 per share.

- On 15 October 2010, Mr. Hans Richard Schmitz (member of the Managing Board) bought 4,000 HAMBORNER REIT AG bearer warrants at a price of €0.03 each.

- On 20 October 2010, John von Freyend Future KG (company with close relation to a person with management functions: Chairman of the Supervisory Board Dr Eckard John von Freyend) bought 5,000 HAMBORNER REIT AG bearer warrants at a price of €0.02 each.

- On 26 October 2010, Mr. Hans Richard Schmitz (member of the Managing Board) bought 4,000 shares at a price of €7.00 per share.

- On 26 October 2010, Dr Rüdiger Mrotzek (member of the Managing Board) bought 5,750 shares at a price of €7.00 per share.

- On 26 October 2010, Dr Eckard John von Freyend (Chairman of the Supervisory Board) bought 500 shares at a price of €7.00 per share.

- On 26 October 2010, John von Freyend Future KG (company with close relation to a person with management functions: Chairman of the Supervisory Board Dr Eckard John von Freyend) bought 4,500 shares at a price of €7.00 per share.

No additional notifications regarding transactions of management staff in accordance with Article 15a of the German Securities Trading Act have been made to the company during the reporting year.

All these notifications are permanently on our website at www.hamborner.de and published there in the section Investor Relations/Notifications/Director's Dealings.

There was no ownership subject to disclosure requirements in accordance with Section 6.6 of the German Corporate Governance Code as of 31 December 2010.

In compliance with the requirements of the German Investor Protection Improvement Act, an insider list is kept at the company, in which all relevant people are included.

The mandates of members of the Managing Board and Supervisory Board are shown in the notes to the IFRS financial statements on page 97 and the relationships with associated people are on page 96.

Responsible risk management

The company's responsible handling of risks is also part of good Corporate Governance. Systematic risk management within the framework of our value-oriented company management ensures that risks are recognised and assessed early and risk positions are optimised. The company's early risk detection system is also subject to the review of the statutory auditor. It is continuously enhanced and adjusted to the changing economic conditions. We refer to the risk report with regard to the details of risk management and the current risk position.

The statutory auditor Deloitte & Touche

The statutory auditor proposed to the Annual General Meeting for selection for the financial year 2010, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, submitted the declaration of independence in accordance with Section 7.2.1 of the German Corporate Governance Code in a letter dated 20 April 2010. It was agreed with the statutory auditor that the Chairman of the Audit Committee should be immediately informed regarding grounds for exclusion or lack of impartiality which arise during the audit, in so far as they are not immediately rectified. Furthermore, it was agreed that the Chairman of the Supervisory Board and the Chairman of the Audit Committee should be immediately informed if specific findings or incidents arise in the execution of the audit of financial statements which could be of significance for the proper discharge of the functions of the Supervisory Board. This includes the discovery of facts that comprise an inaccuracy in the declarations on the code submitted by the Managing Board and Supervisory Board.

Remuneration Report* also part of the management report

The objective of the German Corporate Governance Code is the promotion of confidence among national and international investors, clients, employees and the general public in the management and monitoring of listed companies. To this end, the German Corporate Governance Code provides for disclosure of the remuneration granted to members of the Managing Board and members of the Supervisory Board.

Remuneration of the Managing Board

Managing Board remuneration is determined by the entire Supervisory Board on the suggestion of the Executive Committee.

The extent of the Managing Board remuneration is geared to the size of the company, its economic and financial situation and to the long-term success of the company. The remuneration of the Managing Board is performance-related and takes into account the functions and the contribution of the respective member of the Managing Board. The remuneration for members of the Managing Board consists of fixed and results-related components. The non-profit-related parts consist of a fixed allowance and additional benefits (e.g. company car). The fixed allowance is paid monthly as a salary as a basic remuneration. Profit sharing, warrants and other share-based remuneration are not granted.

The remuneration of the active members of the Managing Board on the basis of existing service contacts was made up as following for the 2010 financial year:

in T€	Appointed on	Fixed remuneration	Variable remuneration	Other remuneration*	Total
Dr Rüdiger Mrotzek	7 March 2013	148	150	58	356
Hans Richard Schmitz	31 December 2012	150	150	41	341
Total		**298**	**300**	**99**	**697**

* Other remuneration includes monetary benefits from the personal use of a company car, contributes to insurance policies, expenses for pensions in the form of contributions to a provident fund covered by insurance and compensation in lieu of holiday.

The variable remuneration for the 2010 financial year of €50,000 per person was charged against the reversal of provisions for bonuses made in 2009. A lump-sum settlement to the level of the cash value of the fixed remuneration to be paid up to the normal expiration of the contract is due to both members of the Managing Board in the event of an early termination of service contracts. According to the recommendations of the German Corporate Governance Code, the indemnifications are limited to a maximum of two annual remuneration packages including additional benefits. No normal termination has been agreed during the duration of the respective service contract.

Also following the recommendations of the German Corporate Governance Code, the profit-related (variable) remuneration due to the Managing Board, which is paid out once a year as a profit-sharing bonus, is primarily dependent on the long-term development of Funds from Operations (FFO). In addition, the development of the Net Asset Value (NAV) and the attainment of individually agreed targets are included in the calculation. The structure of the Managing Board remuneration is subject to a periodic review by the Supervisory Board and was approved at the 2010 Annual General Meeting.

The total remuneration of former members of the Managing Board of the company amounted to €407,000 in the reporting year. The pension provisions formed for this group of people amount to €4,647,000.

Pension commitments

With agreements from 2009, an occupational pension scheme was granted to the members of the Managing Board, with effect from 1 January 2010 and 1 March 2010 respectively, in the form of an employer-financed defined benefit based on contributions implemented by means of the covered benevolent fund. The commitment applies for the duration of the service contracts with a monthly amount of €1,250 each.

Miscellaneous

Loans were not granted to members of the Managing Board by the company. No member of the Managing Board received benefits or corresponding commitments from a third party in the past financial year with regard to his activity as a member of the Managing Board.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated in Article 13 of the Articles of Association. Supervisory Board remuneration is geared to the size of the company, the functions and the responsibility of the members of the Supervisory Board and depends significantly on the economic success of the company. The fixed remuneration amounts to €15,000 and the variable remuneration to €500 per euro cent by which the undiluted earnings per share exceed the amount of €0.15. The calculation takes into account the number of outstanding shares on the reporting date. The variable remuneration is limited to twice the fixed remuneration. The Chairman of the Supervisory Board receives twice the remuneration, his deputies one and a half times. Members of the Supervisory Board who have belonged to the Supervisory Board only during part of the financial year are entitled to the remuneration pro rata temporis. Members of the Supervisory Board who belong to one of the three committees formed receive an additional remuneration of €2,000 per financial year. Twice this remuneration is due to the respective committee chairman. Three committees exist at the moment: the Executive, Audit and Nomination Committees.

The relevant remuneration of the Supervisory Board for the 2010 financial year is calculated as follows:

in T€	Fixed remuneration	Variable remuneration	Total
Dr Eckart John von Freyend	38.0	1.0	39.0
Dr Marc Weinstock	17.7	0.4	18.1
Dr. David Mbonimana	11.5	0.3	11.8
Robert Schmidt	19.9	0.5	20.4
Volker Lütgen	17.9	0.5	18.4
Christel Kaufmann-Hocker	8.9	0.3	9.2
Edith Dützer	15.9	0.5	16.4
Mechthilde Dordel	7.8	0.3	8.1
Hans-Bernd Prior	16.1	0.5	16.6
Total	**153.7**	**4.3**	**158.0**

In addition, expenses were reimbursed to members of the Supervisory Board in line with Article 13 (3) of the Articles of Association in the amount of €1.3 thousand. Furthermore, members of the Supervisory Board received no additional remuneration or benefits in the reporting year for services personally provided, particularly consultancy and mediation services. Members of the Supervisory Board receive no loans or advances from the company.

D & O insurance

The company concluded a pecuniary loss liability insurance policy (D & O insurance) for members of the Managing Board and members of the Supervisory Board. This covers pecuniary losses from the activity as a member of the executive bodies and supervisory bodies of the company. The sums insured amount to €5 million per insurance claim per financial year, but a maximum of €5 million per insurance year. In compliance with Article 93 Paragraph 2 of the German Stock Company Act and Section 3.8 of the German Corporate Governance Code, deductibles for members of the Managing Board and Supervisory Board have been agreed as well, amounting to at least 10% of the claim and up to at least the level of one and a half times the annual fixed remuneration of the officer. The insurance protection does not apply in the event of wilful intent, so that protection previously granted lapses retroactively where applicable in the event of (subsequent) discovery and benefits provided are to be reimbursed to the insurer. The annual insurance premium currently amounts to €11,400 plus insurance tax.

The HAMBORNER share

General position in the share market

For stock exchanges, 2010 was a largely positive year, even if it was impacted by the debt situation in Greece and later in Ireland and Portugal. With the euro rescue package of the German government and the European Central Bank, the debt crises there were averted successfully for the time being.

Overall the key international stock indices recovered from the previous year of crisis. The German DAX was up approximately 16% for the whole year, closing at 6,914. The SDAX gained by as much as roughly 45%. Property shares also defended their position very well. The DIMAX published by the Ellwanger & Geiger increased by approximately 18% over the year and the EPRA index by approximately 11%.

For 2011, experts are initially anticipating a further upward trend in Germany. The rapid recovery of the economy, what is currently a good earnings situations at companies, and interest rates remaining at a low level lead one to anticipate that the DAX will continue to rise. However, whether the upturn on equity markets is sustained and whether Germany is sufficiently secured against crises in emerging countries will only be apparent in the coming months.

The HAMBORNER share

The HAMBORNER share is officially traded, with variable prices, on the stock markets in Frankfurt am Main, Düsseldorf, Berlin, Munich and Hamburg. In Stuttgart and in Hannover it is listed on the regulated market. The share is listed under the security identification number 601300 (ISIN: DE0006013006). It meets the internationally applicable transparency requirements in the Prime Standard of Deutsche Börse.

The company mandated WestLB AG and since February 2011 also HSBC Trinkaus & Burkhardt AG, both headquartered in Düsseldorf, as designated sponsors. This ensures that the HAMBORNER share can be traded at all times on the basis of ongoing bid and ask prices. In 2010, a total number of 3.8 million of our shares were traded (previous year: 1.1 million). The average daily trading volume increased to approximately 15,000 shares per day (previous year: 4,500).

After the capital increase in October 2010, HAMBORNER has a more international shareholder structure than was the case. In addition to HSH Real Estate AG, Hamburg, which directly and indirectly still holds a 35% stake in the company, Prof. Dr Siegert, Düsseldorf indirectly holds a stake of approximately 8%. In addition, due to the notification threshold being exceeded, we are aware that the international shareholder structure has also expanded. Thus Ruffer LLP and Asset Value Investors Limited, both headquartered in London, each held a stake of approximately 6% to the end of the year, while Japan-based Sumito Trust & Banking Co. held a stake of roughly 3%. As of 31 December 2010, the free float amounted to approximately 42%.

Shareholder structure as of 31 December 2010

35.18%	HSH Real Estate AG, Hamburg of which: 6.006% each via HSH RE 2.-6. Beteiligungs GmbH, Hamburg 3.549% via HSH RE 7. Beteiligungs GmbH, Hamburg
8.15%	Prof. Dr. Siegert, Düsseldorf of which: 2.15% via Laris GbR, Düsseldorf 2.27% via TEC Düsseldorf GbR, Düsseldorf 3.63% via Siegert & CIE. GmbH, Düsseldorf
6.16%	Ruffer LLP, London
5.82%	Asset Value Investors Limited, London of which: 4.11% via AVI Focused European Fund, Georgetown, Cayman Islands
3.07%	The Sumitomo Trust & Banking Co., Ltd., Tokyo of which: 3.07% via Nikko Asset Management Co., Ltd.
41.62%	Free float

ISIN: DE0006013006
SCN: 601300
No. of shares: 34.12 million

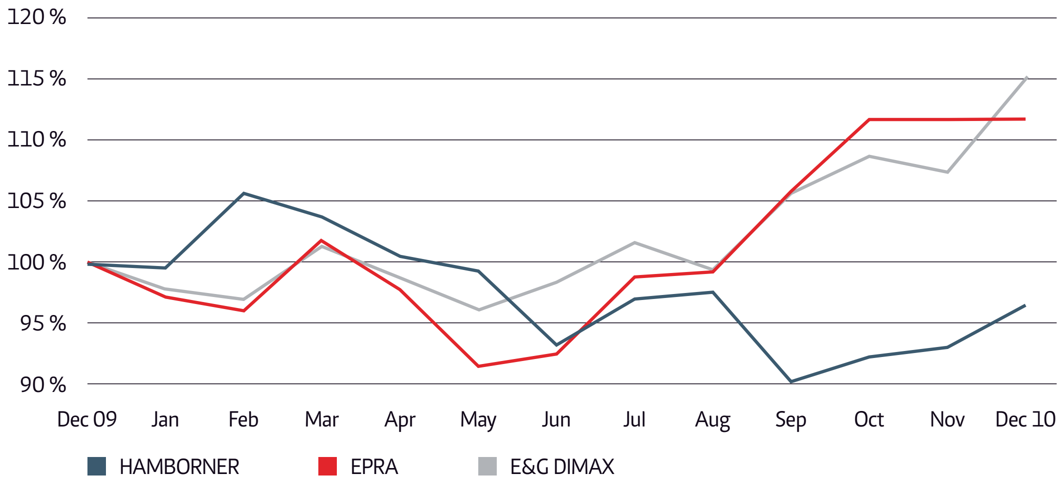
Prices HAMBORNER (Xetra)	
Closing price:	**€7.77**
High:	**€8.48**
Low:	**€7.03**

Share price movement of the HAMBORNER share in 2010

In the first quarter of 2010, the HAMBORNER share performed well, but in the second quarter eased due to pressure on stock markets – also impacted by resurgent uncertainty in the Eurozone – to close on 30 June 2010 at €7.50. At the beginning of the third quarter, the share recovered, but as a result of the announcement of the resolution on the capital increase moved downward again at the end of September. The HAMBORNER share closed at a price of €7.25 on 30 September. However, in the last quarter of the year, the share again gained to close at €7.77 on 31 December. Even though this is a slight minus of approximately 4% on the 2009 closing price, this has to be regarded in the light of the capital increase implemented in the last quarter. As of 31 December 2010, the market capitalisation was €265.1 million.

Development of the HAMBORNER share

HAMBORNER	**-4%**
E&G-DIMAX	**+18%**
EPRA Index	**+11%**
DAX	**+16%**



Investor relations

Our Investor Relations work serves to achieve an open and ongoing exchange of information with institutional and private investors as well as analysts. Our objective is to provide them a good and transparent picture of our company, facilitate a fair company valuation and to strengthen confidence in the Company.

To do this we took numerous measures in 2010. After the presentation of the "new" HAMBORNER REIT AG at the beginning of the year in the context of a special event in Frankfurt am Main, holding the annual accounts press conference as well as regular telephone conferences on the interim reports, the focus of our activities this year was in preparing for the capital increase. This included numerous roadshows and presentations at expert and investor conferences. For example we were represented at the German Equity Forum, the DVFA Real Estate Conference and the Property Share Initiative. In addition, we held roadshows in London, Paris, Vienna, Linz, Brussels, Amsterdam, Zurich, Basel, Frankfurt, Munich, Düsseldorf and Cologne so as to explain and discuss the strategy of the company with analysts and investors, also in one-on-one meetings. In 2010, private investors were able to get to know us directly and ask their questions at the relevant events in Cologne, Bonn, Dortmund and Wiesbaden.

Regular presentations on roadshows in an important part of our IR work

We also made good progress on the question of the share's liquidity. Since the beginning of the year, the average trading volume has been steadily increasing. A positive factor here was the capital increase in the third quarter which resulted in extending the group of shareholders. The next targets in this connection are inclusion in the SDAX, which we expect will occur in 2011, as well as in the EPRA Index, which could take place in 2012.

Pleasing upturn in trading volume

The newly designed www.hamborner.de website provides all information in German and for approximately a year also in English. There, interested investors also can register in the distribution list for our newsletter and obtain up-to-date information on HAMBORNER REIT AG directly by e-mail.

On this basis, we will also further increase our Investor Relations activities in 2011 and be available at all times at events, in personal discussions and by telephone in order to provide information and answer your questions.

HAMBORNER has been a member of EPRA since January 2010. The European Public Real Estate Association is an organisation with its headquarters in Brussels which represents the interests of the large European property companies in public and supports the development and market presence of the European property corporations. As in previous years, HAMBORNER is orientated to the standards recommended by EPRA for the purposes of greatest transparency and comparability in the determination of important ratios.

Net asset value

HAMBORNER has again engaged the experts Jones Lang LaSalle of Frankfurt for determining the market and fair values of its property portfolios. After a net asset value ("NAV") was determined in 2007 for the first time with the valuation of the up-to-date fair values of properties, the properties have been subjected to a subsequent assessment every year since then. The valuation method applied in the process corresponds to the principles of International Valuation Standards. NAV constitutes the benchmark for the asset strength of a company and is an important indicator for us within the framework of value-oriented company management, also relative to other companies. It is our objective to increase NAV through measures adding value.

Transparent reporting as a result of alignment to the EPRA standards.

At year-end, HAMBORNER had a NAV of €8.80 per share. The decline in comparison to the previous year (€10.37 per share) is due primarily to the exit tax paid (in the context of the REIT conversion) and the capital increase implemented at favourable conditions for investors in the autumn. However, the annual revaluation of real estate assets by the external appraiser which did not result in decline in overall value, confirms the stability of the fair value of our overall portfolio. A price at year-end of €7.77 and a NAV of €8.80 represents a discount of 11.7% (previous year: 21.5%).

NAV calculation (in accordance with EPRA)

	in T€	31/12/2010	31/12/2009
	Non-current balance sheet assets*	322,067	257,946
+	Current balance sheet assets	84,077	38,473
-	Non-current liabilities and provisions*	-149,156	-111,597
-	Current liabilities	-22,414	-9,151
	Balance sheet NAV*	**234,574**	**175,671**
+	Hidden reserves of non-current assets**	65,654	60,388
	NAV	**300,228**	**236,059**
	NAV per share in €	**8.80**	**10.37**
-	Derivative financial instruments	-9,023	-7,845
-	Hidden reserves on financial liabilities	-694	-658
-	Tax deferrals	0	-12,538
	NNNAV	**290,511**	**215,018**
	NNNAV per share in €	**8.51**	**9.44**

* excluding deferred taxes and derivative financial instruments
** determination of hidden reserves in the property portfolio based on the Jones Lang LaSalle fair value assessment; our own assumptions in the case of agricultural and silvicultural areas

FFO

FFO (funds from operations) is a key financial ratio determined on the basis of the IFRS financial statements. It is used within the framework of value-orientated corporate management for the presentation of the funds generated, which are available for investments and dividend distributions to shareholders. FFO is calculated as follows:

FFO calculation

	in T€	2010	2009
	Net rental income	22,124	19,940
-	Administration costs	-811	-751
-	Staff costs	-2,743	-2,740
+	Other operating income*	446	185
-	Other operating expenses	-724	-872
+	Net income from equity investments	0	13
+	Interest income	268	489
-	Interest expenses	-6,576	-5,508
FFO before tax		**11,984**	**10,756**
-	Taxes paid	0	-1,136
FFO after tax		**11,984**	**9,620**
FFO per share in €		**0.35 ****	**0.42**

* Adjusted for reversals of impairment adjustments and income from the disposal of investments
**related to the number of shares, increased by 50% after the capital increase

HAMBORNER determines the FFO conservatively while disregarding sales proceeds. For 2010, the FFO amounted to €12 million, up approximately 25% on the previous year (€9.6 million). Basis on the number of shares being 50% higher as a result of the capital increase implemented in the autumn, this means an FFO of €0.35 per share (previous year: €0.42). If the calculation for the new shares were implemented on a pro rata basis, there would be an FFO per share of €0.47, i.e. a year-on-year plus of approximately 12%. The FFO yield (FFO after taxes in relation to the NAV at the end of the year) is approximately 4.0%.

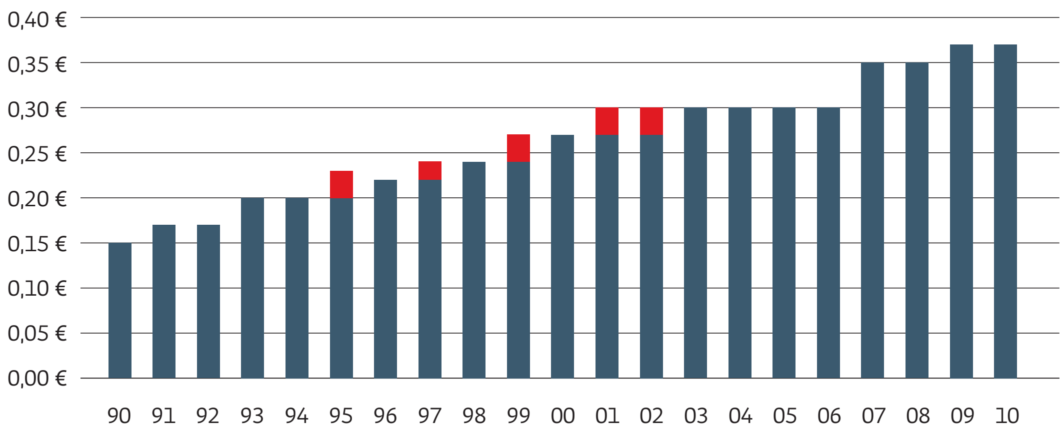
Development of the dividend at HAMBORNER

A proposal will be presented to the Annual General Meeting on 17 May 2011 to distribute a dividend of €0.37 per no-par-value share for the financial year 2010. Despite the capital increase which increased share capital by 50%, the dividend per share is to be maintained at a stable level. Related to the share price at the end of 2010, this represents a dividend yield of 4.8%.

