

Mandatory publication according to Sec. 27 Para. 3 sentence 1 and
Sec. 14 Para. 3 sentence 1
German Securities Acquisition and Takeover Act



**Joint Statement
of the Management Board and the Supervisory Board**

of

Hypo Real Estate Holding AG
Unsöldstraße 2, 80538 München, Germany

according to Sec. 27 German Securities Acquisition and Takeover Act

**regarding the voluntary public tender offer
(cash offer)**

according to the German Securities Acquisition and Takeover Act

of

HRE Investment Holding L.P.
George Town, Cayman Islands

**to the shareholders of
Hypo Real Estate Holding AG**

HRE Shares: ISIN DE0008027707, WKN 802770
HRE Shares tendered for sale: ISIN DE000A0SFRF2, WKN A0SFRF

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On May 23, 2008, HRE Investment Holding L.P., George Town, Cayman Islands (the "**Offeror**"), according to Sec. 14 Para. 2 and Para. 3 of the German Securities Acquisition and Takeover Act ("**WpÜG**") published the offering document within the meaning of Sec. 11 WpÜG (the "**Offering Document**") for the voluntary public tender offer of the Offeror to the holders of shares of Hypo Real Estate Holding AG, Munich ("**HRE AG**" or the "**Company**" and together with its affiliated companies, the "**HRE Group**") for the acquisition of up to 50,076,000 bearer shares of HRE AG (every single bearer share of HRE AG, hereinafter "**HRE Share**", several or all bearer shares of HRE AG "**HRE Shares**") (the "**Offer**"). The maximum number of shares to be acquired corresponds to 24.9% of the outstanding HRE Shares.

The Offering Document was submitted to the Management Board of HRE AG (the "**Management Board**") on May 23, 2008, which, on the same day, forwarded it to the Supervisory Board of HRE AG (the "**Supervisory Board**") and to the group works council existing within the HRE Group (the "**Group Works Council**").

The Offeror's Offer is addressed to all holders of HRE Shares (collectively the "**HRE Shareholders**" and each individually an "**HRE Shareholder**").

The Management Board and the Supervisory Board point out that they are not in a position to verify whether the HRE Shareholders, when accepting the Offer, are acting in compliance with all legal obligations that possibly apply to individual HRE Shareholders. The Management Board and Supervisory Board recommend that all persons who receive the Offering Document outside the Federal Republic of Germany or who wish to accept the Offer but are subject to the securities laws of a jurisdiction other than the Federal Republic of Germany, inform themselves of these laws and abide by them.

The Management Board and the Supervisory Board render the following joint statement according to Sec. 27 WpÜG (the "**Statement**"):

I. GENERAL INFORMATION ON THIS STATEMENT

1. Legal Basis of this Statement

According to Sec. 27 Para. 1 sentence 1 WpÜG, the Management Board and the Supervisory Board of a target company must render a reasoned statement on a tender offer and on each amendment thereof. Furthermore, the competent works council of the target company may, according to Sec. 27 Para. 2 WpÜG, submit to the Management Board a statement on the offer, which the latter has to attach to its statement. The Group Works Council has abstained from rendering a formal statement, because it does not regard rights and interests of employees as affected.

2. Factual Basis of this Statement

All information, forecasts, estimates, evaluations, forward-looking statements and declarations of intent contained in this Statement are based on information available to the Management Board and the Supervisory Board on the date of publication of this Statement and reflect their assessments or intentions as existing at such point in time. Such information, estimates and intentions can change after the date of publication of this Statement. Neither the Management Board, nor the Supervisory Board or HRE AG accept any responsibility to update this Statement beyond such obligations that may exist under German law.

The information on the Offeror and the Offer contained in this Statement is based on the information contained in the Offering Document, and other publicly accessible information, unless otherwise expressly specified. The Management Board and the Supervisory Board point out that they are not in a position to verify the intentions stated by the Offeror in the Offering Document or to guarantee their implementation.

3. Publication of this Statement and of Potential Additional Statements Regarding Possible Amendments of the Offer

According to Sec. 27 Para. 3 and Sec. 14 Para. 3 sentence 1 WpÜG, this Statement as well as potential additional statements regarding possible amendments of the Offer are published on the Internet on the website of HRE AG at <http://www.hyporealestate.com>, as well as by way of publication in the Electronic Federal Gazette. This Statement is published both in German and in English. The English translation exclusively serves informational purposes; solely the German version is binding.