Dividend proposal: €0.37 per share

HAMBORNER has increased the dividend steadily in previous years from €0.15 to €0.37 per share.

Dividend development



If the company's situation permits, we also propose maintaining high payout ratios and increasing the dividend further in the future.

The HAMBORNER share at a glance

		2010	2009	2008
Issued capital	€ million	34.12	22.77	22.77
Market capitalisation*	€ million	265.1	185.3	130.9
Year-end share price	€	7.77	8.14	5.75
Highest share price	€	8.48	8.60	9.30
Lowest share price	€	7.03	5.41	5.10
Dividend per share	€	0.37	0.37	0.35
Total dividend	€ million	12.62	8.42	7.97
Dividend yield*	%	4.76	4.55	6.09
Price/FFO ratio*		22.1	19.3	15.3

* Basis: Xetra year-end share price

Assets need a long term.

Large-scale retail properties offer a steady cash flow, thus forming the basis for ongoing dividend distributions.

MANAGEMENT REPORT

PORTFOLIO EXPANDED WITH ATTRACTIVE RETAIL PROPERTY IN AN EXCLUSIVE LOCATION

IN JULY 2010, WE ACQUIRED THE EDEKA-CENTER IN STUTTGART:

- Around 6,400 m² of rental space
- Term of 18 years
- Tenant EDEKA
- Fair value around €16.8 million
- Gross yield approximately 7.1%

The right location and an excellent market positioning are decisive factors in determining the success of large-scale retail properties.

When acquiring large-scale retail properties, we pay particular attention to locations with high footfall, which cannot be duplicated, thus allowing our tenants an excellent market positioning.

Our business partners also attach great importance to appropriate presentation of their goods and thus to our rental properties being well maintained.


center
EDEKA

General Economic Conditions

Macroeconomic environment

In the reporting year, according to the Bundesbank, the economic recovery in the German economy took a great step forward. With growth of approximately 3.6%, a considerable part of the production decline resulting from the crisis in 2009 was made up. In that year, gross domestic product declined by approximately 4.7%. The key pillar of the economic recovery in Germany is brisk demand for German-made products on world markets. Positive impulses from foreign trade also impact the domestic market. Company investments are likely to rise, just as private spending which is also driven by the favourable development on the employment market.

The employment market has developed in a much more positive fashion than was expected at the beginning of the year. The annual average for unemployed persons was approximately 3.2 million and thus lower than originally forecast. In 2010, the increase of consumer prices was approximately 1.1%. Recently there was a slight upward trend.

Situation on the property market in Germany

Market for retail trade properties

The general economic recovery, the upward trend on the employment market and stable consumer sentiment resulted in the general conditions for German retail improving during the course of 2010. Thus, retail sales increased by approximately 1.5% in 2010 in real terms year-on-year according to the present estimate of the German Federal Statistical Office. Retail business made up a large part of the sales it lost in the previous year. But this does not represent much more than a return to normal levels.

The winners and the losers in the retail business are becoming increasingly evident, not only at the level of company type, but also at location level. Department stores and medium-sized specialist retail are beating a retreat. On the other hand, specialist markets are expanding rapidly. At the same time, discounting in the retail business is ongoing. There is increasing demand for large-scale outlets. Successful retail chains and vertical concepts are expanding their sales portfolios by launching new brands. The industry is increasing selling its products in mono-label stores. In 2010 more than half of all rental contracts in 1A locations were concluded with international retail chains. This trend could be amplified over the next few years. Demand is increasingly concentrating on 1A locations and shopping centres. Ancillary city centre locations and classical district centres are coming under increasing pressure.

The vacancy rates in B and ancillary sites as well as in 1A locations of structurally weak towns have risen further. In 1A locations of cities with a generally positive overall forecast, vacancy levels have declined as a result of demand from international retailers. In 2010, average store rental levels in 1A locations have remained stable against the previous year. In the retail trade, the gap between strong and weak cities is widening. On the one hand, there are stabile and slightly increasing prime rents, on the other huge rental discounts are required or there are cases when properties cannot be rented.

Market for office spaces

The speed of the recovery in the Germany economy after the crisis and company confidence for 2011 are reflected on the German office markets. Office markets stabilised considerably during 2010. The positive trend accelerated tangibly in the second half of 2010 . In the nine most important German office locations of Berlin, Düsseldorf, Essen, Frankfurt, Hamburg, Cologne, Leipzig, Munich and Stuttgart, approximately 3.1 million m² office space were transacted in 2010 according to the big broking houses - approximately 500,000 m² or a good 18% more than in 2009. The volume is thus roughly at the level of the 2005-2009 five-year average.

With the exception of Leipzig and Essen, take-up in the "Big Nine" increased considerably. The highest level of take-up was once again achieved in Munich at approximately 600,000 m² (+11%), followed by Frankfurt (+22%) and Berlin (+ 24%), each with approximately 500,000 m². Düsseldorf recorded the biggest upturn in percentage terms, up 70%. Viewed across all the locations of the "Big Nine", vacancies increased by approximately 100,000 m² in 2010 to the current level of a good 9.15 million m² (+ 1%). The vacancy rates range here from approximately 4.0% in Essen through to a good 14% in Frankfurt and up approximately 14.5% in Leipzig. In parallel, space under construction has decreased slightly. With prime rents stabilising at all locations in the first three quarters of 2010, in the final quarter an upturn for prime rents was observed in several cities (e.g. Berlin + 6%, Leipzig + 4.5%). Increasing demand means that those landlords find increasingly less reason to offer tenants incentives.

The remarkable fact for office rental markets in 2010 was that large single contracts over 20,000 m² had a greater influence on the take-up result than is generally the case (share of approximately 17%).

German property investment market

According to information from the large German broking houses, the nationally registered investment turnover in commercial properties, at almost €20 billion in 2010, was approximately 85% above the result of the previous year. In the six most important German investment locations of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne and Munich, a transaction volume of a good €11 billion was recorded. This is an increase of approximately 90% against 2009. Locations with the highest turnover in 2010 were Berlin at approximately €3.2 billion and Hamburg with roughly €2.0 billion.

The upturn which on the investment markets which became evident in the first half of 2010, not only continued, but even accelerated. Over €6 billion was invested in the final quarter of 2010. In a multi-year comparison, this volume is very high, in line with the volumes achieved in 2005 and 2008. There is particular demand for core properties. It is almost impossible to market B locations and older buildings.

The greater share of investments in 2010 was in retail properties (approximately €8.0 billion, share of approximately 40%). This was followed by office properties (approximately €7.3 billion, share of approximately 37%). With almost €1.24 billion (a share of approximately 6%), the transaction volume for logistics properties was almost 76% up year-on-year. In the area of retail properties, shopping centres was by far the most sought-after asset category, ahead of commercial buildings in A1 locations. But specialist market products, well regarded by investors due to their defensive qualities, posted a strong improvement against the previous year.

Approximately 78% of the commercial investment turnover in 2010 related to individual transactions, whereas the share of portfolio transactions moved back to 22%. Even though individual transactions dominated market activity, retail portfolios again gained considerable ground. The successful sales of two sale and leaseback portfolios by the part of the food discounter Aldi underlines this trend. The main buyers are equity investors such as open-ended funds, insurance companies, pension funds, family offices and private individuals. But asset and fund managers are again operating more actively on the market. In 2010, the share of foreign investors increased strongly to approximately 37%.

Strong demand is also reflected in the price trend. Competition for core properties is again very tough, pushing up prices. Net prime yields for top offices declined to below 5% in Munich, Hamburg and Frankfurt. But in the retail area, prices have also surged in some cases.

Economic report

Corporate strategy

The corporate strategy at HAMBORNER is aligned to value-creating growth on the basis of a profit-oriented expansion of the existing commercial property portfolio in the areas of large-scale retail, commercial buildings in A1 locations and offices, at the same time maintaining a regional diversification. The objective is to increase further the profitability of the property portfolio by acquiring additional above-average properties with strong yields. To increase profitability, properties with strongly below-average absolute market value (fair value) are to be sold, as are properties at locations with lower prospects and replaced with properties with a higher fair value and considerably improved cost-revenues structures.

The company intends to leverage this objective to generate higher yields, while reducing portfolio risks at the same time with the goal of achieving a steady and attractive dividend distribution.

The strategic objectives of HAMBORNER are to be achieved on the basis of the following measures:

Focus on large-scale retail properties in locations with high footfall, commercial buildings in A1 locations (so-called High Street properties) and high-quality office buildings
With its property portfolio, HAMBORNER focuses on a balanced mix of the following three property classes: large-scale retail properties in locations with high footfall which allow tenants an excellent market positioning, commercial buildings in A1 locations (so-called High Street properties) located in pedestrian zones of cities with high purchasing power as well as high-quality office buildings

Large-scale retail properties offer a steady cash flow, thus forming the basis for ongoing dividend distributions. High Street properties in A1 locations offer potential for appreciation in value. As office properties usually have index-linked rents, they offer greater protection against capital depreciation as a result of inflation which cannot be excluded.

Growth and expansion of the company property portfolio
The company plans to expand the property portfolio successively, by acquiring further commercial properties. In future investments, the investment volume for individual commercial properties in cases of large-scale retail properties and commercial buildings in A1 locations should be between €5 million and €30 million and of office properties between €10 million and €30 million.

The Company also plans to optimise the portfolio on the basis of targeted measures. To increase profitability, portfolio properties with a low fair value or at locations with lower prospects are to be sold. There are largely properties with a fair value below €3 million, which generate a high level of costs in relation to rental income. The objective is to replace these properties with ones having a higher fair value at attractive locations with considerably improved cost-revenue structures. In substantiated individual cases, the Company will make opportunistic property disposals, even though they are in line with the strategic orientation.

This active portfolio and acquisition management is restricted solely to the Company portfolio. Project developments and services provided to third parties are not part of this business strategy.

Focus on medium-sized cities and regions in Germany with long-term growth opportunities
The HAMBORNER strategy is to hold commercial properties across Germany. At the present moment in time, we are not planning to build up assets outside Germany. The Company plans to make future purchases of commercial properties, particularly in south and southwest Germany, as these regions promise long-term growth. At the same time it is further diversifying the portfolio on a regional basis. In east Germany only selective investments are to be made, and only in the metropolitan regions.

Leveraging buying opportunities while retaining the healthy financing structure and the ongoing distribution of an attractive dividend

As a REIT company, HAMBORNER must distribute 90% of its net income for the financial year and maintain a REIT equity ratio of 45%. In addition, the management aligns corporate management to the key ratios: Funds from Operations (FFO) and Net Asset Value (NAV) per share.

The healthy financing structure at HAMBORNER with a low Loan to Value (LTV) and a high equity ratio is beneficial for leveraging buying opportunities in the current market environment. As most of the profits of a REIT company have to be distributed, the Company plans to finance future growth with a balanced mixed of equity and loans. In the process, the REIT equity ratio should be above the legally required minimum of 45% at approximately 50%.

Management system

The company's management system is geared to making a contribution to target achievement. It ranges from standardised capital expenditure accounts for individual properties through to an integrated budget and medium-term plan at the company level (earnings, asset and cash flow plan). Monthly controlling reports provide a timely indication of possible deviations from plan; appropriate target-actual analyses are used for drawing up alternative courses of action.

Key ratios in each investment decision are the Internal Rate of Return (IRR) as well as annual earnings and cash flow contributions. At the company level, Funds From Operations (FFO) and the Net Asset Value (NAV) in particular are important control measurements in addition to operational value drivers such as rent development, vacancy rate and maintenance expenditure. Controlling reports and scorecards ensure the intracompany transparency of the trend of these ratios during the year.

Capital increase

On 23 September 2010, the Managing Board, with the approval of the Supervisory Board as at the same date, passed the resolution to increase the share capital of the Company from authorised capital by up to €11,350,000 by issuing up to 11,350,000 new bearer shares against cash contributions. The resolution on the offer price, the subscription price, the subscription ratio and the exact number of the shares to be issued was passed by the Managing Board with the approval of the Supervisory Board on 7 October 2010. The new shares are entitled to participate in dividends from 1 January 2010. The resolution on implementing the capital increase in the amount of €11,350,000 was entered in the Commercial Register on 11 October 2010. Following this entry, the ordinary capital of the company amounts to €34,120,000. The net issue proceeds from the capital increase serve to strengthen the equity base and the financial performance of HAMBORNER REIT AG and will by used by the company for growth through the acquisition of further properties in the context of its investment strategy.

Earnings, financial and asset situation in accordance with IFRS

HAMBORNER systematically pressed ahead with its strategy of profit-oriented growth in 2010 and can look back at a highly successful first year as a REIT. The good operating business trend of the last few years was continued and was in line with expectations. Net rental income amounted to €22.1 million (previous year: €19.9 million) – another double-digit rise of 11.0% (previous year: 13.7%). This was primarily as a result of the new acquisitions in the past two years.

The operating result came to €12.3 million after €10.4 million in the previous year. This rise of 18.3% is due in particular to the higher net rental income. A positive factor impacting the result was what that despite higher business volume, administrative and personnel costs at €3.6 million were almost unchanged year-on-year (previous year: €3.5 million). Depreciation and amortisation amounted to €8.0 million. Due to additions, these were 9.6% up on the figure of the previous year (€7.3 million). We measure our properties at the amortised cost and therefore recognise depreciation of €7.7 million in the reporting year in comparison with €6.5 million in the previous year. In the reporting year, impairment losses amounted to just €0.3 million, which furthermore are offset by write-ups amounting to approximately €2.1 million, which are entered under other operating income.

The result before financing activities and taxes (EBIT) amounted to €14.6 million, up approximately 33.9% on the previous year (€10.9 million). The result from the disposal of properties of €2.2 million, which significantly exceeded the previous year's value of €0.4 million, made a positive contribution here.

The financial result amounted to €-6.3 million in the reporting year (previous year: €-5.0 million). Reduced interest income amounting to €0.3 million (previous year: €0.5 million) was offset significantly by interest payments, in particular from acquisition financing amounting to €-6.6 million (previous year: €-5.5 million) After deduction of the financial result and taxes amounting to approximately €-2.8 million (previous year: €-0.8 million) from the EBIT, there was net income for the financial year of €5.5 million arises (previous year: €5.1 million). Income tax relates primarily to the exit tax triggered by the Company acquiring REIT status. Having obtained REIT status means that the company is exempt from trade tax and corporation tax in future, but at the transition date it still had to identify the hidden reserves and subject them to an exit tax. Against the tax payment of €16.6 million, deferred taxes of €13.8 million were reversed, resulting in a earnings charge of €2.8 million.

For investment properties, there is a carrying amount of €321.5 million after €257.4 million in the previous year. As of 31 December 2010, cash and cash equivalents totalled €83.6 million (previous year: €37.9 million). As at the reporting date, the Company had concluded purchase agreements for properties with a value totalling €100.8 million where the transfer of ownership had not been completed. Cash inflows from the capital increase will thus be invested soon, so that bank balances and cash in hand will move back to a normal level.

On the liabilities side, due to the capital increase equity increased to €225.6 million (previous year: €155.3 million). The company thus has a balance sheet equity ratio of 55.5% (previous year: 52.0%).

Financial liabilities and derivative financial instruments amount to €164.1 million and are €50.4 million above the previous year (€113.7 million). After subtracting cash and cash equivalents, net financial debt of €71.4 million (previous year: €67.9 million) arises. In relation to total non-current assets, this results in a debt-equity ratio of just 22.2% (previous year: 26.1%). If net financial liabilities are related to the fair values of the portfolio, an LTV (loan to value) of 19.3% arises in line with the EPRA guideline (previous year 22.9%).

The financial position of the company remains sound. Cash and cash equivalents increased by €45.7 million as against the previous year to € 83.6 million. Key factors impacting the financial situation in the current financial year were the capital increase with net issue proceeds of €75.7 million and taking up financial loans of €52.6 million. Payments of €65.6 million for acquisitions in the financial year and tax payments (chiefly for the exit tax) of €16.9 million resulted in cash outflows.

The markedly positive earnings situation and as well as the comfortable financial and asset situation of the company endorse the measures and strategy of recent years. The concentration of the business activity on commercial properties, the adjustment of the portfolio with respect to activities not conforming to the strategy as well as the reinvestment of the resources in easy-to-let retail and office properties ensure sustainable and stable cash flows. The conservative accounting of properties at cost is also advantageous. The influencing of results through write-ups or write-downs due to revaluations is far lower than with accounting at market values and therefore the result is less volatile overall. Furthermore, high cash and cash equivalents and low net indebtedness are proof of the strong financial situation of the company.

Earnings, financial and asset situation in accordance with the German Commercial Code

The individual financial statements of the company are prepared in accordance with both the requirements of the German Commercial Code (HGB) and in accordance with the requirements of the International Financial Reporting Standards (IFRS). Differences result essentially from the measurement of properties and from the recognition of costs for the capital increase.

Revenues from property management amount to €27.4 million in the reporting year after €24.2 million in the previous year. Expenses for the management of properties amount to approximately €5.5 million and are thus above the previous year by approximately €0.4 million. Both the increase in the revenues and in the management costs is attributable primarily to the expansion of our property portfolio through investments.

The company's separate financial statements under commercial law show a result from ordinary activities amounting to €2.7 million in the financial year (previous year: €8.3 million). After taxes on income, there is net income for the financial year of €0.0.6 million (previous year: €7.1 million). This decline against the previous year is due to higher tax expenses due to the exit tax and the costs for the capital increase. In contrast to IFRS, these are not subtracted from the issue process by being recognised directly in equity, but are to be recognized in profit and loss as other operating expenses. Total costs for the capital increase amounted to €3.8 million, and explain the increase of other operating expenses. Including the profit carried forward from the previous year, the unappropriated surplus amounts to €19.4 million (previous year: €27.2 million).

The financial statements for the 2010 financial year are also impacted by non-recurring influences in connection with the introduction of the German Accounting Law Modernisation Act as of 1 January 2010. Thus, what were previously were the special tax-allowable reserves were reversed at the start of the financial years, and, after subtracting deferred taxes (€14.6 million) reclassified to other revenue reserves (€77.8 million). For this reason, the income from reversal of special tax-allowable reserves of €3.4 million posted last year has been discontinued. In addition, since the German Accounting Law Modernisation Act has come into force, provisions in line with Article 253 Paragraphs 1 and 2 of the German Commercial Code are to be recognised at the level of the fulfilment amount determined in line with prudent business judgement and with maturities exceeding one year discounted at the market interest rate of the last seven years in line with the remaining duration. The resulting discounting effects at the start of the financial year totalled €166,000 and are recognised in the profit and loss statement under extraordinary expenses.

Total assets increased by €107.8 million and amounted to €408.2 million. As a result of the investments of the reporting year, fixed assets on the balance sheet increased by €62.3 million or 23.8% to €323.8 million. Current assets including prepaid expenses rose €45.6 million and amounted to €84.4 million. On the liabilities side, the equity capital increased as a result of the capital increase and the reversal of the special tax-allowable reserve by €149.4 million to €236.3 million. Investments of the company are still financed partly with borrowed funds. Therefore, the liabilities to banks rose by €49.3 million and amount to €155.1 million. The equity capital and the medium- and long-term borrowed funds cover fixed assets in full. As of 31 December 2010, the company has a balance sheet equity ratio of 57.9% (previous year: 28.9%).

With reference to the financial situation, refer to the relevant statements on the earnings, financial and asset situation in accordance with IFRS.

Overall opinion on the economic position

Overall, the Managing Board assesses the economic position of the company to be good on the date of the preparation of the management report. As the business development in the first weeks of the new financial year is in line with expectations in the case of turnover from rents and leases, the Managing Board assumes future developments will remain positive overall.

Business development in the property sector

Overview of the HAMBORNER property portfolio

The HAMBORNER property portfolio comprised 62 portfolio properties at the end of the reporting year.

The properties are predominantly in large and medium-sized towns in 45 locations in Germany and have a total useable floor space of 218,358 m^2, of which 208,618 m^2 are commercially used and 9,740 m^2 are used as residential space. More detailed information on the year of purchase, location, size, nature of the respective use and on the fair value of all the properties can be found in the following portfolio register.

Additional information with the respective property data can also be downloaded from the Internet at **www.hamborner.de**.