As with all press releases of HRE AG or other information to HRE Shareholders, the English translation of this Statement will be transmitted to the U.S. Securities Exchange Commission in accordance with Rule 12g3-2(b) of the US Securities Exchange Act of 1934.

4. Personal Responsibilities of HRE Shareholders

The Management Board and the Supervisory Board point out that the description of the Offer contained in this Statement does not claim to be exhaustive and that solely the provisions of

the Offering Document are relevant for the content and the processing of the Offer. HRE Shareholders should carefully read the Offering Document, as it contains important information for HRE Shareholders. The evaluations and recommendations of the Management Board and the Supervisory Board contained in this Statement are in no way binding for the HRE Shareholders. Taking into account all circumstances, its individual situation (including its personal tax situation), and its personal assessment regarding the future development of the value and market price of HRE Shares, each HRE Shareholder must individually assess whether and, if so, for how many HRE Shares it will accept from the Offer. HRE Shareholders themselves are responsible for their decisions in respect of the Offer; to the extent they accept the Offer, they are in each case responsible for complying with the terms and conditions contained or described in the Offering Document.

II. INFORMATION REGARDING THE TARGET COMPANY

1. General Information

a) Hypo Real Estate Holding AG

HRE AG is registered in the Commercial Register of the Local Court of Munich (HRB 149393). The Company's seat is in Munich. Its head office is located at Unsöldstrasse 2 in 80538 Munich, Germany. The financial year of HRE AG is the calendar year.

HRE AG is a financial holding company within the meaning of the German Banking Act (*Kreditwesengesetz*), which does not carry out the operational business itself, but does so through its subsidiaries. The central functions of HRE AG comprise the strategic control of the HRE Group as well as ensuring the access of its operative units to the equity and debt capital markets.

All head office functions, which refer to the HRE Group as a whole, are centralized in HRE AG. In this context, the Investor Relations and Press/Communications departments represent the HRE Group externally.

Among other functions, central finance and accounting, risk control, the central legal and tax department and central personnel management functions are centralized in HRE AG. HRE AG employs approx. 100 employees (the entire HRE Group: approx. 2,000 employees in Germany and abroad).

b) Structure of the HRE Group

The HRE Group is headed by the publicly traded HRE AG. The Company has four subsidiaries, which as financial institutions operate a large part of the operational banking business of the HRE Group.

(i) Hypo Real Estate Bank International AG

Hypo Real Estate Bank International AG with its seat in Munich contains the entire international real estate financing business of the HRE Group. In principle, this company offers all bank services in the commercial real estate financing segment – from classical mortgage covered (*pfandbriefgedeckt*) loans to high-volume financing transactions with structured financing elements. Branches and subsidiaries of Hypo Real Estate Bank International AG are located in Europe, Asia and in the USA. It is planned to merge Hypo Real Estate Bank International AG in the course of this year into Hypo Real Estate Bank AG.

(ii) Hypo Real Estate Bank AG

Within the HRE Group, Hypo Real Estate Bank AG is the competence center for real estate financing for the German market. It also has its seat in Munich with branches in

other core regions, and provides services to its customers in the commercial real estate market with an overall product and service range of real estate financing and investment banking.

(iii) DEPFA BANK plc

DEPFA BANK plc is a company incorporated under Irish law with its seat in Dublin and subsidiaries and branches in many European countries, in the USA and in Asia. Since October 2, 2007, it has been part of the HRE Group. DEPFA BANK plc services the global public sector and infrastructure financing business. In addition, DEPFA BANK plc, with a number of its subsidiaries, is the competence center for all activities related to HRE Group's capital markets and asset management products across a range of asset classes. The shares of Hypo Public Finance Bank puc with its seat in Dublin, which had exclusively represented these business segments in the HRE Group prior to the integration of the DEPFA Group, were transferred to DEPFA BANK plc; the business of Hypo Public Finance Bank puc was largely transferred to DEPFA BANK plc by way of a merger according to the Irish Central Bank Act. Hypo Public Finance Bank puc, with a limited number of remaining assets, continues to exist as a subsidiary of DEPFA BANK plc. Hypo Pfandbrief Bank International S.A., a further subsidiary of DEPFA BANK plc, is a covered bond bank (*Pfandbriefbank*) under Luxembourg law; it specializes in financing state and state-related institutions in Europe and other OECD countries. Further important subsidiaries of DEPFA BANK plc are DEPFA ACS Bank plc, Dublin, and Hypo Public Finance USA, Inc., New York. DEPFA ACS Bank plc is a wholly owned subsidiary of DEPFA BANK plc and also a Designated Credit Institution according to the Irish Asset Covered Securities Act. Its role within the HRE Group is to issue Irish Covered Bonds (Asset Covered Securities) to global investors for purposes of refinancing assets originated from DEPFA BANK's Public Sector clients across the EEA, the USA, Canada, Japan, Switzerland as well as Australia and New Zealand.

(iv) DEPFA Deutsche Pfandbriefbank AG

DEPFA Deutsche Pfandbriefbank AG with its seat in Eschborn was formerly a subsidiary of DEPFA BANK plc and was transferred to HRE AG in the course of the integration of the DEPFA Group into the HRE Group. DEPFA Deutsche Pfandbriefbank AG, a covered bond bank (*Pfandbriefbank*) within the meaning of the German Covered Bond Act (*Pfandbriefgesetz*), issues public covered bonds (*öffentliche Pfandbriefe*), which are used for purposes of long-term refinancing of various Public Sector Assets. DEPFA Deutsche Pfandbriefbank AG's business activities are focused on the area of state and infrastructure financing in Germany, Austria and Switzerland.

c) **Overview of the Business Activities of the HRE Group**

The business activities of the HRE Group are subdivided into three segments, namely "Commercial Real Estate", "Public Sector & Infrastructure Finance" and "Capital Markets & Asset Management", in which the segment Capital Markets & Asset Management, compared with the other segments, has a clearly lower business volume.

(i) Commercial Real Estate

With its "Commercial Real Estate" segment, the HRE Group is represented worldwide in the, according to its view, most important markets for commercial real estate financing through subsidiaries and branch establishments, especially in the markets of Germany, Great Britain, France and the USA. The HRE Group provides tailor-made and innovative finance products and derivatives to internationally active investors, real estate groups and real estate developers. In this business segment, among other things, senior lending, mezzanine and portfolio financing, as well as syndications, securitizations and capital market products are offered. Refinancing is largely effected through the issuance of mortgage covered bonds (*Pfandbriefe*) and of unsecured bonds in the capital market.

(ii) Public Sector & Infrastructure Finance

In the business segment "Public Sector & Infrastructure Finance", financing and structuring solutions for the public sector, including securitizations and capital market products, are offered. The largest part of the business comprises the granting of long-term loans to public bodies and institutions in Europe and North America. Long-term refinancing is to a large extent implemented by way of public covered bonds (*öffentliche Pfandbriefe*).

The business segment includes financing solutions for specific material infrastructure projects (schools, hospitals, water and energy supply, as well as transportation).

(iii) Capital Markets & Asset Management

The business segment "Capital Markets & Asset Management" is comprised of the capital market activities of the HRE Group, including the Broker Dealer DEPPA First Albany Securities LLC. The scope of this business segment is significantly smaller than that of the other two business segments; it includes in particular the management of market value, interest, currency, credit and political risks and the coverage of corresponding risks of institutional customers.

2. **Shares of HRE AG**

The capital stock of HRE AG according to Sec. 3 Para. 1 of the Articles of Association is EUR 603,324,786.00, and is divided into 201,108,262 no-par bearer shares (*Stückaktien*). The computational share of each no-par bearer share in HRE AG's capital is EUR 3.00.

HRE AG has a contingent capital of EUR 40,221,651.00. According to Sec. 3 Para. 2 of the Articles of Association, the contingent capital increase is only to be effected to the extent that creditors of partial bonds with conversion rights or conversion obligations or the holders of option rights, which are issued, on the basis of the authorization of the Shareholders' Meeting of June 4, 2004, by the Company or by companies in which the Company has a direct or indirect majority interest, make use of their conversion or option rights or to the extent it is necessary to satisfy conversion obligations and provided no treasury stocks are used for such purpose. Any new shares, which are issued on the basis of such contingent capital increase participate in the profit from the beginning of the financial year in which they are created as a result of an exercise of conversion or option rights, or as a result of conversion obligations. By May 25, 2008, the contingent capital of EUR 40,221,651.00 was neither used in full nor in part.