Portfolio
Notarised and transfer of ownership in 2010
Notarised in 2010, transfer of ownership later

Property portfolio register (position at 31 December 2010)

Year of purchase	Property		Building use	Plot size m²	Useable floor area m²
1976	Solingen	Friedenstr. 64	G	27,344	7,933
1980	Krefeld	Krützpoort 1	O	1,056	1,407
1981	Cologne	Von-Bodelschwingh-Straße 6	G	7,890	2,630
1982	Frankfurt am Main	Cronstettenstr. 66	O	1,246	1,828
1982	St. Augustin	Einsteinstr. 26	C	8,610	2,417
1982	Krefeld	Emil-Schäfer-Straße 22-24	C	5,196	2,793
1982	Essen	Hofstr. 10 and 12	B/O	2,320	2,266
1983	Wiesbaden	Kirchgasse 21	B/R	461	1,202
1983	Moers	Homberger Straße 41	B/R	1,291	2,079
1983	Duisburg	Rathausstr. 18-20	B/O/R	4,204	2,310
1984	Frankfurt am Main	Steinweg 8	B/O	167	607
1985	Solingen	Kirchstr. 14 16	B/R	1,119	3,059
1986	Frankfurt am Main	Königsteiner Str. 73-77	G	6,203	2,639
1987	Lüdenscheid	Wilhelmstr. 9	G	136	425
1987	Oberhausen	Marktstr. 69	B/R	358	523
1988	Dortmund	Westfalendamm 84-86	O/R	1,674	2,633
1988	Wuppertal	Turmhof 6	B/O/R	403	1,324
1989	Duisburg	Fischerstr. 91	B/R	421	625
1991	Oberhausen	Marktstr. 116	B/R	461	1,339
1991	Dortmund	Königswall 36	B/O/R	1,344	2,846
1991	Erfurt	Neuwerkstr. 2	B/O/R	579	2,231
1992	Erfurt	Marktstr. 2	B/O/R	495	1,371
1992	Erfurt	Marktstr. 7-9	B/O	365	566
1995	Berlin	Schloßstr. 23	B/R	305	542
1996	Duisburg	Fischerstr. 93	B/R	421	433
1996	Hanover	Karmarschstr. 24	B/O/R	239	831
1997	Augsburg	Bahnhofstr. 2	B/O/R	680	1,438
1999	Dinslaken	Neustraße 60/62 / Klosterstr. 8-10	B/O/R	633	1,210
1999	Kaiserslautern	Fackelstr. 12-14 / Jägerstr. 15	B/O/R/U	853	1,423
1999	Kassel	Quellhofstr. 22	G	5,000	1,992
2000	Gütersloh	Berliner Str. 29-31	B/R	633	1,292
2001	Hamburg	An der Alster 6	O	401	1,323
2002	Düren	Wirtelstr. 30	B/R	202	517
2002	Osnabrück	Große Str. 82/83	G	322	750
2003	Leverkusen	Wiesdorfer Platz 33	B/R	809	588
2004	Oldenburg	Achternstr. 47/48	G	413	847
2006	Krefeld	Hochstr. 123 - 131	G	1,164	3,457
2006	Minden	Bäckerstr. 8 - 10	B/R	982	1,020
2007	Münster	Johann-Krane-Weg 21-27	O	10,787	9,427
2007	Neuwied	Allensteiner Str. 61/61a	G	8,188	3,502
2007	Freital	Wilsdruffer Straße 52	G	15,555	7,940
2007	Geldern	Bahnhofstr. 8	G	12,390	8,749
2007	Lüneburg	Am Alten Eisenwerk 2	G	13,319	4,611
2007	Meppen	Am Neuen Markt 1	G	13,111	10,205

Rents 2010 (incl. rent guarantees)	Weighted residual term of rental agreements (in months)	Fair value*	Discounting rate in %	Capitalisation rate in %	Other comments*
1,379,406	112	15,000,000	6.45	7.00	leasehold property
84,061	58	970,000	8.10	7.50	
296,746	35	4,440,000	6.50	6.60	
357,156	41	5,790,000	6.70	5.90	
300,000	120	3,660,000	6.75	8.25	
158,927	42	1,530,000	8.00	8.50	
282,583	38	3,500,000	7.25	6.80	
538,637	90	11,060,000	5.60	5.00	
200,833	28	2,760,000	7.35	7.25	
170,322	36	2,080,000	8.10	7.00	
313,711	64	5,880,000	4.80	4.85	
338,635	17	3,900,000	7.35	6.75	
325,767	34	4,380,000	7.30	6.60	
66,000	39	950,000	6.25	6.50	
113,523	37	1,140,000	7.90	7.10	
281,610	60	3,890,000	6.75	6.50	
246,449	39	3,000,000	6.75	6.45	
83,201	24	990,000	7.60	7.10	
106,488	53	1,390,000	8.00	7.40	
312,278	71	4,330,000	6.75	6.60	
181,260	44	2,160,000	7.75	6.85	
142,561	50	1,950,000	7.40	6.75	
90,074	55	1,240,000	7.70	6.60	
212,160	60	4,000,000	5.60	5.35	
47,520	26	640,000	7.20	7.00	
257,486	66	4,560,000	5.40	5.25	
458,980	30	6,930,000	6.10	5.75	
167,595	47	2,220,000	7.10	6.90	
417,234	46	7,090,000	6.55	5.80	
182,310	60	1,780,000	8.00	7.50	
343,310	58	3,680,000	6.30	5.75	leasehold property
242,666	24	3,730,000	6.30	5.85	
137,982	60	1,920,000	6.90	6.40	
306,000	96	5,620,000	6.05	5.60	
147,587	28	2,510,000	6.55	6.10	
243,600	87	4,170,000	6.30	5.90	
503,873	37	8,350,000	6.80	6.20	
310,214	76	4,790,000	6.40	5.90	
1,094,443	36	14,910,000	6.90	6.60	
305,766	68	4,910,000	7.50	7.40	
738,454	130	10,080,000	6.65	7.15	
813,615	106	8,300,000	6.75	6.90	partly leasehold property
428,790	130	5,890,000	6.60	6.95	
949,040	106	13,490,000	6.60	6.90	partial ownership

Property portfolio register (position at 31 December 2010)

Year of purchase	Property		Building use	Plot size m²	Useable floor area m²
2007	Mosbach	Hauptstr. 96	G	5,565	6,493
2007	Villingen-Schwenningen	Auf der Steig 10	G	20,943	7,270
2008	Rheine	Emsstr. 10-12	B/O/R	909	2,308
2008	Bremen	Hermann-Köhl-Straße 3	O	9,994	7,157
2008	Osnabrück	Sutthauser Straße 285-287	O	3,701	3,833
2008	Bremen	Linzer Str. 7 - 9a	O	9,276	10,141
2008	Herford	Bäckerstr. 24 - 28	G	1,054	1,787
2008	Freiburg	Robert-Bunsen-Straße 9a	G	26,926	9,253
2009	Münster	Martin-Luther-King-Weg 18 - 28	O	17,379	13,784
2009	Hamburg	Fuhlsbüttler Str. 107-109	B/O/R	1,494	2,960
2009	Hamburg	Ziethenstr. 10	C/O/R	3,349	2,095
2009	Duisburg	Kaßlerfelder Kreisel	G	10,323	5,119
2010	Erlangen	Wetterkreuz 15	O	6,256	7,343
2010	Hilden	Westring 5	G	29,663	10,845
2010	Kamp-Lintfort	Moerser Str. 247	G	1,324	2,093
2010	Stuttgart	Stammheimer Str. 2	G	6,853	6,395
2010	Ingolstadt	Despagstr. 3	O/B	7,050	5,623
2010	Lemgo	Mittelstr. 24-28	G	2,449	4,709
Total				**324,258**	**218,358**

O Office space and medical practices
B Business space(retail, self-service shops, department stores, catering)
C Other commercial and production space
R Residential space
U Undeveloped reserve space

* According to the Jones Lang LaSalle valuation report, valuation date 31 December 2010
** Pro rata temporis rents as from transfer of ownership

Rents 2010 (incl. rent guarantees)	Weighted residual term of rental agreements (in months)	Fair value*	Discounting rate in %	Capitalisation rate in %	Other comments*
603,825	106	8,400,000	6.75	7.05	
373,240	25	3,810,000	9.00	7.35	
351,728	38	5,200,000	6.50	6.30	
617,380	24	9,650,000	7.00	6.70	
474,613	40	6,840,000	6.75	6.65	
1,168,521	27	15,950,000	6.75	6.70	
275,208	68	4,220,000	6.30	6.10	
930,210	90	7,770,000	7.15	7.20	leasehold property
1,693,070	23	22,110,000	6.60	6.60	
469,482	41	6,970,000	6.30	5.90	
170,181	19	1,970,000	8.10	7.50	
663,639	149	9,000,000	7.20	6.90	
934,925 **	75	15,360,000	6.60	6.50	
481,952 **	159	11,940,000	6.55	7.30	
134,241 **	106	3,390,000	6.60	6.80	
535,484 **	210	16,860,000	6.30	7.00	
219,509 **	108	12,920,000	6.60	6.40	
65,203 **	120	8,230,000	6.80	6.40	
24,841,264		**376,150,000**			

Development of rental and leasing income

Rental and leasing income amounted to approximately €25.0 million in the reporting year and has thus increased considerably by approximately €2.5 million compared with the year 2009 due to the new investments. However, on a comparative basis – i.e. in the case of properties that were in the portfolio throughout the years 2009 and 2010 – net rents at €19.6 million overall were slightly below the previous year's level (€19.9 million). Uncollectable receivables and individual value adjustments in the reporting year 2010 were again at a low level at approximately €69,000 (previous year: €50,000).

The overall vacancy rate in the financial year 2010 decreased compared with the previous year (3.5%) to 2.5%. The vacancies also relate to spaces in recently purchased properties, for which there are rent guarantees. The revised economic vacancy rate (including income from rent guarantees) is just 1.5% (previous year: 1.1 %).

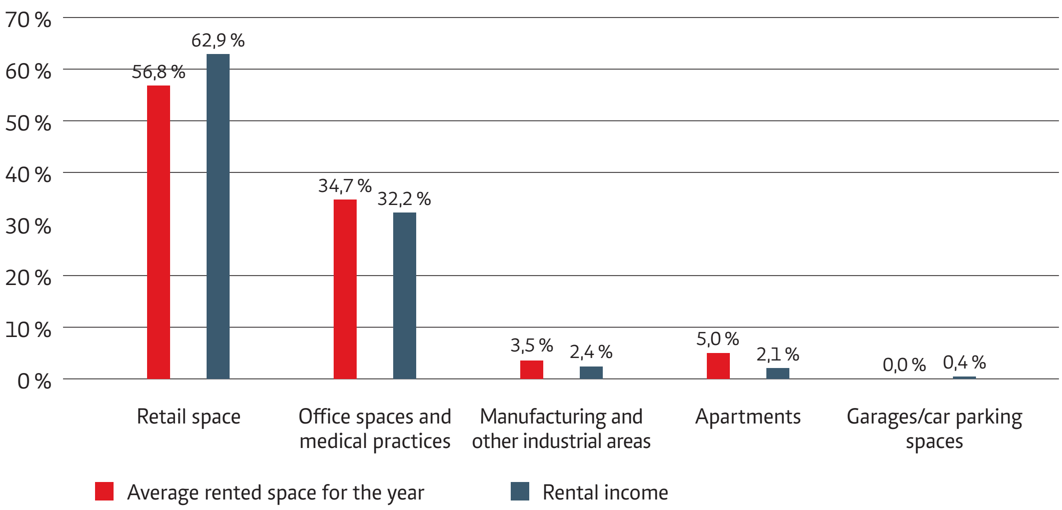
The following table gives an overview regarding the company's ten biggest tenants

Company	Rental income in %*
1 Kaufland Group	17.0
2 EDEKA Group	10.6
3 AREVA NP GmbH	3.7
4 OBI	3.3
5 Telefonica O2	3.0
6 German Federal Employment Agency	2.9
7 Kaspersky Labs GmbH	2.7
8 REWE	2.3
9 Nordsee	2.0
10 Douglas Holding	2.0
Total	**49.5**

* according to share of annualised rents

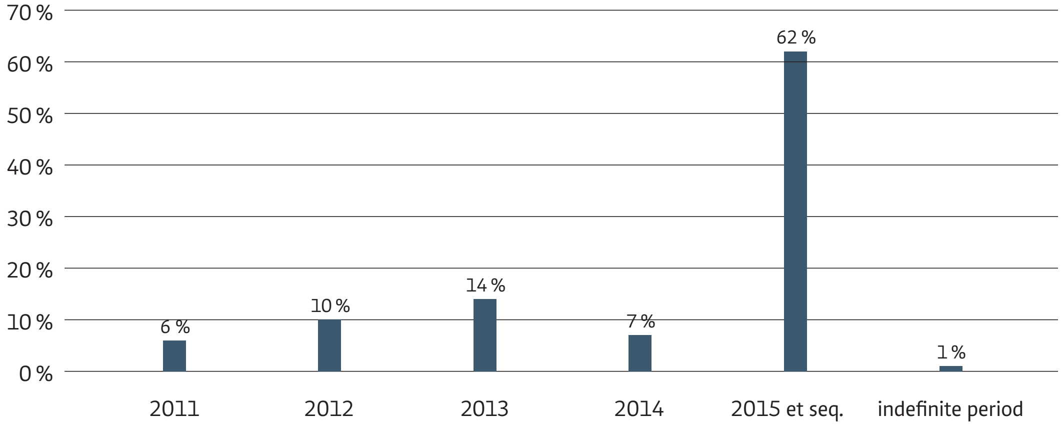
We obtain the greatest part of the rental income from spaces used for retail trade, which have already proved to be reliable for letting in the last few years.

The portfolio breaks down as follows in 2010 by types of usage and contribution to the rental income:



The residual term of our commercial rental agreements weighted according to rental income amounts to 6.5 years. The weighted residual term for the office sector is 4.1 years, 5.4 years for commercial properties and approximately 9.5% years for retail trade spaces. Over 60% of the contractual rental income does not expire until 2015 and later

Rental agreement expiries *



* Rental agreement expiries in relation to rental income

Rent income constitutes the key source of revenues for our Company. Tracking the development of their structure, the rental agreement expiries, the vacancy rates, the rent arrears and losses are material elements of the monthly controlling reports.

Building and property maintenance

The objective of building and property maintenance at HAMBORNER is the ongoing care and optimisation of the managed properties. This secures rentability and value retention on the long-term basis. For this reason, all individual properties are regularly examined by our structural engineering department and work required for retaining the asset values and improving energy efficiency initiated promptly. Ongoing modernisation, optimisation of space in line with tenant requirements as well as occasional overhauls of individual properties are a decisive factor in increasing the general appearance of our portfolio properties.

In 2010, in our 62 portfolio properties we implemented numerous individual scheduled technical measures, e.g. restoration of flat roofs and partial renewal of building technology installations. This is done especially when there is a change of tenant, making it possible to carry out an overhaul of the spaces which have become free before they are rented again. A total of €1.7 million was spent (previous year: €1.3 million).

The largest individual measures in the reporting year related to modernising a store in our retail centre in Neuwied, Allensteiner Straße, renovating the roof and the facade of the commercial building in Hamburg, Fuhlsbüttler Straße, as well as expanding rental space in our office building in Münster, Johann-Krane-Weg. A total of €400,000 was spent on these individual measures.

In Cologne, von Bodelschwingh-Straße, we intend to expand the existing REWE market. We intended to start construction in 2009. However, the necessary agreements, particularly with the City of Cologne, took longer than planned. However, planning permission has now been granted so that the measures can be implemented from the spring of 2011. Construction costs will amount to approximately €1.5 million. Construction will take roughly six months, so that it is expected that the measures will be completed in the autumn of 2011.

Performance of the property portfolio

The historical acquisition and construction costs of our properties listed in the portfolio register amounted to €374.8 million overall at the end of 2010 (previous year: €308.4 million). The option listex in the IFRS balance sheet was utilised in accordance with IAS 40 (30) in conjunction with (56), so that the portfolio properties were reported at cost determined in accordance with IAS 16. As at 31 December 2010, the amount stated on the balance sheet was €315.4 million (previous year: €254.3 million).

We had our property portfolio valued by an external expert again at the end of 2010. Jones Lang LaSalle was commissioned to determine the market value of the property portfolio and to document it in the form of an expert report. The valuation was carried out on the basis of the generally recognised "International Valuation Standards" (IVS) and the guidelines of the "Royal Institution of Chartered Surveyors" (RICS) regarding the valuation of assets.

"The market value is the estimated value for which a property is exchanged between a willing buyer and a willing seller on the valuation date, whereby each of the parties has acted independently after proper marketing, knowledgeably, prudently and without obligation."

The definition above corresponds to that of the "fair value model", as found in the International Financial Reporting Standards under IAS 40. The valuation was carried out on the basis of a Discounted Cash Flow (DCF) process. The cash flows to be expected in each case were determined for a consideration period of 11 years – 2011 to 2021 – within the DCF process. The market value of a property is derived from the sum of the discounted cash flows of the overall planning period plus the residual value also discounted on the valuation date.

When determining the cash flows, rental income was always reduced by the property-specific costs and not those apportionable to the tenant. In addition, the expected expenses for maintenance or modernisation as well as the expected administrative expenditure were deducted. In the case of agreements with long-term contract periods, rent increases were taken into account on the basis of indexations in individual cases. Rent forecasts were prepared if rental agreements were terminated within the consideration period. They were discounted on the valuation date for calculation of the cash value of future cash flows. The discounting rates range between 4.8% and 9.0% and take into account the respective property-specific risks.

We have indicated the rent incomes as an important value for determination of the net cash flows, the discounting rates and the capitalisation rates separately for each stock property in the preceding property list. The fair values determined by Jones Lang LaSalle are also individually listed.

A total market value amounting to €376.2 million is calculated for the HAMBORNER property portfolio overall, which is €68.3 million above the previous year's portfolio value.

The difference arises from fair value disposals amounting to €0.9 million through sales, from fair value additions through purchases amounting to €68.7 million as well as from a fair value reduction in the asset portfolio year-on-year due to a revaluation of approximately €0.5 million.

The revaluation of the properties at 31 December 2010 underlines the stable value of the HAMBORNER property portfolio. Moreover, on the basis of our conservative accounting at amortised acquisition and construction costs – and not at higher market values – we depreciate our portfolio according to the schedule, so that potential revaluation reductions are borne by hidden reserves, but do not inevitably have a negative impact on the result. However, there is even write-up potential with constant or increasing fair values for properties that were subjected to a non-scheduled depreciation in previous years. Due to the stable performance of our portfolio, we recognised write-ups amounting to €2.1 million in the reporting year, which are offset by non-scheduled depreciation to the extent of just €0.3 million. The overall result is therefore positively influenced by approximately €1.8 million in total (previous year: €0.6 million).

Successful new investments at HAMBORNER

Our corporate strategy is aligned to value-creating growth on the basis of a profit-oriented expansion of the existing commercial property portfolio in the areas of large-scale retail, commercial buildings in A1 locations and offices, at the same time maintaining a regional diversification. The objective is to increase further the profitability of the property portfolio by acquiring additional above-average properties with strong yields.

New investments, excluding additional purchase expenses, of €64.4 million (previous year: € 40.0 million) were transacted and ownership transferred in financial year 2010. In line with our strategy, with the new investments we concentrated on the asset classes stated above. At the end of December 2009, a purchase agreement was concluded for a new office property in Erlangen with a long-term rental agreement covering the whole property. This property was transferred into the ownership of the company in the middle of February 2010. In addition, purchase agreements where the transfer of property occurred in 2010 were concluded for an OBI store in Hilden, a High Street property in Kamp-Lintfort (in the package with Hilden), an EDEKA store in Stuttgart, a High Street property in Lemgo and an office property in Ingolstadt.

More specifically, the following new investments were transacted in the financial year 2010 with transfer of ownership:

City	Address	Use	Space in m²	Rental income (in € thou p.a.)
Erlangen	Wetterkreuz 15	Office	7,343	1,080
Hilden	Westring 5	Retail	10,845	899
Kamp-Lintfort	Moerser Str. 247	Retail	2,093	250
Stuttgart	Stammheimer Str. 2	Retail	6,395	1,200
Lemgo	Mittelstr. 24-28	Retail	4,709	568
Ingolstadt	Despagstr. 3	Office	5,622	867

In addition, in 2010 purchase agreements with a volume of €97.6 million have already been already notarised for an EDEKA market in Freiburg (in the package with Stuttgart), an office building in a A1 location in the Bad Homburg v.d.H. pedestrian zone, a medical centre in Regensburg, an office property in Brunnthal (in the package with Regensburg), a retail and office centre in Erlangen and an OBI store in Leipzig. It is expected that the property in Freiburg will be transferred after completion in 2012, with the properties in Bad Homburg v.d.H., Regensburg, Brunnthal, Erlangen and Leipzig being transferred during 2011.

Depending on the developments on the property transactions market, HAMBORNER will grow further in the asset categories of office and retail trade properties in 2011.

Sales from the asset portfolio

We sold one portfolio property in the financial year 2010. The office building located in the pedestrian zone of Hamm was no longer in line with our current requirements profile due to the property size, location and lack of upside potential. The property was sold at a price in line with market conditions with a slight book profit of €4,000. In the future, we intend to sell further portfolio properties which are classified as no longer conforming to the strategy, for instance due to the location, tenant structure, property size, the administration requirement or potential for a rent increase.