On August 20, 2007, HRE AG issued a junior mandatory convertible bond with a volume of EUR 450 million through a wholly owned subsidiary (Hypo Real Estate Finance B.V.). The convertible bond is due on August 20, 2008. If and to the extent the bond creditors or HRE AG do not exercise their conversion rights, such exercise being subject to specific conditions, before the expiration of the term of the bond, the partial bonds, without declarations of conversion being required, will be converted into shares at the due date. HRE AG intends to use the contingent capital described in the above paragraph (to the extent necessary) for the issuance of new shares in such context.

The Shareholders' Meeting summoned for May 27, 2008 will decide upon the creation of new authorized and contingent capital. The details can be obtained from the invitation to the Shareholders' Meeting dated April 17, 2008, which is published on the website of the Company.

According to Sec. 4 Para. 3 of the Company's Articles of Association, claims of the shareholders for certification of their shares are excluded unless a certification is necessary according to the rules of a stock exchange at which the stock is listed.

3. Composition of the Management Board and the Supervisory Board

The members of the Management Board of HRE AG at the time the Management Board passed the resolution regarding this Statement, i.e., on May 26, 2008, were:

Georg Funke (Chairman),

Cyril Dunne,

Dr. Markus Fell,

Thomas Glynn,

Dr. Robert Grassinger,

Bo Heide-Ottosen,

Frank Lamby and
Bettina von Oesterreich.

The members of the Supervisory Board at the time the Supervisory Board passed the resolution regarding this Statement, i.e., on May 25, 2008, were:

Kurt F. Viermetz (Chairman),
Prof. Dr. Klaus Pohle (Deputy Chairman),
Dr. Frank Heintzeler,
Antoine Jeancourt-Galignani,
Dr. Pieter Korteweg and
Thomas Quinn.

4. Shareholder Structure

As of May 25, 2008, before the resolution of the Management Board and the Supervisory Board regarding this Statement, on the basis of the notifications pursuant to the Securities Trading Act (*WpHG*) to HRE AG the following shareholders held 3% or more of the voting rights of HRE AG directly or by way of attribution of voting rights according to *WpHG*; at the time of the respective notifications:

Shareholder's name	Number of direct voting rights	Number of attributable voting rights	Voting rights ratio ¹⁾
Orbis Holdings Limited.....	0	10,220,822	5.08%
Orbis Investment Management Limited.....	0	10,159,591	5.05%
Orbis World Limited.....	0	10,220,822	5.08%
Orbis Global Equity Fund Limited.....	7,345,709	0	3.65%
Pictet Overseas Trust Corporation Limited.....	0	10,220,822	5.08%
The Capital Group Companies, Inc.	0	13,398,462	(9.99%) ²⁾
Capital Group International Inc.....	0	4,173,320	(3.11%) ²⁾
Capital Research and Management Company	0	18,730,476	9.31%
Europacific Growth Fund.....	6,791,264	0	3.38%
Barclays Global Investors UK Holding Limited.....	0	6,252,282	3.11%

¹⁾ Percentile quotations are rounded.

²⁾ Percentage ratio of the voting rights refers to a share capital of EUR 402,216,525, i.e., the share capital of HRE AG prior to increasing the capital to EUR 603,324,786 in October 2007.

5. Summarized Financial Information

In the financial year 2007, according to the audited (unqualified auditor's certificate) consolidated financial statements (according to IFRS), the HRE Group generated an annual net income (*Jahresüberschuss*) in the amount of EUR 457 million. Its consolidated balance sheet total at the end of the 2007 financial year was approx. EUR 400 billion, with an equity of EUR 6,074 million. HRE Group, taking into consideration the DEPFA Group for the entire

year although it was only acquired in October 2007, had an average total of 1,962 employees in 2007 (2006: 1,205, without DEPFA Group).

III. INFORMATION ON THE OFFEROR

The following information originates from the Offering Document and could not be verified in detail.

The Offeror, HRE Investment Holdings L.P., is a *Cayman Island Exempted Limited Partnership*, with seat in George Town, Cayman Islands. The Offeror is registered in the *Registrar of Exempted Limited Partnerships* of the Cayman Islands under 25434. The Offeror's address is: c/o Walkers SPV Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands.

The Offeror was incorporated on April 11, 2008 for the purpose of making the Offer. The Offeror has claims against its shareholders for the provision of cash contributions totaling EUR 1,138,872,680.00.

According to the Offering Document, neither the Offeror nor its shareholders nor other persons acting in concert with the Offeror currently hold HRE Shares.

Following a successful Offer, the Offeror and its general partner shall be liquidated and the HRE Shares shall be distributed to the Offeror's limited partners, as set out in the following Section III.2.

According to the information provided, there is no agreement between the Offeror's limited partners regarding the exercise of their rights as HRE Shareholders after the liquidation. Such an agreement shall not be concluded. Each of the Offeror's shareholders, therefore, will be free to exercise its shareholder rights in HRE AG at its own discretion.

1. Offeror's General Partner

The Offeror's sole general partner is HRE Investment Limited, an *Exempted Company* with limited liability, incorporated on the Cayman Islands. The general partner is registered in the *Registrar of Companies* of the Cayman Islands under number 208372. Its business address is: c/o Walkers SPV Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands.

The general partner was incorporated on April 11, 2008. The corporate purpose of the general partner is the management of the Offeror. The share capital of the general partner amounts to USD 1.00. The general partner has no employees.

The Offeror's general partner shall not receive any HRE Shares in the liquidation of the Offeror; rather, the general partner is to be liquidated itself.

2. Limited Partners

In addition, seven limited partners participate in the Offeror as follows:

Limited Partners	Participation in the Offeror	Subscribed Capital (EUR)
Learmonth S.à r.l.....	28.11%	12,500
HRE Investment Holdings II 1 S.à r.l.....	21.72%	12,500
HRE Investment Holdings II 2 S.à r.l.....	13.10%	12,500
HRE Investment Holdings FSO S.à r.l.....	14.38%	12,500
HRE Investment Holdings II-A S.à r.l.....	3.60%	12,500
HRE Investment Holdings II-B S.à r.l.....	3.03%	12,500
HRE Investment Holdings II TE S.à r.l.....	16.06%	12,500

Each limited partners is a *société à responsabilité limitée* (S.à r.l.), incorporated under the law of Luxembourg.

No limited partner holds a participation in any company other than the Offeror or has (since its respective incorporation) engaged in any business. The limited partners have no employees.

Provided that the Offer (50,076,000 HRE Shares) is fully successful, after the liquidation the Offeror's limited partners will hold the following participations in the current share capital of HRE AG:

Limited Partners	Participation in HRE AG
Learmonth S.à r.l.....	7.00%
HRE Investment Holdings II 1 S.à r.l.....	5.41%
HRE Investment Holdings II 2 S.à r.l.....	3.26%
HRE Investment Holdings FSO S.à r.l.....	3.58%
HRE Investment Holdings II-A S.à r.l.....	0.90%
HRE Investment Holdings II-B S.à r.l.....	0.75%
HRE Investment Holdings II TE S.à r.l.....	4.00%

3. Persons Acting in Concert

The Offeror's general partner and limited partners are persons acting in concert with the Offeror within the meaning of Sec. 2 Para. 5 WpÜG. Additional persons acting in concert with the Offeror are Mr. J. Christopher Flowers, who is the sole shareholder and sole managing director of the Offeror's general partner, the natural and legal persons named in the annexes to the Offering Document. These include in particular Grove International Partners LLP, New York, (inter alia via Learmonth S.à r.l. and other companies) and J.C. Flowers & Co. LLC.

4. Reference to the Offering Document

Further information on the Offeror, its shareholders and the persons acting in concert with the Offeror are contained in the Offering Document in section 6 and in the annexes.

IV. MATERIAL PROVISIONS OF THE OFFER, ACCEPTANCE PERIOD AND CONDITIONS

The Offer is made by the Offeror in the form of a voluntary public tender offer (cash offer) for the acquisition of HRE Shares under German law, in particular, under the provisions of the German Securities Acquisition and Takeover Act.

The Offeror offers to acquire 50,076,000 HRE Shares (approx. 24.9%) at a cash purchase price of EUR 22.50 per share (the "**Offering Price**").