Explanatory notes on the property portfolio

In 2010, we made great progress in selling our agricultural and forestry land. We sold approximately 1.86 million m² of this land from the portfolio in Duisburg North, Dinslaken and Hünxe to the forestry office (Landesbetrieb Wald und Holz NRW). In addition, an undeveloped piece of land used for leisure purposes of approximately 200,000 m² in Hünxe-Bruckhausen was sold to the previous leaseholder. Overall, we notarised five sales, selling land with a total area of approximately 2.1 million m² from our existing holdings, in the process achieving income of approximately €2.8 million.

As of 31 December 2010, after these sales the Company still owned land totalling approximately 2.7 million m². They mainly include scattered agricultural areas and forest land acquired during our earlier mining period. The remaining portfolio of this existing holding is located in the area of the municipalities of Dinslaken, Hünxe and Duisburg. The property portfolio as of 31 December 2010 breaks down as follows by types of usage compared with the previous year:

in m²	31/12/2010	31/12/2009
Properties with business or commercial premises	257,592	204,404
Undeveloped residential properties*	4,600	4,600
Undeveloped commercial and industrial sites	6,000	6,000
Land for agriculture and forestry	2,437,434	4,523,665
Total	**2,705,626**	**4,738,669**

identified by means of the development plan or suitable for building in accordance with Section 34 of the German Federal Building Code [BauGB]

The areas shown as land for agriculture and forestry with approximately 2.4 million m² are for the large part in the peripheral outer area. In this regard, there are also only occasionally prospects for future re-zoning to commercial or residential building land in the long-term. The undeveloped real estate was valued at cost in the balance sheet. After the sale of almost 2 million m² forest areas, the average value is €0.83/m².

Workforce

Our employees shape the image of the company in the eyes of our clients and business partners. With great personal commitment and a high willingness to assume responsibility in their respective assignment areas, they have contributed in a material fashion to the success of our company in its important first REIT financial year of 2010.

HAMBORNER employed 24 employees on an annual average, including the two members of the Managing Board (previous year: 25). The remuneration arrangements for the members of the Managing Board are shown in detail in the remuneration report.

Proposal for the appropriation of profits

The basis for the dividend distribution is the unappropriated surplus under commercial law. The profit for the financial year determined in accordance with the provisions of the German Commercial Code amounted to €606,046.17 in the reporting year. An unappropriated surplus of €18,811,650.31 arises in addition to the profit carried forward from the previous year of €19,417,696.48.

The Managing Board will propose to the Annual General Meeting of the Company on 17 May 2011 the distribution of a dividend of €0.37 for each share from the unappropriated surplus of the 2010 financial year amounting to €19,417,696.48 and carry forward of the remaining amount of €6,793,296.48 to new account.

Supplementary report

On 5 January 2011, the ownership of the office property in Blumenthal near Munich was transferred to us and the purchase price of €12 million paid. On the same date, we also made a contractually agreed advance payment of €16.5 million on the purchase price for a medical centre in Regensburg. The remaining purchase price will be due when the ownership of the property is transferred.

No further transactions of particular importance have occurred since the end of the financial year.

Risk report

Principles of our risk policy

As a property company operating across Germany, HAMBORNER is exposed to various risks that can negatively affect the net worth, financial position and earnings of the company. To reduce the risks, we have tailored our business policy to avoid from the outset business lines with a particularly high-risk potential. In this regard, we did not involved ourselves again in 2010, as in the past, in highly speculative financial transactions or property developer schemes. We assume appropriate, manageable and controllable risks, provided that an adequate appreciation in value can be expected from the opportunities counterbalancing them.

Risk management

In order to delimit risk, we have implemented a risk management system for the prompt identification and handling of risks that could be of significance for the economic position of the company. It conforms to the requirements specified by the German Law on Control and Transparency in the Corporate Sector (KonTraG) and is subject to a regular review. Appropriate adjustments or extensions are undertaken in the event of changing economic conditions. The early risk detection system is examined by the statutory auditor within the framework of the annual audit of the annual financial statements.

The company's risk management system is closely related to operational procedures – particularly the planning and controlling processes – and comprises several stages. Of central importance in this regard is the risk inventory, with the help of which the possible individual risks are recorded, analysed and assessed in terms of probability of occurrence, the possible level of loss and the associated exposure potential. In addition, measures for risk management and prompt risk handling are outlined and the internal responsibilities defined. Reporting, streamlined organisational structures and transparent decision-making channels ensure that the Managing Board is directly included in all risk-relevant transactions. The processes of the accounting system are executed only by our own qualified employees. The company prepares and communicates interim reports in addition to annual reports. The half-yearly financial statements are subject to an audit review by the company's statutory auditor.

In the valuation of the investment properties and the determination of the company's pension obligations, we call in additional experts for the annual financial statements. The principle of dual control, taking into consideration appropriate signature rules is applied to all significant transactions. There is clear functional separation within the company between technical and commercial building management as well as the accounting. Standardised and certified IT programmes are employed in the finance and accounting system. For the internal IT equipment, there are firm access rules for read and write permissions in line with with the individual areas of responsibility of the respective employees.

Representation of the individual risks

We describe below the risks that can have serious repercussions on the net worth, financial position and earnings of the company.

Risks of future macroeconomic development

HAMBORNER is affected by the economic and political environment. After the years of recession, the German economy is back on a growth course. However, the duration and sustainability of this trend is unknown. The market environment for our Company also depends on the overall future economic development. However, by virtue of our business model and our capital position, we regard ourselves well-positioned, even under these difficult economic conditions.

Risks of the market in the property sector

We expect high level of demand again in the current financial year for our properties in A1 locations of the pedestrian zones. It remains to be seen how the general economic environment will develop for office buildings in 2011. There are still vacancy risks for outdated office spaces or properties in second-rate locations used for retail trade.

Regardless of economic risks, the property industry is subject to distinct market cycles, which can have an adverse impact on the retention of value and rentability of the properties held in the portfolio. We try to anticipate this risk through intensive observation of the market and by maintaining close contact with our tenants, and endeavour to minimise risks of a loss of rent by concluding contracts with as long a term as possible with tenants with a good credit rating.

General letting risks

Through the broad regional diversification of our property portfolio currently including over 45 locations, we attempt to keep the consequences of specific negative local influences, as can arise through the construction of oversized shopping centres, for example, to a minimum for the entire portfolio. In addition, a good location and the greatest possible flexibility of use are important criteria for us when purchasing properties. Moreover, we endeavour to limit letting risks through regular monitoring and improvement of the structural quality of the properties. The self-management of all the portfolio properties enables us to react quickly to a probable change of tenant with selective subsequent lettings.

The aforementioned measures for minimising the letting risk have meant that we have been able to achieve a very high occupancy rate in past years. The average vacancy rate amounted to 2.5% in financial year 2010 (previous year: 3.5%), which represents a low level. We ensure a good occupancy rate in the case of new investments. Furthermore, rent guarantees cover letting risks in some cases.

Risks of a loss of rent

We reduce the risk of rent losses, particularly due to tenants' inability to pay, by means of an efficient debt management system, the regular monitoring and review of the creditworthiness of our tenants and the agreement of rent securities that are appropriate to the risk. Uncollectable receivables and individual value adjustments amounted to approximately €69,000 in the 2010 financial year (previous year: €50,000), thus representing 0.3% (previous year: 0.2%) of our annual rental income. An increase in uncollectable receivables cannot be ruled out for the current financial year, depending on ongoing economic developments. However, major rent losses are not discernible at present due to our tenant structure. The Kaufland Group is our biggest single tenant with a share of approximately 17.0% of the total rental volume. In view of the creditworthiness of this tenant and the location of the properties, we consider the resulting risk to be manageable.

Valuation risks

The retention of value of our properties is checked annually using the generally recognised DCF method. We had the valuation for our commercial property portfolio carried out by an independent third party again at the end of 2010. Detailed information on the valuation of our property portfolio can be found in the section "Performance of the property portfolio". For the 2010 financial year, extraordinary depreciation of €0.3 million was recognised in the financial statements in accordance with IFRS on the basis of the valuations carried out (previous year: €0.7 million). On the other hand, €2.1 million of an impairment taken on a total of ten properties in previous years was reversed (previous year: €1.3 million). Influences may arise on the valuation of properties in the future as well by the application of different discount interest rates as a result of changes in the general risk assessment, the interest rate level or property-specific risks.

Financial risks

The asset and financial structure of our company remains extremely sound. Financial liabilities and derivative financial instruments amounted to €164.1 million at the end of the reporting year. The balance sheet equity ratio of the company in the separate financial statements in accordance with IFRS amounts to 55.5% at the end of the year under review. For the financing of our growth, additional borrowed funds will also be raised in the future to an appropriate extent. Therefore, the development of the interest rate level is of corresponding importance for the company. In order not to be subject to short-term interest rate risks, we have financed our investments at terms fixed for the long term, via interest rate hedges in some cases. You will find further details on the interest rate hedging transactions using financial instruments in the notes on the accounting methods and under Note (18).

The risks resulting from the financial instruments relate to credit, liquidity and market risks. There are credit risks in the form of risks of default on financial assets. The maximum value of this risk is the carrying amount of the financial assets. For derivatives, this is the sum of all the positive market values and, for primary financial instruments, the sum of the carrying amounts. If risks of default exist, they are taken into account by means of value adjustments.

Liquidity risks constitute refinancing risks and thus risks of a fulfilment of existing obligations to pay when due. The strategy and the results of the planning process are taken as a basis for the early identification of the future liquidity situation. The expected liquidity requirements are scheduled in the medium-term plan, which covers a period of five years.

There are market risks at HAMBORNER due particularly to potential changes of the market interest rate. The Company finances its operating activities using borrowed funds and equity capital in the framework of the permitted limits of the German REIT Act. For floating rate financial instruments, changes in market interest rates can result in fluctuations of interest payments and the measurement of the derivative financial instruments deployed.

Since 1 January 2010, HAMBORNER has been a REIT public limited company. As such, it is exempt from German corporation and trade tax. Under the REIT status, therefore, the tax risks cited in the past due to the "interest barrier" or claiming the "prerogative of extended trade tax reduction" do not apply for the company. In order to maintain the REIT status over a long period, the company has to comply with legal criteria. The key factors are that the free float must be at least 15%, no investor may directly hold more than 10% of the shares, at least 75% of the assets must be immovables, 90% of the annual result in accordance with the German Commercial Code is to be distributed and the equity capital may not fall below 45% of the fair value of the immovables. We counteract the risk of losing the REIT status by means of our internal monitoring and controlling system. We monitor the development of the decisive ratios for the classification as a REIT company, particularly the development of the REIT equity ratio in accordance with Section 15 of the German REIT Act, which at 74.9% on the reporting date of 31 December 2010 was considerably above the required minimum equity ratio of 45%.

Tax risks

The last external tax audit of the company related to the financial years up to and including 2006. No external tax audits have yet been held for the following financial years up to the conversion to a REIT public limited company. For this reason, it cannot be excluded that future tax audits at the company could result in additional tax demands and/or demands from incidental tax expenses. There is also the risk that due to differing application, interpretation and /or assessment in the context of the exit taxation could result in subsequent taxation and thus lead to additional tax payments.

Legal risks

Within the framework of its business activity, HAMBORNER is not currently involved in any significant court cases or threatened legal disputes.

Since 2007, we have knowledge of a possible compensation claim against various other companies amounting to approximately €1.3 million on account of subsidence. It should not be ruled out that HAMBORNER will also be included in a possible action in this connection.

Subsidence risks

Potential risks continue to exist from our former mining activity, e.g. due to mining-related damage or shaft stabilisation. The associated economic risk and the extent of possible refurbishment work that may become necessary were determined and assessed by an expert in 2005. For possible additional safety measures that become necessary in the long-term due to altered water drainage in the area of our former coal fields, we will increase our subsidence provisions in the long term to approximately €1.6 million overall.

The possible compensation claim mentioned under "Legal risks" relates to a coal field located in Duisburg. As a former co-owner, HAMBORNER is liable for claims from the old mining industry to an extent of 50%, so that a pro rata claim should not be ruled out. Therefore, in the financial statements in accordance with IFRS and in the separate financial statements of the company under commercial law, a provision amounting to €0.7 million was created in 2006 as a precaution.

No other contaminated land risks, e.g. due to soil pollution, exist according to today's information. An inspection of the register of contaminated sites has been carried out at the respective municipalities with regard to our entire developed and undeveloped property holdings. No significant risks were found in this regard.

Summarised assessment of the risk situation

In the overall assessment there are currently no risks jeopardising HAMBORNER as a going concern, either from the income and asset or the liquidity standpoint.

Forecast report

Orientation of the company

HAMBORNER is a commercial real estate company operating nationwide and will also maintain this orientation in the future. With the conversion into a REIT, the requirements that ensue from the German REIT Act apply as from the beginning of 2010. These relate in particular to the object of the company as well as compliance with requirements relating to capital and company law. The latter includes a minimum equity ratio of 45% on a fair value basis.

In view of our very good capital position and also as a result of the successful capital increase, we consider ourselves excellently positioned and well-equipped for further growth. We can and will take advantage of market opportunities which present themselves. We will use the net issue proceeds from the capital increase for the successive acquisition of properties in line with our strategy.

Our strategy is geared to the medium and long term. We will also maintain the sound financing structure in the future and finance investments with an appropriate deployment of borrowed funds of approximately 60%. Parallel to the expansion of the portfolio, the optimisation of the portfolio through sales will be an ongoing task. This relates primarily to older, mainly smaller properties no longer conforming to the strategy.

Expected economic environment

After gross domestic product (GDP) in Germany declined by roughly 4.7% in 2009, general economic conditions improved considerably in 2010. After GDP increased by approximately 3.6%, it is expected that the upturn will continue in the future, even if the level is somewhat lower. Driven particularly by domestic demand, GDP growth of 2.0% is forecast for 2011 and approximately 1.7% for 2012.

The situation on the employment market is regarded considerably more positively than one year ago. According to recent estimates, the number of unemployed people could decrease from approximately 3.2 million in 2010 to 3.0 million in 2011 and 2.8 million in 2012. This corresponds to an unemployment rate of 6.7%. At the present moment, it is difficult to forecast the trend for consumer prices. Up to now, it was expected that consumer prices would increase only slightly in the coming years, namely by about 1.3% in 2011 and approximately 1.6% in 2012. In January 2011, according to preliminary estimates of German Federal Statistical Office, the consumer price index rose comparatively strongly, by 1.9%. Inflationary dangers were fuelled by factors including increasing commodity and food prices worldwide.

Future situation in the industry

Letting market

As the overall economic outlook for the next two years is generally positive, we anticipate that this trend will also be reflected in the retail and office markets. Take-up should move up slightly in both markets.

In the office area, the increase will be achieved less though large-volume rentals, but rather through an ongoing broad-based recovery. Due to the trend to declining construction activity, prime rents are set to rise slightly again.

In the retail segment, demand for space is being driven primarily by the international chain stores. Here too, we anticipate a further rise in rents in the future.

Investment market

Positive market sentiment will further stimulate the investment markets over the next few years. In 2011, we expect a transaction volume exceeding €20 billion. This presupposes no great deflection from international financial markets and that investors continue to show more interest in core-plus and value-added products.

It cannot be excluded that yields will continue to fall slightly. However, it is likely that the low point is not too far away. The share of international investors and portfolio transactions in total volume could rise further.

Anticipated business development

In recent years, and especially in the past recession, HAMBORNER has proved to be very sound and comparatively unscathed by the crisis. For 2011 and 2012 as well, on the basis of a stable market environment, we expect increasing operating results (FFO). Rent income constitutes the key earnings source on the basis of the business model as a long-term portfolio holder. For 2011, we expect a further increase in rental income compared with the previous year, attributable in particular to the new acquisitions transferred in 2010 and to the purchases already recorded but only being added in 2011. These investments mean that the cash holdings will move back to normal with there being an appropriate level of debt.

With company growth continuing, we also expect steadily increasing total rental income in the following years With respect to the economic vacancy rate and the rent losses, we expect a low level in the future as well. With respect to the large rental agreements which expire in 2011, we anticipate extensions or rapid new rentals. In addition, our main tenants have a good credit standing. In the case of the spaces available for subsequent letting in 2012, we are confident of achieving agreement extensions or new lettings in good time. It appears that our company has a sound foundation overall due to the income secured by letting, particularly from the retail trade sector.

In the wake of the REIT conversion and the associated long-lasting exemption of the company from corporation and trade tax, the hidden reserves of the company were to be determined and taxed once. In 2010, this resulted in a tax advance payment to €16.6 million. The final level of the exit tax will be determined in the pending external tax audit for the 2007 to 2009 period. It is expected that this will commence in 2011.

HAMBORNER finds itself well-positioned with respect to its competition as a result of the REIT conversion, the structure of the property portfolio and due to the financial strength of the company. This does not preclude further volatility of property prices and thus an impact on the valuation of the portfolio properties.

However, with a continuing low or only slightly increasing interest rate levels, this presents a favourable environment for additional purchases. Nevertheless, new acquisitions must satisfy our quality and yield requirements, so that timings of possible purchases and also portfolio adjustments through selective sales are not precisely predictable.

Overall, we expect a further increase in the operating results for 2011 and subsequent years, which allow appropriate and, as far as possible, increasing distributions. This presupposes that we remain spared from significant unforeseeable reductions in earnings.

Final declaration on the report regarding relationships with affiliated companies (Article 312 German Stock Corporation Act)

In accordance with Article 312 of the German Stock Company Act [AktG], the Managing Board has prepared a report for the 2010 financial year regarding the relationships with affiliated companies. The report contains the following final declaration:

"The Managing Board conclusively declares that, according to the circumstances that were known to it on the date when the legal transaction was carried out, the company secured an appropriate consideration in the case of each legal transaction."

Report on additional information under company law (Article 289 Paragraph 4 German Commercial Code)

Composition of the subscribed capital

As of 31 December 2010, the subscribed capital of the company stood at €34,120,000. The share capital is divided into 34,120,000 no-par-value shares, each with a nominal amount of €1. The shares are fully paid-up. The company is authorised to issue global certificates for shares. The shareholder's entitlement to securitisation of their share is excluded. Each no-par-value share grants one vote in the Annual General Meeting, but rights from shares which belong to a registrant or from which voting rights are allocated to them in accordance with Article 22 Paragraph 1 Clause 1 No. 1 or No. 2 of the German Securities Trading Act, do not exist for the period for which the disclosure requirements in accordance with Article 21 Paragraph 1 or Paragraph 1a of the German Securities Trading Act are not fulfilled.

Hereby excluded in accordance with Article 28 Clause 2 of the German Securities Trading Act are entitlements in accordance with Article 58 Paragraph 4 of the German Stock Company Act and Article 271 of the German Stock Company Act if the notification was not wilfully omitted and the situation has been rectified. For the rights and obligations of shareholders, reference is made to the German Stock Company Act, particularly to the right herein to attend the Annual General Meeting, Article 118 Paragraph 1 of the German Stock Company Act, the right to obtain information in accordance with Article 131 of the German Stock Company Act, the voting right in accordance with Article 133 et seq. of the German Stock Company Act as well as the entitlement to participate in the unappropriated surplus, Article 58 Paragraph 4 of the German Stock Company Act.

Restrictions that relate to voting rights or the transfer of shares

The shares issued by HAMBORNER are subject to no restrictions at all in this respect.

Participations in the capital that exceed 10 % of the voting rights

Details of notifications regarding the existence of a participation are explained in the notes to the financial statements under "Other explanatory notes and compulsory details".

Shares with special rights that bestow controlling powers

No such special rights are contained in any of the shares issued by the company.

Nature of the voting right control if employees have an interest in the capital and do not exercise their control rights directly

HAMBORNER has no employee share programme. If employees have purchased shares, they exercise their rights arising thereof directly themselves directly in accordance with the statutory requirements and the provisions of the Articles of Association.

Statutory requirements and provisions of the Articles of Association regarding the appointment and removal of members of the Managing Board and the amendment of the Articles of Association

Members of the Managing Board are appointed by the Supervisory Board for a maximum of five years pursuant to Article 84 Paragraph 1 of the German Stock Company Act. A repeated appointment or extension of the term of office is permitted, for a maximum of five years in each case. If a necessary member of the Managing Board is missing, the court has to appoint the member in urgent cases at the request of a party involved, pursuant to Article 85 of the German Stock Company Act. The Managing Board of the company consists of several members, in accordance with Article 7 Paragraph 1 of the Articles of Association, whose number the Supervisory Board determines. The Supervisory Board may nominate one member as Chairman in the process, pursuant to Article 84 Paragraph 2 of the German Stock Company Act. Furthermore, it may withdraw the appointment as a member of the Managing Board and the nomination as Chairman of the Executive Board in accordance with Article 84 Paragraph 3 of the German Stock Company Act if a compelling reason exists.

Any amendment to the Articles of Association requires a resolution of the Annual General Meeting pursuant to Article 179 of the German Stock Company Act. In the process, the Annual General Meeting may delegate the authority for amendments to the Supervisory Board which only relate to the wording (Article 179 Paragraph 1 Clause 2 of the German Stock Company Act). The authority is delegated to the Supervisory Board pursuant to Article 12 Paragraph 3 of the Articles of Association of the company. An extraordinary resolution of the Annual General Meeting is required for the amendment to the Articles of Association, which entails at least three quarters of the share capital represented in the voting (Article 179 Paragraph 2 Clause 1 of the German Stock Company Act). In accordance with Article 179 Paragraph 2 of the German Stock Company Act, the Articles of Association may stipulate other capital majorities and provide for additional requirements.