HRE Shareholders can submit their HRE Shares as from May 23, 2008 and until June 23, 2008, 24.00h local time at Frankfurt am Main (the "**Acceptance Period**") for sale and, thus, accept the Offer.

The Offeror's Offer does not aim at the acquisition of all HRE Shares (201,108,262 no-par shares), but only at the acquisition of 50,076,000 of the HRE Shares (so-called partial offer). If the Offer is accepted within the Acceptance Period with respect to more than 50,076,000 HRE Shares, the respective declarations of acceptance must as a rule be considered proportionally according to Sec. 19 WpÜG. The number of HRE Shares to be acquired under the Offer as a result of such proportional consideration is in principle rounded down to the nearest whole number.

The Offer is subject to several conditions including (i) the granting of authorizations and confirmations in connection with regulatory procedures, (ii) a minimum acceptance with respect to 40,221,652 HRE Shares (20% acceptance threshold), (iii) the non-existence of specific material adverse changes affecting the HRE Group, (iv) the non-issuance of new shares until the expiration of the Acceptance Period, except in cases of a conversion in connection with the mandatory convertible bond issued on August 20, 2007, and (v) the circumstance that the dividend for 2007 (the amount of which is to be resolved upon in a profit appropriation resolution in the Shareholders' Meeting of May 27, 2008) does not exceed EUR 0.50, as well as other conditions, all of which are described in detail in section 12 of the Offering Document (the "**Offering Conditions**"). With the exception of the Offering Conditions previously mentioned under lit. (i) and (iii), the fulfillment of the Offering Conditions is to be determined on the last day of the Acceptance Period. Changes or events after this day are irrelevant and do not affect the implementation of the Offer. As far as legally permitted, the Offeror may waive individual or all Offering Conditions until at the latest one working day prior to the expiration of the Acceptance Period and may reduce the minimum acceptance threshold of 20%. If the Offeror changes its offer (by, for example, increasing the Offering Price or waiving an Offering Condition), the Acceptance Period is extended by two weeks, provided that the published change occurs within the last two weeks prior to the expiration of the Acceptance Period (this also applies, if the changed offer violates legal provisions). If the Offeror declares such a waiver regarding the occurrence of the Offering Conditions, the respective Offering Conditions are deemed to have been fulfilled.

For further information and details (in particular, details with respect to the Offering Conditions, the Acceptance Period, modes of acceptance and withdrawal rights), HRE Shareholders are referred to the statements in the Offering Document. The above information merely summarizes statutory provisions and the information contained in the Offering Document, and does not reproduce them in their entirety. The Offering Document and the respective non-binding English translation are published on the Internet at <http://www.jcfc.com> and can be requested free of charge from Morgan Stanley Bank AG, Junghofstrasse 13-15, 60311 Frankfurt am Main, Germany (or by e-mail to erwerbsangebot@morganstanley.com or by fax (+49 (69) 21 66 73 61).

The Management Board and the Supervisory Board point out that the description of the Offer in the Statement does not claim to be exhaustive and that, as for the content and processing of the Offer, solely the provisions of the Offering Document are relevant. Each HRE Shareholder is itself responsible for taking notice of the Offering Document, examining it and taking the measures required for it.

HRE Shareholders are strongly advised to read the Offering Document.

V. TYPE AND AMOUNT OF OFFERED CONSIDERATION

1. Type and Amount of Consideration

The Offeror offers a consideration in the amount of EUR 22.50 per HRE Share in cash.

2. No Statutory Minimum Price

The offered consideration does not have to reach the minimum amounts mentioned in the provisions of Sec. 4 et seq. of the Offering Regulation pertaining to the WpÜG (the "**Offering Regulation**"), because, according to Sec. 3 of the Offering Regulation, these provisions only apply to takeover and mandatory offers, but not to other public offers for the acquisition of securities. The Offer is not a takeover offer, because the Offer, according to the information available to HRE AG, is not directed at holding at least 30% of the voting rights (including the voting rights attributable to the Offeror under the WpÜG); nor is the Offer a mandatory offer, because the Offeror, according to the information available to HRE, prior thereto, did not acquire at least 30% of the voting rights (including the voting rights attributable to the Offeror under the WpÜG).

Nevertheless, the Offering Price (to the extent previous acquisitions, are concerned according to the information given by the Offeror) for the HRE Shares (taking into consideration the information given by the Offeror) would be in conformity with the provisions of Sec. 4 et seq. of the Offering Regulation regarding the statutory minimum price, which is determined according to the higher of the two threshold values hereinafter described:

a) Previous Acquisitions

In the case of a takeover or mandatory offer, the consideration for the shares of the target company according to Sec. 4 of the Offering Regulation would have to correspond at least to the value of the highest consideration paid or agreed on for the acquisition of shares in the target company within the last six months before the publication of the offering document by the offeror, a person acting in concert with the offeror or their subsidiaries.

The Offeror declared in the Offering Document that neither the Offeror nor any person acting in concert with it within the meaning of Sec. 2 Para. 5 WpÜG nor their subsidiaries within the meaning of Sec. 2 Para. 6 WpÜG acquired HRE Shares (or comparable securities or certificates which represent HRE Shares) or incurred an obligation to acquire them during the six months period prior to the publication of the Offering Document.

b) Market Prices

In case of a takeover or mandatory offer, the consideration for shares, which are admitted to trading at a German securities exchange, according to Sec. 5 Offering Regulation, must at least correspond to the weighted average domestic market price of the respective share during the three months period prior to the publication of the decision to issue the offer.

The weighted average market price for HRE Shares during the three months period prior to the publication of the decision to issue the Offer on April 16, 2008, according to *Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)*, was EUR 18.68, and thus is below the Offering Price.

3. Current and Historical Market Prices of HRE Shares

The following table shows the highest and lowest closing prices of the HRE Shares for the aforementioned periods. The highest and lowest rates shown are based on the closing prices in the Xetra electronic trading system (of the Frankfurt Stock Exchange).

		Market Price of HRE Shares (in EUR)	
		High	Low
2007	1. Quarter.....	52.80	44.77
	2. Quarter.....	52.78	46.98
	3. Quarter.....	50.34	36.03
	4. Quarter.....	44.80	33.10
2008	1. Quarter.....	35.00	13.01
	2. Quarter (until April 15, 2008*).....	19.23	17.67

(Source: Bloomberg)

*) Day before publication of the decision to issue an offer (Sec. 10 WpÜG).

In 2008, before the publication of the Offeror's intention to issue an offer, the market price of the HRE Shares was highly volatile. On January 15, 2008, the market price of the HRE Shares in the Xetra trading system dropped from EUR 33.10 (initial price) to EUR 21.64 (closing price) and thus lost around 34.6% in value. On this day, HRE AG made an *ad hoc* announcement according to Sec. 15 WpHG in which the revaluation of the US CDO portfolio to be made for the 4th quarter of 2007, including a shielding in the amount of EUR 390 million (of which EUR 295 million is to be reflected in the profit and loss account), as well as preliminary key figures for the 2007 annual result were reported. Thereafter, the market price of the HRE Shares suffered considerable fluctuations as well. The HRE Share's lowest market price in 2008 was EUR 12.95 on March 11, 2008 (no closing price). The closing price of the HRE Shares on April 15, 2008, the day before publication of the Offeror's intention to issue an offer, was EUR 18.47. The closing price in the Xetra electronic trading system (of the Frankfurt Stock Exchange) on the day of the publication of the decision to issue an offer, i.e., on April 16, 2008, was EUR 23.00. The closing price on the Xetra system on the Friday before passing the Boards' resolutions on this Statement, i.e., on May 23, 2008, was EUR 21.18.

4. Own Statements Regarding the Intrinsic Value of the HRE Group

The consideration offered by the Offeror amounts to EUR 22.50 per HRE Share. Consequently, based upon the offered consideration per HRE Share (EUR 22.50) times the

total number of outstanding shares (201,108,262), the Offer values the HRE Group at slightly below EUR 4,525 million.