Powers of the Managing Board for the issuing of shares or for a share buy-back
As of the reporting date, the Managing Board had no authorisation to issue or buy back shares.

Fundamental arrangements of the company which are conditional on a change of control as a result of a takeover offer, and consequences following from this
The company has not concluded such arrangements.

Company's agreements for compensation reached with members of the Managing Board or employees in the event of a takeover offer
There are no agreements for compensation of this kind.

Declaration on the company management in line with Article 289a of the German Commercial Code

With the declaration on company management, the HAMBORNER REIT AG represents key elements of its corporate governance structures: the declaration compliance of the Managing Board and Supervisory Board, key corporate management practises which go beyond the legal requirements, the operating procedures of the Managing Board and the Supervisory Board and the composition and operating procedures of their committees. The declaration on the company management can be viewed on our website at www.hamborner.de in the section Investor Relations/Corporate Governance/Declaration on Company Management section.

Remuneration of the Managing Board and the Supervisory Board

Detailed explanations on the remuneration system and on the remuneration of the Managing Board and Supervisory Board can be found in our corporate governance report on page 23 et seq. The statements made there are part of the management report.

Duisburg, 28 February 2011

The Managing Board

Dr. Rüdiger Mrotzek Hans Richard Schmitz

The management report contains forward-looking statements. These statements are based on current assumptions and estimates of the Managing Board, which were carefully made on the basis of all of the information available at the present time. Assumptions and forecasts may prove incorrect and actual results may vary materially from those described in forward-looking statements.

Assets need protection.

As office properties usually have index-linked rents, they offer greater protection against capital depreciation due to inflation.

FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

* component of the notes

PORTFOLIO EXPANDED WITH OFFICE PROPERTY ON LONG-TERM LEASES

High-quality office properties in central locations and good traffic connections are attractive to successful companies and ensure long-term rental agreements.

When acquiring office properties, we attach importance to high quality, as new properties in central, inner-city locations with good traffic connections or in well-developed commercial areas. Multi-tenant properties are preferred on account of risk diversification. However, single-tenant properties are also attractive for HAMBORNER if tenants have an extremely good credit standing, a promising business model and long-term rental agreements.

IN NOVEMBER 2010 WE ACQUIRED AN OFFICE PROJECT WITH PRODUCTION AND LABORATORY SPACE IN BRUNNTHAL:

- Around 6,700 m^2 of rental space
- Term of 9.3 years
- Tenant SFC (market leader for fuel cell technology)
- Gross initial yield 7.6%
- Purchase price around €12 million


SFC
SMART FUEL CELL

Statement of Comprehensive Income For the period from 1 January to 31 December 2010

in T€	Notes	2010	2009
Income from rents and leases		25,026	22,451
Income from passing on incidental costs to tenants		2,701	2,419
Current operating expenses		-3,895	-3,666
Property and building maintenance		-1,708	-1,264
Net rental income	(1)	**22,124**	**19,940**
Administration costs	(2)	-811	-751
Staff costs	(3)	-2,743	-2,740
Amortisation and depreciation expense for intangible assets, property, plant and equipment and investment property	(4)	-8,031	-7,268
Other operating income	(5)	2,534	2,128
Other operating expenses	(6)	-724	-872
		-9,775	**-9,503**
Operating profit		**12,349**	**10,437**
Net income from the sale of properties	(7)	2,227	434
Net income from equity investments	(8)	0	13
Earnings before financing activities and taxes (EBIT)		**14,576**	**10,884**
Interest income		268	489
Interest expenses		-6,576	-5,508
Net finance costs	(9)	**-6,308**	**-5,019**
Earnings before taxes (EBT)		**8,268**	**5,865**
Income tax expense	(10)	-2,778	-792
Net profit for the year		**5,490**	**5,073**
Profit carryforward from the previous year		32,268	35,165
Distribution		-8,424	-7,970
Unappropriated surplus		**29,334**	**32,268**
Earnings per share (€)	(11)	0.22	0.22

Statement of Recognised Income and Expense

in T€	**Notes**	**01/01 to 31/12/2010**	**01/01 to 31/12/2009**
Net profit for the year as per statement of comprehensive income		5,490	5,073
Adjustment of the revaluation surplus due to divestment	(5)	0	-129
Unrealised gains/losses (-) on the revaluation of derivative financial instruments	(18)	-1,189	-1,728
Reversal of deferred taxes on derivative financial instruments		-1,240	0
Income/expense (-) recognised in equity		-2,429	-1,857
Comprehensive income		**3,061**	**3,216**

Statement of Financial Position – Assets

in T€	Notes	31/12/2010	31/12/2009
Non-current assets			
Intangible assets	(12)	37	6
Property, plant and equipment	(12)	130	151
Investment property	(13)	321,505	257,386
Financial assets	(14)	28	38
Other assets	(15)	367	365
Deferred tax assets	(15)	0	2,170
		322,067	**260,116**
Current assets			
Trade receivables and other assets	(15)	435	487
Income tax receivables	(15)	12	44
Bank balances and cash in hand	(16)	83,629	37,942
		84,076	**38,473**
Total assets		**406,143**	**298,589**

Statement of Financial Position – Equity and Liabilities

in T€	Notes	31/12/2010	31/12/2009
Equity	(17)		
Issued capital		34,120	22,770
Capital reserves		64,267	0
Retained earnings			
Legal reserve		0	2,277
Other retained earnings		106,853	104,575
Revaluation surplus		-9,023	-6,594
		97,830	100,258
Unappropriated surplus			
Profit carryforward		23,844	27,196
Net profit for the year		5,490	5,073
		29,334	32,269
		225,551	**155,297**
Non-current liabilities and provisions			
Financial liabilities	(18)	139,694	101,218
Derivative financial instruments	(18)	9,023	7,834
Deferred tax liabilities	(19)	0	14,708
Trade payables and other liabilities	(21)	3,150	4,075
Pension provisions	(22)	5,487	5,603
Other provisions	(23)	825	702
		158,179	**134,140**
Current liabilities and provisions			
Financial liabilities	(18)	15,376	4,609
Derivative financial instruments	(18)	0	11
Income tax liabilities	(20)	0	402
Trade payables and other liabilities	(21)	4,726	1,877
Other provisions	(23)	2,311	2,253
		22,413	**9,152**
Total equity, liabilities and provisions		**406,143**	**298,589**

Cash Flow Statement

in T€	Notes	01/01 – 31/12/2010	01/01 – 31/12/2009
Cash flow from operating activities	(26)		
Earnings before taxes (EBT)		8,268	5,865
Net finance costs and net income from equity investments		6,308	5,006
Write-downs/write-ups (-)		5,942	6,002
Change in provisions		-275	-180
Gains (-)/losses (+) (net) on the disposal of property, plant and equipment and investment property		-2,246	-434
Gains (-)/losses (+) (net) on the disposal of financial assets		0	-677
Other non-cash expenditure (+)/income (-)		-80	-4
Change in receivables and other assets		126	-115
Change in liabilities		-471	-1,040
Dividend received		0	13
Interest received		185	641
Tax payments		-16,927	-948
		830	**14,129**
Cash flow from investing activities	(27)		
Investments in intangible assets, property, plant and equipment and investment property		-69,429	-39,349
Proceeds from disposals of property, plant and equipment and investment property		3,795	985
Investments in financial assets		0	-20
Proceeds from disposals of financial assets		10	698
		-65,624	**-37,686**
Cash flow from financing activities	(28)		
Dividends paid		-8,425	-7,970
Cash inflow from the borrowing of financial liabilities		52,605	23,800
Cash outflow from the repayment of financial liabilities		-3,584	-3,257
Interest payments		-5,840	-5,086
Proceeds from the capital increase		79,450	0
Payments for the costs of the capital increase		-3,725	0
		110,481	**7,487**
Changes in cash and cash equivalents		**45,687**	**-16,070**
Cash and cash equivalents on 1 January		**37,942**	**54,012**
Bank balances and cash in hand		37,942	54,012
Cash and cash equivalents on 31 December		**83,629**	**37,942**
Bank balances and cash in hand		83,629	37,942

Statement of changes in equity

in T€	Issued capital	Capital reserves	Retained earnings			Unappropriated surplus		Total equity
			Legal reserve	Other retained earnings	Revaluation surplus	Carry forward	Net profit for the period	
Balance at 1 January 2009	**22,770**	**0**	**2,277**	**104,575**	**-4,737**	**17,824**	**17,341**	**160,050**
Carryforward to new account						17,341	-17,341	0
Profit distribution for 2008						-7,969		-7,969
Income/expense (-)recognised in equity					-1,857			-1,857
Net profit for the year 1 January – 31 December 2009							5,073	5,073
Comprehensive income 1 January – 31 December 2009					**-1,857**		**5,073**	**3,216**
Balance at 31 December 2009	**22,770**	**0**	**2,277**	**104,575**	**-6,594**	**27,196**	**5,073**	**155,297**
Carryforward to new account						5,073	-5,073	0
Transfer of legal reserve			-2,277	2,277				0
Profit distribution for 2009						-8,425		-8,425
Capital increase	11,350	68,100						79,450
Costs of capital increase		-3,833						-3,833
Income/expense (-)recognised in equity					-2,429			-2,429
Net profit for the year **1 January – 31 December 2010**							5,490	5,490
Comprehensive income 1 January – 31 December 2010					**-2,429**		**5,490**	**3,061**
Balance at 31 December 2010	**34,120**	**64,267**	**0**	**106,853**	**-9,023**	**23,844**	**5,490**	**225,551**

Statement of changes in assets*

	Cost			
in T€	**Balance at 01/01/2010**	**Additions**	**Disposals**	**Balance at 31/12/2010**
Intangible assets	99	41	1	139
Property, plant and equipment	789	21	18	792
Investment property	311,647	71,558	2,062	381,143
Financial assets	49	0	10	39
Total	**312,584**	**71,620**	**2,091**	**382,113**

	Cost			
in T€	**Balance at 01/01/2009**	**Additions**	**Disposals**	**Balance at 31/12/2009**
Intangible assets	97	2	0	99
Property, plant and equipment	801	6	18	789
Investment property	272,883	40,558	1,794	311,647
Financial assets	50	20	21	49
Total	**273,831**	**40,586**	**1,833**	**312,584**

* component of the notes

	Write-downs				Residual carrying amounts	
Balance at 01/01/2010	Additions (write-downs in the financial year)	Reversals of write-downs	Disposals	Balance at 31/12/2010	Balance at 31/12/2009	Balance at 31/12/2010
93	10	0	1	102	6	37
638	31	0	7	662	151	130
54,261	7,990	2,089	524	59,638	257,386	321,505
11	0	0	0	11	38	28
55,003	**8,031**	**2,089**	**532**	**60,413**	**257,581**	**321,700**

	Write-downs				Residual carrying amounts	
Balance at 01/01/2009	Additions (write-downs in the financial year)	Reversals of write-downs	Disposals	Balance at 31/12/2009	Balance at 31/12/2008	Balance at 31/12/2009
85	8	0	0	93	12	6
625	32	0	19	638	176	151
49,541	7,228	1,266	1,242	54,261	223,342	257,386
12	0	0	1	11	38	38
50,263	**7,268**	**1,266**	**1,262**	**55,003**	**223,568**	**257,581**

Notes to the financial statements

Principles of financial statement preparation

General information

HAMBORNER REIT AG is a listed corporation (SCN 601300) headquartered in Duisburg, Germany. By way of the resolutions of the Annual General Meeting of 9 June 2009, HAMBORNER AG was transformed into a REIT company effective 1 January 2010 on entry in the Commercial Register on 18 February 2010 and is now HAMBORNER REIT AG. It is therefore also subject to the provisions of the German Act on German real estate stock corporations with listed shares (REITG – German REIT Act).

On 23 September 2010, the Managing Board, with the approval of the Supervisory Board as at the same date, passed the resolution to increase the share capital of the Company from authorised capital by up to €11,350,000 by issuing up to 11,350,000 new bearer shares against cash contributions. The resolution on the offer price, the subscription price, the subscription ratio and the exact number of the shares to be issued was passed by the Managing Board with the approval of the Supervisory Board on 7 October 2010. The new shares are entitled to participate in dividends from 1 January 2010. The resolution on implementing the capital increase in the amount of €11,350,000 was entered in the commercial register on 11 October 2010. Following this entry, the ordinary capital of the company amounts to €34,120,000. The net issue proceeds from the capital increase serve to strengthen the equity base and the financial performance of HAMBORNER REIT AG and will by used by the company for growth through the acquisition of further properties in the context of its investment strategy.

HAMBORNER REIT AG acquires ownership or rights of use to immovable properties in Germany and abroad within the meaning of Article 3 of the German REIT Act for use, management or disposal, with the exception of residential properties in Germany. It can also acquire, hold, manage and dispose of equity investments in partnerships and corporations within the meaning of Article 3 of the German REIT Act. The registered office of the company is in Duisburg (Germany). It is entered in the Commercial Register of Duisburg District Court under HRB 4

As a listed REIT stock corporation, HAMBORNER REIT AGprepares and publishes separate financial statements within the meaning of Article 325(2a) of the Handelsgesetzbuch (HGB – German Commercial Code) in accordance with the provisions of the International Financial Reporting Standards (IFRSs). The management report in accordance with Article 289 HGB is published with the IFRS separate financial statements in the electronic Federal Gazette.

The separate financial statements as at 31 December 2010 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union at the end of the reporting period and the additional provisions of commercial law in accordance with Article 325 (2a) HGB. IFRSs include the IFRSs passed by the International Accounting Standards Board (IASB), the International Accounting Standards (IASs) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All the standards and interpretations issued by the IASB and effective as at the time of the preparation of the financial statements have been applied to the extent that they have been endorsed by the EU. Thus, the separate financial statements of the company comply with IFRSs

The financial statements were prepared in euro (€). All amounts are reported in thousands of euro (€ thousand) unless stated otherwise. Minor rounding differences may occur in totals and percentages.

The Managing Board prepared the separate financial statements at 31 December 2010 and the management report for 2010 on 28 February 2011 and approved them for submission to the Supervisory Board.

These separate financial statements as at 31 December 2010 are based on the same accounting policies as the separate financial statements for the previous year. The statement of financial position as at 31 December 2010 is broken down by maturity in accordance with IAS 1 (60). To improve the clarity of presentation, various items of the statement of financial position and the statement of comprehensive income have been summarised and are explained in the notes to the financial statements. To improve the presentation of financial performance, the statement of comprehensive income was adjusted in line with the structural proposals of the European Public Real Estate Association (EPRA) recommended for property companies.

The separate financial statements prepared in accordance with IFRSs in line with Article 325 (2a) HGB and the HGB annual financial statements have been submitted to the operator of the electronic Federal Gazette. The IFRS financial statements are then published there. The financial statements are available for download on the Internet site www.hamborner.de. They can also be requested from HAMBORNER REIT AG, Goethestrasse 45, 47166 Duisburg, Germany.

Amended or new IFRSs and the resulting changes in accounting policies

As against the separate financial statements as at 31 December 2009, in the following standards and interpretations specified have been amended or were effective for the first time as a result of their endorsement in EU law or the coming into effect of the regulation: the new or revised standards and interpretations had no material influence on the reported amounts.

- Revision of IAS 1: "Presentation of Financial Statements"
- Revision of IAS 7: "Statement of Cash Flows"
- Revision of IFRS 5: "Non-current Assets Held for Sale and Discontinued Operations"
- Revision of IFRS 3: "Business Combinations"
- Revision of IAS 27: "Consolidated and Separate Financial Statements"
- Revision of IAS 28: "Investments in Associates"
- Revision of IFRS 1: "First-time Adoption of International Financial Reporting Standards"
- Revision of IFRS 2: "Share-based Payment"
- Revision of IAS 39: "Financial Instruments: Recognition and Measurement"
- Revision of IFRIC 9: "Reassessment of Embedded Derivatives"
- Revision of IFRIC 16: "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17: "Distributions of Non-cash Assets to Owners"
- IFRIC 18: "Transfers of assets from customers"

The following standards and interpretations already passed, amended or issued by the IASB were not yet effective for the 2010 financial year:

- Revision of IFRS 1: "First-time Adoption of International Financial Reporting Standards"
- Revision of IFRS 7: "Financial Instruments: Disclosures"
- Revision of IFRS 9: "Financial Instruments"
- Amendment to IAS 12: "Income taxes"
- Amendment to IAS 24: "Related Party Disclosures"
- Amendment to IAS 32: "Financial Instruments: Presentation"
- Amendments to IFRIC 14: "Prepayments of a Minimum Funding Requirement"
- IFRIC 19: "Extinguishing financial liabilities with equity instruments"
- Collective standard on the amendment of various International Financial Reporting Standards (2010)

The option to apply standards and interpretations early was not exercised. HAMBORNER anticipates that the adoption of the standards and interpretations released at the end of the reporting period will have no significant effect on the results and financial position in future.

Accounting and valuation methods

Intangible assets

Intangible assets are measured at cost less straight-line amortisation. Amortisation is recognised in line with the economic life, which is between three and eight years.

Property, plant and equipment

Property, plant and equipment are measured at cost less straight-line depreciation. Gains on disposals are reported under "Other operating income" (gains) or "Other operating expenses" (losses).

Investment property

Investment property is measured at amortised cost less straight-line depreciation in accordance with the option under IAS 40 (30) in conjunction with (56). All land, buildings and parts of buildings already developed and under development held to generate future rental income, gains from appreciation or for an as yet undetermined use are classified as investment property. They are not intended for administrative purposes or for short-term trade in the context of the normal business activity. Depreciation is recognised on a straight-line basis over the economic life. The results from the sale of the investment property are shown separately in the statement of comprehensive income.

To calculate the fair value to be disclosed in the notes in accordance with IAS 40, we had our property portfolio valued by an independent expert at the end of 2010. The market values of property were calculated in line with internationally recognised standards using the discounted cash flow (DCF) method. In the DCF process, the cash flows expected for the respective property were calculated for a standard analysis period of eleven years – 2011 to 2021. The market value of properties is the result of the total of the discounted cash flows of the overall planning period before taxes plus the residual value, which is also discounted to the measurement date. Risk-adjusted interest rates of between 4.8% and 9.0% were applied for discounting. For further information please see "Performance of the Property Portfolio" in the management report.

Impairment losses and reversals of impairment losses on intangible assets, property, plant and equipment and investment property

The recoverability of the carrying amounts of all intangible assets, property, plant and equipment and investment property is reviewed regularly. In addition, the carrying amounts are reviewed if events or changes in circumstances indicate that it may no longer be possible to recover the recognised carrying amount. If the recoverable amount of these assets is significantly less than the carrying amount at the end of the reporting period, this is shown by the recognition of impairment losses.

The recoverable amount is determined using the higher of net disposal proceeds derived from an active market and the present value of the estimated future cash flows from the use of the asset. For investment property, the market value as determined by an expert constitutes the standard for the value in use. If the reasons for impairment losses recognised in previous years no longer apply, they are reversed up to the amortised carrying amounts of the respective assets. Impairment losses are reported under "Amortisation and Depreciation Expense for Intangible Assets, Property, Plant and Equipment and Investment Property". Reversals are recognised in "Other Operating Income".

In the reporting year, results were written down by €294 thousand to adjust the reported residual carrying amounts in line with market values as at 31 December 2010. On the other hand, impairment losses of €2,089 thousand were reversed for properties written down in previous years.

Financial assets

In accordance with IAS 39, financial assets are measured at fair value including transaction costs for acquisitions on first-time recognition. Subsequent measurements is determined by the category to which a financial asset is allocated.

- Loans and receivables are measured at amortised cost. Any identifiable individual risks are taken into account appropriately by way of write-downs.
- Financial assets held to maturity are measured at the lower of amortised cost and fair value. The "Other Loans" included here have a fixed term and are therefore measured using the effective interest method.

Derivative financial instruments

HAMBORNER uses derivative financial instruments in the form of interest rate swaps to manage risks from interest rate fluctuations.

Derivative financial instruments are recognised for the first time on the trade date. Interest rate derivative transactions that do not satisfy the requirements of hedge accounting are measured at market value. The gains and losses resulting from changes in the market value of these derivatives are reported in "Net Finance Costs" in the statement of comprehensive income.

For cash flow hedges used to hedge risks affecting the amount or timing of future cash flows, any changes in market value are recognised in equity (revaluation surplus) and hedge effectiveness is documented. In the reporting year, changes in market value of €–1,189 thousand were taken straight to equity. The effectiveness of cash flow hedges is determined in line with the dollar-offset method. Here, this resulted in it being possible to take the changes in carrying amounts directly to equity. Positive market values of derivative financial instruments are reported under "Other Assets", negative market values are reported in a separate item under "Financial Liabilities". In periods prior to 1 January 2010, deferred taxes were taken into account when calculating changes in market value. HAMBORNER has been tax-exempt at company level since achieving REIT status. The deferred taxes recognised for changes in market valuein interest rate derivatives in the past were therefore reversed in equity in the reporting year. This resulted in a further change in the revaluation surplus of €–1,240 thousand as at 31 December 2010.

The market values provided by banks result from discounting the expected future cash flows over the residual term of the contracts on the basis of current market interest rates or yield curves. Derivatives are measured in line with level 2. This means that the measurement models use factors observed directly (i.e. as prices) or indirectly (i.e. derived from prices) on active markets.

Provisions

Provisions are classified as non-current and current provisions in line with the maturity structure required by IFRSs and reported accordingly.

Pension provisions

Pension provisions are calculated using the projected unit credit method, taking into account future adjustments in salaries and pensions. The corridor approach permitted under IAS 19 is used for actuarial gains and losses. In line with this, actuarial gains and losses are distributed over the average remaining working life of participants if they exceed 10% of the commitment amount. The service cost and the actuarial gains/losses recognised for the current year are reported within “Staff costs”, while the interest component of pension expenses is reported under “Interest expenses”. The pension obligations are calculated taking into account the biometric data of the 2005 G Heubeck mortality tables.

The calculations are based on the following parameters:

Parameters p.a. (%)	2010	2009
Interest rate	4.1	5.1
Salary trend	2.0	2.0
Pension trend	1.6	1.6

Expenses for defined contribution plans are recognised as an expense and reported in staff costs.

Other provisions

Current provisions are recognised in the amount of expected utilisation (best estimate) without discounting and take into account all obligations identifiable at the end of the reporting period based on transactions or past events for which the amount or timing is uncertain. This includes only third-party obligations for which an outflow of assets is likely.

Provisions for obligations that will not result in a reduction of assets in the subsequent year are recognised in the amount of the present value of the forecast outflow of assets.

Liabilities

Liabilities are measured at fair value taking into account transaction costs on first-time recognition. Subsequent measurement is at amortised cost. Liabilities are classified as non-current if the agreements provides for repayment after twelve months.

Recognition of expenses and revenue

The recognition of sales and other operating income is based on when services are rendered or, for sales transactions, when substantially all the risks and rewards of ownership have been transferred to the buyer.

Operating expenses are recognised when services are utilised or when they are incurred.

Notes on the statement of comprehensive income

(1) Net rental income

Income from rents and leases for properties recognised in accordance with IAS 40 climbed by €2,575 thousand to €25,026 thousand in the reporting year. This rise was due to rent increases due to additions to properties in the current year and the previous year (€2,973 thousand, rent losses as a result of property disposals (€–103 thousand) and declines in like-for-like rents of €–295 thousand.

Charges for incidental costs passed on to tenants mainly include heating costs, property charges and other incidental rental costs that can be reallocated under the lease agreements. The corresponding income increased by €282 thousand in the reporting year. At €269 thousand, the increase in income from charging expenses on to tenants was due to the net change in the property portfolio. The income from charging incidental costs on to tenants for the other properties remaining in the portfolio increased by a total of €13 thousand.

in T€	2010	2009
Income from rents and leases		
Retail space	15,443	14,205
Office space and medical practices	7,896	6,176
Production and other commercial space	598	627
Apartments	512	536
Garages/car parking spaces	87	84
Other lettings and leases (agricultural leases, licensing agreements, etc.)	187	130
Income from rent guarantees	303	693
Total	**25,026**	**22,451**
Income from passing on incidental costs to tenants	2,701	2,419
Total	**27,727**	**24,870**
Current operating expenses	-3,895	-3,666
Property and building maintenance	-1,708	-1,264
Net rental income	**22,124**	**19,940**

A table showing the ten largest tenants can be found on page 46. €4.9 million of rental income relates to the Kaufland Group.

Current operating expenses include energy expenses, property charges, insurance premiums, ground rents and land taxes and can mostly be passed on to the tenants under the terms of their rental agreements. They increased by €229 thousand to €3,895 thousand as a result of additions to the property portfolio. The expenses for property and building maintenance amounted to €1,708 thousand after €1,264 thousand in the previous year. The increase of €444 thousand essentially relates to major planned individual measures, including roof and façade renovations.

in T€	2010	2009
Current operating expenses		
Energy, water, etc.	1,691	1,451
Property charges	422	412
Land taxes	693	642
Ground rents	735	729
Insurance premiums	326	298
Rent and leases for third-party land	0	16
Others	28	118
Total	**3,895**	**3,666**
Property and building maintenance	1,708	1,264
Total	**5,603**	**4,930**

(2) Administration costs

The item includes the costs for the Annual General Meeting,the Supervisory Board and the auditor set out in the Articles of Association and actual costs of administration. The increase of €60 thousand is mainly due to the more extensive activities in the field of public relations.

The following fees were recognised for the appointed auditor in the financial year:

in T€	2010	2009
Audits of financial statements	70	71
Other assurance services	165	10
Tax advisory services	-28	108
of which from the reversal of provisions recognised in the previous year €-28 thousand (previous year: €-16 thousand)		
Other services	9	16
Total	**216**	**205**

Other assurance services in the financial year mainly include fees in connection with the capital increase, which were offset against capital reserves in equity. Other services include travel and other expenses in connection with the mandates granted of €6 thousand (previous year: €5 thousand).

(3) Staff costs

Staff costs were virtually unchanged as against the previous year at €2,743 thousand. While wages and salaries decreased essentially as a result of the year-on-year decline in provisions for untaken holidays of €64 thousand, pension expenses increased by €68 thousand.

in T€	2010	2009
Wages and salaries	2,242	2,306
Social security contributions and expenses for other benefits	261	262
Retirement benefit expenses/ pension expenses	240	172
Total	**2,743**	**2,740**

(4) Amortisation and depreciation expense for intangible assets, property, plant and equipment and investment property

The depreciation and amortisation expense for 2010 increased by €763 thousand on the previous year's figure to €8,031 thousand. €7,990 thousand of this related to investment property (previous year: €7,228 thousand) This item includes impairment losses of €294 thousand due to the adjustment of the residual carrying amounts reported as at 31 December 2010 in line with the market values (previous year: €714 thousand).

(5) Other operating income

in T€	2010	2009
Income from the disposal of equity investments	0	677
Reversal of impairment losses	2,089	1,266
Reversals of discounted housing loans	1	1
Miscellaneous other operating income		
Income from compensation and refunds	169	20
Reversal of provisions	134	64
Charges passed on to tenants and leaseholders	60	66
Reinsurance	4	4
Others	77	30
Total	**444**	**184**
Total	**2,534**	**2,128**

The reversal of impairment losses relates to the adjustment of properties written down in previous years in line with the fair values determined by expert opinion as at 31 December 2010.

The income from the disposal of equity investments in the previous year consisted of an earn-out payment of €548 thousand for the sale of our shares in Wohnbau Dinslaken GmbH concluded in 2008 and the proceeds of €129 thousand from the disposal of our shares in Montan GmbH Assekuranz-Makler.

(6) Other operating expenses

Other operating expenses declined by €148 thousand to €724 thousand. This decrease is due to a reduction of €408 thousand in legal and consulting costs influenced by non-recurring events in the previous year on the one hand and the €142 thousand year-on-year increase in borrowing costs on the other, plus a rise in various items of miscellaneous other operating expenses of €118 thousand.

(7) Net income from the sale of properties

In the reporting year, we generated net income from the disposal of properties of €2,227 thousand after €434 thousand in the previous year. While sales were limited to one portfolio property and several smaller disposals from the undeveloped land and old portfolios in 2009, in 2010, in addition to business premises in Hamm, we sold various individual plots with a total space of around 1.9 million m² predominantly used for forestry purposes from our portfolio of properties under development and an undeveloped piece of land used for leisure purposes.

(8) Net income from equity investments

In the previous year, the net income from equity investments related to the distribution by Montan GmbH Assekuranz-Makler for the 2008/2009 financial year. As this equity investment has since been sold, no further income from equity investments was incurred in the reporting year.

(9) Net finance costs

Net finance costs consist solely of interest income and expenses. The interest income amounts to €268 thousand and mainly consists of interest on call money or fixed-term deposits at various banks. The low interest rate level and the drop in average cash and cash equivalent holdings caused by the outflow of equity for property investments resulted in a decline in this income of €221 thousand.

Interest expenses increased by a total of €1,068 thousand to €6,576 thousand in the 2010 financial year as a result of the interest payments recognised in profit or loss for the property loans borrowed in the previous year and the pro rata interest expense for the additional loans of the reporting year.

The interest expenses include net cash flows from interest rate hedges of €3,131 thousand. The payments we make quarterly or half-yearly on the basis of agreed interest rates amounted to €3,800 thousand in the reporting year (previous year: €3,924 thousand). The decline is due solely to the reduction in interest-bearing swaps.

In return, we received variable interest in line with agreements on the basis of three- and six-month EURIBOR of €669 thousand (previous year:. €1,425 thousand). The further absence of short-term interest and the reduction in interest-bearing swap amounts also contributed to this decline. For further information on interest rate hedges, please see "Financial liabilities and derivative Financial Instruments".

(10) Income tax expense

in T€	2010	2009
Current income tax expense	0	1,278
Income tax expense in the previous year	-21	-74
Effects of exit tax	16,577	0
Deferred taxes	-13,778	-411
Foreign withholding tax	0	-1
Total	**2,778**	**792**

a) Income tax expense

At €2,799 thousand, the income tax expense included the expenses of the company's exit tax on achieving REIT status. Corporation and trade taxes for previous years were also charged in the amount of €-21 thousand.

b) Deferred taxes

As a result of the company achieving REIT status and the tax exemption at company level this entailed, no further deferred taxes were reported as at 31 December 2010.

The statement of reconciliation for the reported tax expenses is as follows:

in T€	2010	2009
Profit from continuing activities	8,268	5,865
Tax rate in %	0.0	15.8
Forecast tax expense	0	928
+/- Tax effects in previous years	-21	-74
- Effect of tax-free income	0	-96
+ Effect of non-deductible expenses	0	15
+/- Effect of income subject to trade tax (current and deferred)	0	45
+/- Effects of exit tax	2,799	0
+/- Other effects	0	-26
Income tax expenses	**2,778**	**792**
Tax rate in %	**0.0**	**13.5**

As the income taxes reported relate exclusively to past financial years, the tax rate – based on the net income for 2010 – is 0%.

Deferred tax assets and liabilities developed as follows in the reporting year:

Deferred tax assets in T€	Derivative financial instruments	Other provisions	Other	Write-down to net present value on investment property	Total
Balance at 1 January 2010	1,240	237	19	674	2,170
Reduction in net profit for the year	0	-237	-19	-674	-930
Reclassification to equity	-1,240	0	0	0	-1,240
Balance at 31 December 2010	**0**	**0**	**0**	**0**	**0**

Deferred tax assets in T€	Special tax write-downs	Pension provisions	Other	Total
Balance at 1 January 2010	-14,625	-32	-51	-14,708
Increase in net profit for the year	14,625	32	51	14,708
Balance at 31 December 2010	**0**	**0**	**0**	**0**

(11) Earnings per share

The net profit for the year amounted to €5,490 thousand, up €417 thousand on the figure for the previous year.

Earnings per share amount to €0.22 and are calculated in line with IAS 33. Thus, earnings per share are determined by dividing the net income for the period attributable to the shareholders by the weighted average number of shares in the financial year. Earnings per share are not diluted by, for example, stock options or convertible bonds as HAMBORNER has not created any such programmes. The basic and diluted earnings per share are therefore the same.

		2010	2009
Weighted average number of shares outstanding	thousand units	25,258	22,770
Net earnings/net profit for the year	T€	5,490	5,073
Earnings per share	€	0.22	0.22

Notes to the statement of financial position

(12) Intangible assets and property, plant and equipment

Intangible assets include acquired rights of use to system and application software which are carried at cost and amortised on a straight-line basis over a useful life of three to eight years. This amortisation is reported under "Amortisation and depreciation expense for intangible assets, property, plant and equipment and investment property". There were no value adjustments (reductions or increases) in 2010.

The company's administrative building in Duisburg and operating and office equipment are reported under property, plant and equipment.

Depreciation for the administrative building is based on a total useful life of 50 years and a remaining useful life at the end of the reporting period of nine years.

The operating and office equipment has an average useful life of between three and fifteen years.

(13) Investment property

Additions to investment property amounted to €71,558 thousand in the financial year. €71,489 thousand of this relates to property acquired in the reporting year and advance payments made for this plus €69 thousand for reinstated portfolio assets.

An office building was also sold in Hamm in the reporting period. In addition, we sold individual plots with a total space of around 1.9 million m² predominantly used for forestry purposes, an undeveloped piece of land used for leisure purposes of around 200,000 m² and several smaller plots from our old portfolio in 2010.

The following useful lives were applied in the reporting year:

Useful lives of non-current assets	Years
Commercial and office buildings	33 to 50
Other commercial buildings	40 to 50
Self-service shops	33 to 40

The result for the year under review was written down by €294 thousand to adjust the amortised cost as at 31 December 2010 in line with the market value. On the other hand, impairment losses recognised on properties in previous years were reversed in the amount of €2,089 thousand.

Investment property developed as follows in the reporting year:

in T€		2010	2009
Balance at 1 January		257,386	223,342
+	Additions due to acquisition	67,397	40,028
+	Additions due to advance payments	4,092	517
+	Additions due to subsequent investments	69	13
		71,558	40,558
-	Disposals due to sales	-1,538	-552
+	Reversals of impairment losses	2,089	1,266
-	Depreciation for the financial year	-7,990	-7,228
Balance at 31 December		**321,505**	**257,386**

The direct operating expenses for let and vacant investment property amounted to €5,603 thousand (previous year: €4,930 thousand) in the reporting year. With the exception of temporary, partial vacancies in individual properties, the entire inventory was let at the end of the reporting period. €120 thousand of the above amounts related to vacant space including the undeveloped property holdings not let in the reporting year (previous year: €107 thousand). The expenses relating to the unlet space are calculated according to the weighted percentage ratio accounted for by vacancies in relation to total rental space.

The commercial property portfolio was also measured by an independent expert as at 31 December 2010 in line with internationally recognised standards.

Taking into account the additions and disposals in the reporting year, the market value of the developed property portfolio amounted to €376,150 thousand as at 31 December 2010 (previous year: €307,940 thousand).

The property portfolio is measured using the discounted cash flow method. For further information on the measurement of our properties, please see "Performance of the property portfolio".

On 31 December 2010, there were obligations arising from certified land purchase agreements to pay a total purchase price of €100.8 million. As agreed, payments of €28.5 million were made on this at the start of January 2011. The remaining obligations become due when the properties transfer to us and the other requirements are met. This is currently expected to be in 2011 and 2012.

The undeveloped property holdings are recognised at cost. No other value can be reliably determined on account of their structure (predominantly agricultural and forestry land).

(14) Financial assets

The financial assets relate solely to other loans. These predominantly include long-term interest-free housing loans, which are measured at present value, and other loans to staff. They decreased by €10 thousand in the reporting year as a result of scheduled repayments to €28 thousand.

(15) Trade receivables and other assets, deferred tax assets, income tax receivables

All receivables and other assets are carried at amortised cost. Write-downs on doubtful debts amounted to €55 thousand.

At €243 thousand (previous year: €253 thousand), other non-current assets primarily include development costs paid for the leasehold property in Solingen and the capitalised actuarial reserve for claims from insurance policies of €124 thousand (previous year: €111 thousand). The insurance policy does not constitute plan assets within the meaning of IAS 19.

HAMBORNER has been tax-exempt at company level since achieving REIT status. The deferred taxes recognised in the past on measurement differences for interest rate derivatives, investment property and provisions were therefore reversed in the reporting year.

The receivables and other current assets break down as follows

in T€	2010	2009
Trade receivables	62	77
Others	373	410
Total	**435**	**487**

Trade receivables predominantly relate to receivables from tenants and leaseholders. Other current assets declined by €97 thousand due mainly to the recognition of VAT receivables reported in the previous year's financial statements and receivables from reconstruction work. At the same time, deferred interest receivables from call money and fixed-term deposits rose by €82 thousand.

The trade receivables reported were all due at the end of the reporting period and will therefore be overdue within less than 30 days after the end of the reporting period.

The result for the reporting year was reduced by the derecognition of receivables of €14 thousand (previous year: €36 thousand). Over the same period, payments of €4 thousand were received on receivables written off in previous years (previous year: less than €1 thousand).

Income tax receivables amounted to €12 thousand (previous year: €44 thousand). They mainly relate to a corporation tax asset in accordance with Article 37(1) of the German Corporate Income Tax Act, which will be paid to us in seven annual instalments until 2017.

(16) Bank balances and cash in hand

Cash and cash equivalents increased by €45,687 thousand year-on-year to €83,629 thousand as a result of the net issue proceeds from the capital increase.

in T€	2010	2009
Bank balances	83,623	37,937
Cash in hand	6	5
Total	**83,629**	**37,942**

(17) Equity

The development of the equity from 1 January 2009 to 31 December 2010 is shown in the statement of changes in equity. As at 31 December 2010, the issued capital of the company amounted to €34.12 million and was divided into 34,120,000 no-par-value bearer shares.

After deduction of the costs for the capital increase of €3.8 million, the issue proceeds generated in excess of the notional value of €68.1 million were transferred to the capital reserves.

As REIT companies are not required to recognise legal reserves in accordance with Article 150 of the German Stock Corporation Act, the legal reserve held as at 1 January 2010 was reversed to other retained earnings over the year.

The company reported an unappropriated surplus of €29,334 thousand (previous year: €32,269 thousand) as at 31 December 2010. The Managing Board will propose the distribution of a dividend of €12,624,400 for the 2010 financial year at the Annual General Meeting. This corresponds to a dividend of €0.37 per no-par-value share. The dividend proposal is based on an unappropriated surplus for the company under commercial law of €19,418 thousand.

The other retained earnings comprise the earnings generated in the past – insofar as they were not distributed or carried forward to new account and the legal reserve reversed in the year under review – and amount to €106,853 thousand.

The revaluation surplus includes the fair value changes from the measurement of derivatives in connection with cash flow hedges to the extent that these remained in equity.

The objectives of our capital management are to ensure the continuation of the company as a going concern, generate an adequate return on equity and remain solvent.

The main control parameter for this is the equity ratio, a business ratio also recognised by investors, analysts and banks.

in T€	2010	2009	Change in %
Equity	225,551	155,297	45.2%.
Total assets	406,143	298,589	36.0%.
Balance sheet equity ratio	**55.5%.**	**52.0%.**	**+ 3.5 percentage points**

In addition, compliance with the equity ratio codified in Article 15 of the German REIT Act is a matter of great importance to the company and the maintenance of its status as a Real Estate Investment Trust, and is therefore subject to ongoing monitoring. The equity ratio was 74.9% as at 31 December 2010 (previous year: 67.2%). The significant improvement in the equity ratio relates directly to the capital increase.

A key figure in connection with solvency is the loan-to-value (LTV) ratio. This defines the ratio of net financial liabilities to the calculated value of the company's properties. This was calculated for the first time as at the end of the reporting period on the basis of the method commonly used by property companies in line with the EPRA standard. This ratio was 19.3% as at 31 December 2010. The new calculation method was also applied to the previous year's figure for the sake of comparison. The previous year's figure calculated thus was 22.9%.

The framework for the capital management within which the capital structure is managed, e.g. by capital increases, is defined by the provisions of company law.

The capital management targets were achieved in the financial year.

(18) Financial liabilities and derivative financial instruments

Financial liabilities increased by €49,243 thousand to €155,070 thousand, mainly as a result of further borrowing for property financing. Derivative financial instruments declined by €1,178 thousand as a result of changes in market value to €–9,023 thousand. The property loans in place are based on both long-term fixed-rate interest agreements and – to enable greater flexibility – interest rate agreements based on EURIBOR. The interest rate risk was eliminated in these instances by concluding interest rate swaps, with which we receive EURIBOR and pay a constant fixed-rate of interest over the entire term of the swap. One short-term property loan with floating rate interest has not been hedged by a swap. Under the terms of the agreement, this loan will be replaced in July 2011 by a long-term mortgage loan with a fixed-rate interest agreement that has already been concluded.

At the end of the reporting date, the nominal hedge volume of the interest rate swaps was €82.6 million. Depending on the underlying loan transactions, the term of the derivatives ends between 2013 and 2018. The change in the fair values of interest rate derivatives recognised in equity of €1.2 million resulted in a decline in the revaluation surplus of €–9,023 thousand.

In addition, the company has held two further interest rate derivatives since 2000 that do not hedge a loan transaction. These agreements matured in 2010.

No.	Type	Maturity	Nominal value at 31/12/2010 €million	Fair value T€.
1	Interest rate swap	Apr. 2018	16.6	-2,070
2	Interest rate swap	Apr. 2018	12.0	-1,498
3	Interest rate swap	Dec. 2013	12.5	-708
4	Interest rate swap	Dec. 2018	4.7	-368
5	Interest rate swap	Oct. 2017	36.8	-4,379
Total			**82.6**	**-9,023**

in T€	31/12/2010		31/12/2009	
	non-current	current	non-current	current
Financial liabilities	139,694	15,376	101,218	4,609
Derivative financial instruments	9,023	0	7,834	11
Total	**148,717**	**15,376**	**109,052**	**4,620**

All loans are secured by real property. On 31 December 2010, there were land charges of €166.8 million chargeable to the company. In addition, the rent receivables on the collateralised properties have been assigned to the lending banks by way of undisclosed assignment.

The non-current property loans bear interest at interest rates of between 3.99% and 5.21%. (average interest rate: 4.56%). In line with loan agreements, repayments are made quarterly, semi-annually or annually.

Contractually agreed repayments:

in T€	2010	2009
Financial liabilities and derivative financial instruments		
of which		
due within one year	15,376	4,620
due between two and five years	29,767	27,235
due after five years	118,950	81,817
Total	**164,093**	**113,672**

HAMBORNER is exposed to various risks on account of its business activities. The risk report, which is a component of the management report, includes a detailed presentation of these risks and their management.

Derivative financial instruments in the form of interest rate swaps are mainly used to manage interest rate risks. The risks resulting in connection with the use of these derivative financial instruments are subject to risk management and control.

The risks resulting from the financial instruments relate to credit, liquidity and market risks. There are credit risks in the form of risks of default on financial assets. The maximum value of this risk is the carrying amount of the financial assets. For derivatives, it is the total of all the positive market values and, for primary financial instruments, the total of the carrying amounts. If risks of default exist, they are taken into account by means of value adjustments.

Liquidity risks constitute refinancing risks and thus risks of a fulfilment of existing obligations to pay when due. The strategy and the results of the planning process are used to forecast the future liquidity situation. Forecast liquidity requirements are planned in medium-term planning, which covers a period of five years.

Current liquidity requirements are compared against actual data using daily, weekly and monthly forecasts.

Sensitivity analyses are required for the presentation of market risks in accordance with IFRS 7. The effects on earnings and equity are shown by way of hypothetical changes in risk variables based on past data. Interest rate risks in particular are relevant for HAMBORNER in this regard.

Interest rate risks result from changes in the level of market interest rates. We limit such risks by using interest rate swaps. Sensitivity analyses, which show the effects of changes of market interest rate levels on interest payments, interest expenses, interest income and equity, are performed in line with IFRS 7. The following premises apply.

Primary financial instruments with a fixed interest rate are only subject to interest rate risks if they are measured at fair value. Financial instruments measured at cost are not subject to interest rate risks. In the case of cash flow hedges used to hedge fluctuations due to interest rates, changes in market interest rate levels can effect the revaluation surplus in equity.

Therefore, these financial instruments are taken into account in the sensitivity analysis. Primary financial instruments with a variable interest rate are also subject to sensitivity analyses, as they too are subject to the risk of changes in market interest rates. In the sensitivity analysis, the indicative measurement was calculated on the basis of the market value, taking into account accrued interest. For a floating-rate interim loan of €10,080 thousand, the calculation is based on the terms and conditions as at the end of the reporting period, taking into account the planned dissolution of the loan as at 30 June 2011.

Sensitivity analysis

in T€	2010	2009
Fair value of floating-rate financial instruments	**-19,104**	**-7,845**
Change in revaluation surplus		
Interest rate +1%	4,163	3,908
Interest rate -1%	-4,472	-4,272
Statement of comprehensive income		
Interest rate +1%	50	1
Interest rate -1%	-50	-1

Fair value of financial assets and liabilities measured at amortised cost

Except for financial liabilities, the carrying amounts of the financial assets and liabilities in the statement of financial position constitute a good approximation of the fair value.

The fair values of financial liabilities are equal to the present values of the payments associated with the liabilities, taking into account the current interest rate parameters as at the end of the reporting period.

in T€	31/12/2010		31/12/2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	155,070	155,764	105,827	106,485

Additional disclosures on financial instruments

In the annual financial statements, financial instruments are classified in line with their respective items on the statement of financial position. The following table shows the reconciliation of items on the statement of financial position to IAS 39 categories.

		Measurement under IAS 39				Measurement under other standards
in T€	**31/12/2010**	**Fair value, available-for-sale/ derivatives**	**Amortised cost, loans and receivables**	**Amortised cost, held-to-maturity**	**Fair value**	**Amortised cost**
Assets						
Intangible assets	37					37
Property, plant and equipment	130					130
Investment property	321,505					321,505
Financial assets	28			28		
Non-current other assets	367			367		
Current trade receivables and other assets	435		435			
Income tax receivables	12					12
Bank balances and cash in hand	83,629		83,629			
	406,143		**84,064**	**395**		**321,684**
Equity and liabilities						
Equity	225,551					225,551
Non-current financial liabilities, trade payables and other liabilities	151,867	9,023*	141,433			1,411
Pension provisions	5,487					5,487
Other non-current provisions	825				825	
Current financial liabilities, trade payables and other liabilities	20,102		17,678			2,424
Other current provisions	2,311		2,311			
	406,143	**9,023**	**161,422**		**825**	**234,873**

* Derivatives

		Measurement under IAS 39				Measurement under other standards
in T€	**31/12/2009**	**Fair value, available-for-sale/ derivatives**	**Amortised cost, loans and receivables**	**Amortised cost, held-to-maturity**	**Fair value**	**Amortised cost**
Assets						
Intangible assets	6					6
Property, plant and equipment	151					151
Investment property	257,386					257,386
Financial assets	38			38		
Non-current other assets	365			365		
Deferred tax assets	2,170					2,170
Current trade receivables and other assets	487		487			
Income tax receivables	44					44
Bank balances and cash in hand	37,942		37,942			
	298,589	**0**	**38,429**	**403**	**0**	**259,757**
Equity and liabilities						
Equity	155,297					155,297
Non-current financial liabilities, trade payables and other liabilities	113,128	7,834*	103,712			1,582
Deferred tax liabilities	14,708					14,708
Pension provisions	5,603					5,603
Other non-current provisions	701				701	
Current financial liabilities, trade payables and other liabilities	6,497	11*	5,558			928
Income tax liabilities	402					402
Other current provisions	2,253		331			1,922
	298,589	**7,845**	**109,601**	**0**	**701**	**180,442**

* Derivatives

(19) Deferred tax liabilities

In the context of exit taxation in connection with the company achieving REIT status, deferred tax liabilities of €14.7 million were reversed. As at 31 December 2010, the company therefore no longer reports any deferred tax liabilities.

(20) Income tax liabilities

As at 31 December 2010, there are no longer any income tax liabilities. The amounts reported in the previous year related to corporation and trade tax liabilities for 2008 and 2009 and were offset by utilisation in the 2010 financial year. To the extent that the reported liabilities were not utilised in full, fractional amounts were reversed in profit and loss.

(21) Trade payables and other liabilities

The trade payables and other liabilities amounted to a total of €7,876 thousand as at 31 December 2010. €4,726 thousand of this is payable within the next twelve months. The amount recognised increased by €1,924 thousand overall as against the previous year. The net addition mainly relates to the change in various purchase price and land transfer tax obligations. Trade payables increased by €27 thousand to €95 thousand at the end of the reporting period.

(22) Pension provisions

There are pension scheme commitments for eligible current and former employees and their surviving dependents. These are defined benefit commitments within the meaning of IAS 19. Provisions are measured using the projected unit credit method. In addition to the pensions and acquired claims known at the end of the reporting period, the project unit credit method also takes into account forecast increases in salaries and pensions and makes assumptions regarding inflation. Provisions are calculated assuming a normal retirement age of 62 or 63.

Commitments for pension expenses are distributed over the period of service of employees on the basis of actuarial calculations and broken down into current service cost, amortisation of actuarial gains and losses and interest expenses in accordance with IAS 19. While interest expenses are taken to net finance costs,the other items are reported under staff costs. In 2010, the interest expense from pension obligations amounted to €341 thousand (previous year: €381 thousand).

Actuarial gains and losses are recognised using the corridor approach permitted under IAS 19. By using this method, we avoid major volatilities in the allocation of pension provisions. At the end of the reporting period, there were unrecognised actuarial losses of €2,084 thousand. Under the corridor approach, these losses are only taken into account to the extent that they exceed the corridor defined in IAS 19 of 10% of the actual defined pension obligation. The corridor limit amounted to €757 thousand at the end of the reporting period. As a result, there was an excess of €1,327 thousand as at 31 December 2010 that – starting in the year in which the accounts are prepared – must be distributed over the forecast average service period of active beneficiaries and that would have an effect of €459 thousand if the corridor approach were retained in the subsequent year. Actuarial losses of €179 thousand that exceeded the corridor limit in 2009 were taken into account in the year under review.

Development of pensions provisions in the reporting year:

in T€	2010	2009	2008	2007	2006
Carrying amount at 1 January	5,603	5,780	5,923	6,140	6,330
Current service cost	13	11	11	41	40
Interest expense	341	381	375	317	320
Actuarial gains/losses recognised for the current year	179	80	83	13	0
Pension payments	-649	-649	-612	-588	-550
Carrying amount at 31 December	**5,487**	**5,603**	**5,780**	**5,923**	**6,140**

Unrecognised actuarial losses	2,084	1,380	1,060	1,174	777
Defined benefit obligation (DBO) as at year-end	7,571	6,983	6,840	7,097	6,917
Experience adjustment on plan liabilities	226	199	171	641	82

The changes in the present value of defined benefit obligations were as follows:

in T€	2010	2009	2008	2007	2006
Present value at 1 January (defined benefit obligation)	**6,983**	**6,840**	**7,097**	**6,917**	**7,000**
Service cost	13	11	11	41	40
Interest expense	341	381	375	317	320
Actuarial gains/losses	883	400	-31	410	107
Pension payments	-649	-649	-612	-588	-550
Present value at 31 December (defined benefit obligation)	**7,571**	**6,983**	**6,840**	**7,097**	**6,917**

In the year under review, HAMBORNER paid contributions of €143 thousand (previous year: €143 thousand) deemed as a defined contribution pension scheme to statutory pension insurance. In addition, the company paid direct insurance premiums of €10 thousand (previous year: €11 thousand) and premiums for reinsured provident funds of €28 thousand (previous year: €0 thousand). The company has no obligations other than its payment obligations under defined contribution schemes. The expenses are recognised in staff costs.

Pension payments amounting to €649 thousand are forecast in the 2011 financial year.

(23) Other provisions

The maturities structure for other provisions is as follows:

	01/01/2010				31/12/2010	of which	
in T€	**Total**	**Additions**	**Utilisation**	**Reversals**	**Total**	**non-current**	**current**
Provisions for							
Bonuses	514	632	421	100	625	0	625
Subsidence damage	1,401	124	0	0	1,525	825	700
Provisions relating to the Articles of Association and legal form of the company	211	225	208	3	225	0	225
Legal and consultancy expenses	241	30	211	30	30	0	30
Outstanding invoices	331	480	251	72	488	0	488
Others	256	242	222	33	243	0	243
Total	**2,954**	**1,733**	**1,313**	**238**	**3,136**	**825**	**2,311**

The provision for bonus obligations assumes that the expected bonus payments in 2011 for 2010 will be €111 thousand higher than in the previous year at €625 thousand.

The provisions for subsidence damage relate to the potential risks from our former mining activities. Please see the more detailed information in the risk report, which is a component of the management report.

Provisions relating to mining activities are predominantly non-current provisions carried at their probable settlement amount at the end of the reporting period. An interest rate of 5.3% (previous year: 6.0%) was assumed for discounting over a remaining term of 21 years (previous year: 22 years). The discounting of this provision resulted in a rise as against the previous year of €124 thousand to €1,525 thousand as at 31 December 2010.

The provisions for obligations relating to the Articles of Association and legal form of the company include remuneration for the Supervisory Board and fees for auditors. Please see note (2) for further information on fees for auditors within the meaning of Article 285 no. 17 in conjunction with Article 325(2a) HGB.

Provisions for legal consultancy services decreased from €241 thousand in the previous year to €30 thousand as at 31 December 2010. The expenses for the previous year were largely caused by consulting services in connection with the transformation of the company into a REIT and were not repeated in the 2010 financial year.

The provisions for outstanding invoices increased by €157 thousand year-on-year to €488 thousand. Provisions for maintenance expenses not yet invoiced and operating costs were recognised to the extent that these relate to 2010.

(24) Contingent liabilities and financial obligations

On 31 December 2010, there were obligations arising from notarised land purchase agreements to pay a total purchase price of €100.8 million. As agreed, payments of €28.5 million were made on this on 5 January 2011. The residual obligations are payable on transfer of ownership of the properties in 2011 and 2012.

The purchase price for the Lemgo property can increase if the vacant space is let by the seller. The purchase price will also increase if sales-based rent in excess of the minimum rent is payable for leased retail space in the first three years after the handover of the business premises instead of the agreed minimum rent.

The property at Erlangen, Röthelheimpark, had not been completed at the time the purchase agreement was signed. The provisionally calculated purchase price can still change by the time it becomes due. If the total amount of the contractually agreed net annual basic rent by this date is greater or less than the net annual basic rent estimated in the purchase agreement, the purchase price will increase or decrease in line with a factor stipulated in the purchase agreement.

The other financial obligations after the end of the reporting period result from four long-term leasehold contracts and are as follows:

Maturing on	Payment obligation (in € thou p.a.)	Passed on to tenants (in € thou p.a.)
31 December 2034	184	184
31 March 2060	113	0
30 June 2012*	228	0
30 June 2023	210	0
Total	**735**	**184**

* The lease will become our property on 30 June 2012 against payment of €3.2 million on the basis of contractual agreements.

There are no further contingent liabilities, contingencies or other financial obligations.

(25) Leases

All rental agreements that HAMBORNER has concluded with its tenants are classified as operating leases under IFRS as all the risks and rewards of ownership remain with the company. Accordingly, HAMBORNER is the lessor in all operating leases (rent agreements) of varying forms for investment property.

Under operating leases, investment property with a carrying amount of €315.4 million (previous year: €254.3 million) was let as at 31 December 2010.

HAMBORNER will receive the following minimum lease payments from the non-cancellable, commercial operating leases currently in place:

in T€	2010	2009
up to one year	25,670	18,425
between one and five years	76,755	61,055
more than five years	67,061	50,362
Total	**169,486**	**129,842**

There were contingent rent payments of only an insignificant amount in the reporting period.

Disclosures on the statement of cash flow

The statement of cash flows shows the development of cash flow, broken according to cash generated by and used in operating activities, the investing activities and financing activities.

The cash and cash equivalents comprises cash in hand and bank balances. As at the reporting date, cash and cash equivalents increased by €45.7 million as against the previous year to € 83.6 million. The reported bank balances include security deposits of €178 thousand and deposits of purchase price retentions of €2.3 million.

The statement of cash flow was prepared in accordance with the provisions of IAS 7. Exchange rate fluctuations have no effect at HAMBORNER.

(26) Cash flow from operating activities

The statement of cash flow is based on earnings before taxes (EBT) for the year.

The cash flow from operating activities was essentially influenced by tax payments – particularly for exit tax – totalling €16.9 million as against the previous year.

Operating cash flow per share developed as below:

(27) Cash flow from investing activities

		2010	2009
Number of shares outstanding	thousand units	34,120	22,770
Operating cash flow	T€	830	14,129
Operating cash flow per share	€	0.02	0.62

The payments for investments in property, plant and equipment and intangible fixed assets do not correspond to the additions shown in the statement of changes in non-current assets. These also include non-cash investments that essentially relate to purchase price retentions and a land transfer tax charge not yet due.

The cash flow from investing activities mainly resulted in a cash outflow of €65.6 million due to acquisitions in the financial year (previous year: €37.7 million).

(28) Cash flow from financing activities

The positive cash flow from financing activities of €110.5 million was essentially due to both the capital increase performed in the financial year, which resulted in cash inflow of €79.5 million, and the proceeds from the borrowing of financial loans of €52.6 million.

Other notes and mandatory disclosures

Events after the end of the reporting period

The Brunnthal property near Munich became our property on 5 January 2011 and the purchase price of €12 million became due. On the same date, we also made a contractually agreed advance payment of €16.5 million on the purchase price for a medical centre in Regensburg.

Assumptions and estimates

In preparing the annual financial statements, assumptions have been made and estimates used that effect the reporting and amount of the recognised assets, liabilities, income and expenses. These assumptions and estimates essentially relate to the determination of useful lives, the value of land and buildings, receivables and the recognition and measurement of provisions. Actual values may deviate from the assumptions and estimates made in individual cases. Changes are taken into account in profit and loss when more information becomes known.

Employees

The average number of employees over the year (not including the Managing Board) was as follows:

	2010	2009
Commercial property management	6	6
Technical property management	4	5
Administration	12	12
Total	**22**	**23**

Corporate Governance

In December 2010, the Managing Board and Supervisory Board issued an updated declaration of compliance and published it on the Internet at www.hamborner.de under Investor Relations/Corporate Governance. The full declaration of compliance has also been published in this 2010 Annual Report.

Notification of the existence of an equity holding

Under Article 11(4) of the German REIT Act, investors are not permitted to directly hold 10% or more of shares or shares to such an extent that they hold 10% or more of voting rights. As at the end of the reporting period on 31 December 2010, the company was not aware of any shareholders with a direct shareholding of more than 10% of share capital.

We received the following notifications in accordance with Article 21(1) WpHG on 8 October 2010:

The share of voting rights held by de Haen-Carstanjen & Söhne GmbH, Düsseldorf, Germany, fell below the thresholds of 5% and 3% on 6 October 2010 and amounted to 0% (0 voting rights) at this date.

The share of voting rights held by TEC Düsseldorf GbR, Düsseldorf, Germany, exceeded the threshold of 3% on 6 October 2010 and amounted to 3.4% (775,000 voting rights) at this date.

The share of voting rights held by Laris GbR, Düsseldorf, Germany, exceeded the threshold of 3% on 6 October 2010 and amounted to 3.23% (735,000 voting rights) at this date.

We received the following notification in accordance with Article 21(1) WpHG on 13 October 2010:

The share of voting rights held by Ruffer LLP, London, UK, exceeded the thresholds of 3% and 5% on 13 October 2010 and amounted to 6.16% (2,102,760 voting rights) at this date. 6.16% of this amount is attributable to it in accordance with Article 22(1) sentence 1 no. 6 WpHG.

We received the following notifications in accordance with Article 21(1) WpHG on 14 October 2010:

The share of voting rights held by the State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg has fallen below the threshold of 50% and, from 11 October 2010, the two hold an indirect investment of 35.18% (12,003,164 voting rights) of the voting capital of the company through HSH Finanzfonds AöR. Of these, all the voting rights held by the following subsidiaries are attributable to them in accordance with Article 22(1) sentence 1 no. 1 WpHG:

- HSH Nordbank AG
- HSH Real Estate AG
- HSH RE 2.-7 Beteiligungs GmbHs (consisting of six companies).

The share of voting rights held by HSH Real Estate AG, Hamburg, Germany, fell below the threshold of 50% on 11 October 2010 and amounted to 35.18% (12,003,164 voting rights) at this date. 33.58% (11,457,519 voting rights) of this amount is attributable to it in accordance with Article 22(1) sentence 1 no. 1 WpHG. The votes attributed to it are held by the following companies that it controls and that themselves hold a share of voting rights of 3% or more:

- HSH RE 2.-7 Beteiligungs GmbHs (consisting of six companies).

The share of voting rights held by HSH RE 7. Beteiligungs GmbH, Hamburg, Germany, fell below the threshold of 5% and amounted to 3.55% (1,211,019 voting rights) at this date.

The share of voting rights held by Kempen & Co N.V., Amsterdam, Netherlands, exceeded the thresholds of 3% and 5% on 11 October 2010 and amounted to 9.99% (3,407,913 voting rights) at this date.

The share of voting rights held by WestLB AG, Düsseldorf, Germany, exceeded the thresholds of 3%, 5%, 10%, 15% and 20% on 11 October 2010 and amounted to 23.29% (7,945,000 voting rights) at this date.

The share of voting rights held by WestLB AG, Düsseldorf, Germany, fell below the thresholds of 10%, 15% and 20% on 13 October 2010 and amounted to 9.02% (3,076,344 voting rights) at this date.

We received the following notifications in accordance with Article 21(1) WpHG on 18 October 2010:

The share of voting rights held by Prof Siegert, Germany, fell below the threshold of 10% on 11 October 2010 and amounted to 8.15% (2,781,000 voting rights) at this date. 8.15% (2,781,000 voting rights) are attributable to Mr Siegert in accordance with Article 22(1) sentence 1 no. 1 WpHG. The votes attributed to him are held by the following companies that he controls and that themselves hold a share of voting rights of 3% or more in HAMBORNER:

- Siegert & Cie. GmbH.

The share of voting rights held by Laris GbR, Düsseldorf, Germany, fell below the threshold of 3% on 11 October 2010 and amounted to 2.15% (735,000 voting rights) at this date.

The share of voting rights held by TEC Düsseldorf GbR, Düsseldorf, Germany, fell below the threshold of 3% on 11 October 2010 and amounted to 2.27% (775,000 voting rights) at this date.

The share of voting rights held by Siegert & Cie. GmbH, Düsseldorf, Germany, fell below the threshold of 5% on 11 October 2010 and amounted to 3.63% (1,240,000 voting rights) at this date.

We received the following notification in accordance with Article 21(1) WpHG on 27 October 2010:

The share of voting rights held by Lanschot N.V., 'S-Hertogenbosch, Netherlands, exceeded the thresholds of 3% and 5% on 11 October 2010 and amounted to 9.99% (3,407,913 voting rights) at this date. 9.99% (3,407,913 voting rights) of this amount is attributable to it in accordance with Article 22(1) sentence 1 no. 1 WpHG. The votes attributed to it are held by the following company that it controls and that itself holds a share of voting rights of 3% or more in HAMBORNER:

- Kempen & Co. N.V., wholly owned subsidiary of Van Lanschot N.V.

We received the following notifications in accordance with Article 21(1) WpHG on 29 October 2010:

The share of voting rights held by WestLB AG, Düsseldorf, Germany, fell below the thresholds of 5% and 3% on 28 October 2010 and amounted to 0% (0 voting rights) at this date.

The share of voting rights held by Asset Value Investors Limited, London, UK, exceeded the thresholds of 3% and 5% on 26 October 2010 and amounted to 5.82% (1,987,476 voting rights) at this date. 5.82% (1,987,476 voting rights) of this amount is attributable to it in accordance with Article 22(1) sentence 1 no. 6 WpHG.

We received the following notifications in accordance with Article 21(1) WpHG on 1 November 2010:

The share of voting rights held by Kempen & Co N.V., Amsterdam, Netherlands, fell below the thresholds of 3% and 5% on 28 October 2010 and amounted to 0% (1,314 voting rights) at this date.

The share of voting rights held by Lanschot N.V., 'S-Hertogenbosch, Netherlands, fell below the thresholds of 3% and 5% on 11 October 2010 and amounted to 0% (1,314 voting rights) at this date. 0% (1,314 voting rights) of this amount is attributable to it through the wholly owned subsidiary Van Lanschot N.V. in accordance with Article 22(1) sentence 1 no. 1 WpHG.

We received the following notification in accordance with Article 21(1) WpHG on 22 December 2010/26 January 2011:

- The share of voting rights held by Nikko Asset Management Co., Ltd., Tokyo, Japan, exceeded the threshold of 3% of voting rights on 21 December 2010 and amounted to 3.07% (1,046,397 voting rights) at this date.

- The share of voting rights held by Sumitomo Trust & Banking Co., Ltd., Tokyo, Japan, exceeded the threshold of 3% of voting rights on 21 December 2010 and amounted to 3.07% (1,046,397 voting rights) at this date. 3.07% (1,046,397 voting rights) of this amount is attributable to it in accordance with Article 22(1) sentence 1 no. 1 WpHG. The votes attributed to it are held by the following companies that it controls and that themselves hold a share of voting rights of 3% or more in HAMBORNER:

- Nikko Asset Management Co., Ltd.

According to the voting right notifications we received, there were the following indirect equity investments in the capital of the company indirectly amounting to or exceeding 10% of the voting rights as at 31 December 2010:

The State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg indirectly hold a total of 35.18% (12,003,164 voting rights) through HSH Finanzfonds AöR and subsidiaries through which voting rights are attributed, HSH Nordbank AG, HSH Real Estate AG and HSH RE 2.-7.

Related parties disclosures for the 2010 financial year

Until 26 February 2010, the company had a current account at HSH Nordbank AG. The account was closed at this date with a balance of €455.65.

There were no other reportable transactions in the 2010 financial year.

All transactions with related parties were based on standard market conditions.

The remuneration paid to persons in key positions at our company that is reportable under IAS 24 comprises the remuneration of the Managing Board and the Supervisory Board. The members of the Managing Board received the following remuneration in the 2010 financial year:

in T€	**2010**	**2009**
Payments due in the short term	598	578
Post-employment benefits	0	24
Total	**598**	**602**

In addition, subsidies to pension, health and long-term care insurance schemes, contributions to a insured provident fund and non-cash benefits in the form of use of company cars and compensation in lieu of holiday not taken totalling €99 thousand were paid in the 2010 financial year.

These financial statements take into account short-term payments owed to the members of the Supervisory Board active in the 2010 financial year of €158 thousand (previous year: €159 thousand).

Remuneration of the Managing Board and the Supervisory Board

The remuneration of the Managing Board and the Supervisory Board and the principles of the remuneration system are presented in detail in the remuneration report, which is a component of the management report.

Total remuneration for active members of the Managing Board amounted to €697 thousand in the reporting year. Former members of the Managing Board and their surviving dependents received payments of €407 thousand. The pensions provisions recognised for this group of people amount to €4,647 thousand.

The remuneration of the members of the Supervisory Board amounts to €158 thousand for the financial year. In addition, expenses were reimbursed to members of the Supervisory Board in accordance with Article 13(3) of the Articles of Association in the amount of €1.3 thousand.

Executive Bodies of the Company and their Mandates

Supervisory Board
Dr. Josef Pauli, Essen
Honorary Chairman

Dr. Eckart John von Freyend, Bad Honnef
Chairman
Partner of Gebrüder John von Freyend-Verwaltungs- und Beteiligungsgesellschaft m.b.H.
External mandates:
EUREF AG * (formerly Konzeptplus AG)
FMS Wertmanagement AöR **(from 8 July 2010)
Finum Finanzhaus AG * (Chairman) (until 7 April 2010)
GSW Immobilien AG* (Chairman) (from 22 April 2010)
Hahn-Immobilien-Beteiligungs AG *
Investment AG für langfristige Investoren TGV*
IVG Immobilien AG * (until 14 April 2010)
VNR Verlag für die Deutsche Wirtschaft AG *

Dr. Marc Weinstock, Kelkheim-Fischbach, (until 31 July 2010)
Deputy Chairman
External mandates:
LB Immo Invest GmbH ** (Chairman from 1 April 2010) (until 30 June 2010)
DSK Deutsche Stadt- und Grundstücksentwicklungsgesellschaft mbH ** (Chairman)
BIG BAU-INVESTITIONSGESELLSCHAFT mbH **
Pirelli RE Asset Management Deutschland GmbH **
H/H-Capital Management GmbH **
BIT – Beteiligungs- & Investitions-Treuhand AG *

Dr. David Mbonimana, Seevetal, (from 3 August 2010)
Deputy Chairman (from 12 August 2010)
Member of the Managing Board of HSH Real Estate AG
External mandates:
LB Immo Invest GmbH **(Chairman from 1 July 2010)
LARUS Asset Management GmbH**(1 August -31 October 2010)
H/H Stadtwerkefonds KGaA SICAR**(6 July-8 November 2010)

Volker Lütgen, Wentorf
Broker, Volker Lütgen Immobilien

Robert Schmidt, Datteln
Chairman of management at Evonik Immobilien GmbH
Chairman of management at THS GmbH
External mandates:
THS GmbH **(until 29 September 2010)
Wohnbau Dinslaken GmbH **(Deputy Chairman)

Christel Kaufmann-Hocker, Düsseldorf, (from 24 June 2010)
Management consultant
External mandates:
Stiftung Mercator GmbH **
Max Mothes GmbH **

Mechthilde Dordel ***, Oberhausen, (from 24 June 2010)
Commercial employee

Edith Dützer ***, Moers
Commercial employee

Hans-Bernd Prior ***, Dinslaken
Technical employee

Committees of the Supervisory Board
Executive Committee
Dr. Eckart John von Freyend (Chairman)
Dr. Marc Weinstock (until 31 July 2010)
Dr. David Mbonimana (from 12 August 2010)
Volker Lütgen (until 10 June 2010)
Robert Schmidt

Audit Committee
Dr. Marc Weinstock (Chairman) (until 31 July 2010)
Dr. David Mbonimana (Chairman) (from 12 August 2010)
Robert Schmidt
Christel Kaufmann-Hocker (from 24 June 2010)
Edith Dützer (until 10 June 2010)
Hans-Bernd Prior (from 10 June 2010)

Nomination Committee
Dr. Eckart John von Freyend (Chairman)
Dr. Marc Weinstock (until 31 July 2010)
Dr. David Mbonimana (from 12 August 2010)
Volker Lütgen
Robert Schmidt (until 10 June 2010)

Managing Board
Dr. Rüdiger Mrotzek, Hilden
Director for Finance/Accounting, Taxes, Asset Management, Maintenance/Technology, IT, Risk Management/Controlling

Hans Richard Schmitz, Duisburg
Director for Portfolio Management, Legal, Investor Relations/Public Relations, HR, Corporate Governance, Insurance

Duisburg, 28 February 2011

The Managing Board

Dr. Rüdiger Mrotzek   Hans Richard Schmitz

* Membership of other statutory supervisory boards
** Membership of similar executive bodies in Germany and abroad
*** Employee member of the Supervisory Board

Responsibility Statement

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

Duisburg, 28 February 2011

The Managing Board

Dr. Rüdiger Mrotzek Hans Richard Schmitz

Audit opinion

To HAMBORNER REIT AG, Duisburg

We have audited the separate financial statements – comprising the statement of comprehensive income, the statement of recognised income and expense, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the financial statements – together with the bookkeeping system and the management report of HAMBORNER REIT AG, Duisburg, for the financial year from 1 January 2010 to 31 December 2010. The bookkeeping system and the preparation of the separate financial statements and the management report in accordance with the International Financial Reporting Standards (IFRSs), as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 325(2a) HGB are the responsibility of the Managing Board of the company. Our responsibility is to express an opinion on the separate financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the separate financial statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). 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 separate financial statements in accordance with the applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping system, the separate financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the separate financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the separate financial statements of HAMBORNER REIT AG, Duisburg, comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 325 (2a) HGB and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with these requirements. The management report is consistent with the separate financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 28 February 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Harnacke)	(Lüdke)
Auditor	Auditor

Assets need potential.

High Street properties in top-class inner city locations offer potential for further appreciation in value.

SUPPLEMENTARY INFORMATION

PORTFOLIO
EXPANDED WITH OFFICE BUILDING IN A1 LOCATION

IN NOVEMBER 2010 WE ACQUIRED AN OFFICE BUILDING IN A A1 LOCATION IN THE LEMGO PEDESTRIAN ZONE:

- Around 4,600 m^2 of rental space
- Initial term 10 years
- Tenants C&A, H&M
- Fair value around €6.8 million
- Initial gross yield approximately 7.0%

Locations in pedestrian zones with high footfall and locations with strong purchasing power are attractive for tenants, thus minimising the risk of achieving rental extensions.

Location is decisive when acquiring so-called High Street properties. Commercial buildings in areas with the highest footfall of pedestrian zones in cities with high purchasing power offer potential for appreciation in value.

Such desirable locations and marketable spaces minimise risk of achieving rental extensions and secure tenants with good credit standing.

REIT information

Since 1 January, HAMBORNER as a REIT company is exempt from German corporation and trade tax. In order to retain this status, the regulations of the German REIT Act must be complied with and a declaration to this effect given by the Managing Board.

In connection with the annual financial statements in line with Article 264 HGB and our separate IFRS financial statements in line with Article 325 (2) HGB, the Managing Board states the following in reference to the requirements of Articles 11 to 15 of the German REIT Act and the determination of the composition of income in respect to income subject to income last and income not subject to income tax for purposes of Article 19 (3) and Article 19a of the German REIT Act as of 31 December 2010.

Article 11 German REIT Act: free float

According to Article 11 (1) of the German REIT Act, a REIT company must maintain at least 15% of shares in the free float on a sustained basis.

At HAMBORNER, the free float was 41.62% as at 31 December 2010. By letter dated 12 January 2011, we informed BaFin about this.

Under Article 11(4) of the German REIT Act, shareholders are not permitted to hold directly 10% or more of shares or shares to such an extent that they hold 10% or more of voting rights.

On the basis of voting right notifications received from shareholders in line with Article 21 (1) and Article 26 (1 and 2) of the WpHG, according to our knowledge no shareholder holds directly 10% or more shares to such an extent that they hold 10% or more of voting rights.

Article 12 German REIT Act: assets and earnings requirements

According to Article 12 (2) of the German REIT Act, at least 75% of total assets of the company (i.e. total assets minus the deductions for the distribution obligation in line with Article 13 (1) of the German REIT Act and reserves in line with Article 13 (3) of the German REIT Act must consist of immovable assets. In line with Article 12 (1) of the German REIT Act, immovable investment properties are to be measured on the basis of fair value in line with IAS 40.

At the end of the 2010 financial year, 82.0% of total assets at HAMBORNER consisted of immovable assets.

According to Article 12 (3) of the German REIT Act, at least 75% of the sales revenues and other operating income must come from immovable assets from renting and leasing, including activities connected to real estate or disposal of immovable assets.

In the reporting year, this requirement was fully met.

Article 13 German REIT Act: distribution to investors

According to Article 13 (1) of the German REIT Act, HAMBORNER is obligated to distribute to shareholders by the end of the next financial year at least 90% of its net income for the financial year, reduced or increased by the transfer to or release from the reserve for disposal gains from immovable assets in line with Article 13 (3) of the German REIT Act and also lowered by any possible loss carried forward from the previous year.

Provided that the Annual General Meeting approves the dividend proposal, the Company will distribute a dividend to the shareholders amounting to €12.6 million, thus deploying the full amount of the net income for the financial year.

Article 14 German REIT Act: exclusion of real estate trading

According to this regulation, a REIT company may not trade with its immovable assets where the income constitutes more than half of the value of the average portfolio within the last five years as a REIT company.

In 2010, the Company sold approximately 1.1% of its average portfolio of immovable assets since the conversion into a REIT.

Article 15 German REIT Act: minimum equity

The equity of a REIT company determined on the basis of Article 12 (1) of the German REIT Act may not fall below 45% of the amount of immovable assets in the separate annual financial statements.

The equity of HAMBORNER modified in line with German REIT Act regulations, which for the purpose of this regulation takes account of the fair value of the immovable assets in line with IAS 40 totalled 74.9% as of 31 December 2010.

Article 19 German REIT Act: breakdown of income in respect to income subject to and not subject to income tax

According to this regulation, the part income method in line with Article 3 (40) of the Income Tax Act and the resulting 95% tax exemption line with Article 8b of the Corporation Tax Act does not apply to distributions of a REIT company. However, if the REIT company distributes profits subject to tax at the level of the REIT company, these tax exemptions are granted.

Subject to the approval of the Annual General Meeting, HAMBORNER will distribute a dividend not subject to taxation of €12.6 million.

HAMBORNER holds no interest in REIT service companies, so that the relevant asset and income requirements are not relevant.

Duisburg, 28 February 2011

The Managing Board

Dr. Rüdiger Mrotzek   Hans Richard Schmitz

The REIT declaration was audited by the auditor in line with Article (4) German REIT Act on 28 February 2011.

Examples of properties

**Berlin,
Schloßstr.**

**Bremen,
Hermann-Köhl-Straße**

**Bremen,
Linzer-Str.**

**Dortmund,
Westfalendamm**

**Hamburg,
Fuhlsbüttler Str.**

**Erlangen,
Am Wetterkreuz**

**Frankfurt,
Cronstettenstr.**

**Frankfurt,
Steinweg**

**Hamburg,
Ziethenstr.**

**Herford,
Bäckerstr.**

**Krefeld,
Krützpoort,**

**Münster,
Johann-Krane-Weg**

Duisburg,
Kaßlerfelder Kreisel

Erfurt,
Neuwerkstr.

Gütersloh,
Berliner Str.

Hamburg,
An der Alster

Leverkusen,
Wiesdorfer Platz

Meppen,
Am Neuen Markt

Minden,
Bäckerstr.

Osnabrück,
Sutthauser Str.

Oberhausen,
Marktstr.

Osnabrück,
Große Str.

Rheine,
Emsstr.

Solingen,
Friedenstr.

Important terms and abbreviations

AktG	German Stock Company Act
GDP	Gross Domestic Product: measure for the economic performance of an economy, i.e. combined value of all goods and services generated within a country during a specified period.
Corporate Governance	Principles of responsible company management and control geared to the long-term creation of value.
Cash flow	Changes in total of inflows and outflows of liquid funds in a period.
DAX	The most important German share index established by Deutsche Börse AG. It shows the development of the 30 biggest German public limited companies, in terms of their market capitalisation and stock exchange turnover.
DCF method	Discounted cash flow method - method to determine value e.g. the fair value of real estate. It is based on the financial concept of discounting cash flows to determine the capital value.
Derivative	A financial instrument whose value is derived predominantly from the price, price fluctuations and price expectations of an underlying asset, such as shares, interest-bearing securities or foreign currencies; often used as a hedging instrument.
Designated sponsor	Designated sponsors are specialised financial service providers that counterbalance temporary imbalances between supply and demand in individual shares in the electronic trading system Xetra. The negotiability of a share is meant to be improved through placing bid and ask limits.
DIMAX	Share index published by the banking firm Ellwanger & Geiger, which combines German property shares
EBDA	Earnings before depreciation and amortisation.
EBIT	Earnings before interest and tax (only taxes on income).
EBITDA	Earnings before interest, taxes, depreciation and amortisation (only taxes on income).
Declaration of Compliance	Declaration of the Managing Board and Supervisory Board pursuant to Article 161 of the German Stock Company Act on implementing the recommendations of the Government Commission for the German Corporate Governance Code.
EPRA	European Public Real Estate Association – European association of property companies quoted on the stock market. Financial analysts, investors, auditors and consultants are also represented here, in addition to companies.
Fair value	Fair value or market value, the value at which knowledgeable and willing parties would be prepared to exchange an asset at normal market conditions or to discharge a liability.
FFO	Funds From Operations. Key ratio for the operating business of the company. The FFO is used within the framework of value-oriented corporate management for the presentation of the funds generated, which are available to shareholders for investments, repayments and dividend distributions.
HGB	German Commercial Code.
IFRS	International Financial Reporting Standards: international accounting provisions issued by the International Accounting Standards Board (IASB). These are compulsorily applied by capital market-oriented companies and groups and are intended to facilitate better comparability in the international environment.
Investment properties	All undeveloped and developed properties as well as buildings and parts of buildings which are held for the attainment of future rental income and/or profits from appreciations in value to third parties and/or for an as yet undefined use. They are not intended for administrative purposes or for short-term trade in the context of the normal business activity.

Statement of cash flows	The cash flow statement shows the payment flows in the company in a transparent fashion. Event impacting liquidity are classified by operating, investing and financing activities.
Deferred taxes	Deferred tax assets and liabilities to offset the difference between the actually assessed tax liability and the tax liability caused by accounting under commercial law.
Vacancy rate	The company calculates its vacancy rate as target rent for the vacant space in relation to total target rent. In calculating the economic vacancy rate, the rental losses for vacant spaces in adjusted for contractually rental guarantee claims.
Loan To Value	Represents the financial liabilities of the company as a ratio to the fair value of the property portfolio, taking into account cash and cash equivalents.
Market capitalisation	Market value of a public limited company. Current share price multiplied by the number of shares.
Net asset value (NAV)	The net asset value reflects the economic equity capital of the company. It is determined from the market values of group assets – essentially the value of properties – net of the borrowed capital.
Triple Net Asset Value (NNNAV)	Net Asset Value reduced by deferred taxes for hidden reserves between the carrying value and fair value of the real estate, taking into account the measurement difference between the fair value and carrying value of debt.
REIT	Abbreviated form for Real Estate Investment Trust. Stock exchange-listed company that invests solely in properties. Facilitates indirect investment in properties for the investor through the purchase of shares. The greater part of the profit is distributed and taxation is effected exclusively at investor level (tax transparency).
REIT capital ratio	Corresponds to the equity coverage ratio in line with Article 15 in combination with Article 12 (1 sentence 2) of the German REIT Act, i.e. the ratio of equity (on a fair value basis) to the fair value of immovable assets. The equity on a fair value basis is calculated from the total of balance sheet equity and hidden reserves. At HAMBORNER immovable assets consist of the property portfolio of the company and undeveloped land, consisting primarily of agricultural land and forests.
Risk management	Systematic process with the aim of identifying potential risks in the company at an early stage, evaluating them and, where appropriate, introducing necessary preventive measures.
SDAX	Small-cap index: German share index that, as a second-line index, includes the 50 most important shares-after the DAX and MDAX. The "S" for "small-cap" refers to smaller companies with low market capitalisation and stock exchange turnover.
VorstAG	German Act for the Appropriateness of Management Remuneration.
VorstOG	German Disclosure of Managing Board Remuneration Act.
WpHG	German Securities Trading Act.

Note

This report contains statements directed at the future, e.g. on macroeconomic developments in Germany, on the future situation of the property industry and on our own probable business development. These statements are based on current assumptions and estimates of the Managing Board, which were carefully made on the basis of all of the information available at the present time. Should the assumptions underlying the statements and forecasts not come true, actual results may differ from those currently anticipated.

This report also appears in German. The consolidated financial statements were prepared and adopted in German. The English publication is a translation of the German financial statements. The German version shall prevail.

Imprint

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HAMBORNER REIT AG

FINANCIAL CALENDAR 2011/2012

29 March 2011	Annual report 2010
12 May 2011	Interim report for 1st quarter 2011
17 May 2011	Annual General Meeting 2011
18 May 2011	Payment of dividend for the 2010 financial year
11 August 2011	Interim report for 1st half 2011
09 November 2011	Interim report for 3rd quarter 2011
29 March 2012	Annual report 2011
10 May 2012	Interim report for 1st quarter 2012
15 May 2012	Annual General Meeting 2012

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