Following the publication of the Offeror's decision to issue an offer, under the direction of its Management Board and Supervisory Board, HRE AG has evaluated the offered consideration under various aspects and taking into consideration indicators for the intrinsic value of the HRE Share. These evaluations were based on:

- the annual financial statements as of December 31, 2007 which were audited and certified (unqualified auditor's certificate) by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("**KPMG**"),
- the consolidated financial statements as of December 31, 2007 which were also audited and certified by KPMG,
- the interim consolidated financial statements as of March 31, 2008,
- a business valuation of DEPFA Deutsche Pfandbriefbank AG in connection with the acquisition of this company by HRE AG (within the HRE Group) as of December 31, 2007,
- the 4-year group business plan, and
- possible effects of the current crisis in the capital and financial markets.

a) Equity According to the 2007 Annual Financial Statements of HRE AG and Confirmation of the Underlying Book Values of the Subsidiaries

According to the unconsolidated financial statements of HRE AG as of December 31, 2007 (pursuant to the German Commercial Code, *HGB*), which were audited and certified by KPMG, the equity amounts to EUR 7,691 million. The nominal capital of the mandatory convertible bond of EUR 450 million may be added to this amount, because this bond will definitely be converted into equity when it matures in August 2008. This therefore results in an "adjusted equity" of EUR 8,141 million.

The book values of HRE AG's subsidiaries according to the aforementioned unconsolidated financial statements of HRE AG as of December 31, 2007 amount to EUR 10.393 billion in total. Each of these individual book values is below the capitalized earnings values determined in accordance with the IDW S1 standard under the following assumptions. The participations in the subsidiaries are partially debt financed, namely in an amount of approx. EUR 2,300 million (not taking into regard the mandatory convertible bond).

The assessment of the subsidiaries' book values in the annual financial statements was performed pursuant to the standard IDW RS HFA 10 in combination with S1 (principles for performing business valuations) of the *Fachausschuss für Unternehmensbewertung und Betriebswirtschaft (FAUB*, Special Committee for Business Valuation and Business Management) of the *Institut der Wirtschaftsprüfer in Deutschland e.V.* (Institute of Public Auditors in Germany). The standard is based upon a capitalized earnings valuation method that is used to determine whether the book values (which reflect the acquisition costs) are still valid. The respective capitalized earnings values of HRE AG's subsidiaries, determined for the assessment of the respective book values in the 2007 annual financial statements in

accordance with IDW S1, exceed the respective book values of HRE AG's subsidiaries. The cash flows for the next four years were planned for this purpose. In order to determine the value proposition after the detail phase (*Detailierungsphase*), the forecasted cash flows were extrapolated by using a long-term growth rate of 1%. The discount rate for the cash flows from the cash-generating units is uniformly 10.25% per annum (risk-free interest rate: 4.75% per annum; beta: 1.1). HRE AG approved the aforementioned 4-year group business plan on March 26, 2008. The annual financial statements as of December 31, 2007 were adopted by the Management Board on the same day, and thus there was no new information by March 26, 2008.

HRE AG acquired all shares of DEPFA Deutsche Pfandbriefbank AG (within the HRE Group) from DEPFA BANK plc as of December 31, 2007, and performed a business valuation in this regard; the resulting value served as the basis for the book value in the annual financial statements of HRE AG as of December 31, 2007.

The book values from the annual financial statements, which were audited and certified (unqualified auditor's certificate) by KPMG, are shown in the following overview:

Primary participations/subsidiaries	Book values in million EUR (December 31, 2007)
Hypo Real Estate Bank AG, Munich.....	1,728
Hypo Real Estate Bank International AG, Munich.....	1,995
DEPFA BANK plc, Dublin (incl. HPFB).....	5,440
DEPFA Deutsche Pfandbriefbank AG, Eschborn.....	1,218
Hypo Real Estate Systems GmbH, Stuttgart.....	3
Hypo Real Estate Finance B.V., Amsterdam.....	0
PBI-Beteiligungs-GmbH i.L., Munich	9
	10,393

The portion of the total equity in the amount of EUR 7,691 million attributable to a single HRE Share is approx. EUR 38.24. Following the conversion of the mandatory convertible bond described under Section II.2 and assuming an issue of 9,742,369 new HRE Shares, the portion of the adjusted equity (EUR 8,141 million) attributable to a single HRE Share would be approx. EUR 38.61.

b) Equity According to the 2007 Consolidated Financial Statements and the Consolidated Interim Financial Statements as of March 31, 2008 and Confirmation of the Underlying Goodwill

According to the IFRS consolidated financial statements as of December 31, 2007, which were audited and certified by KPMG, the equity of HRE AG amounted to EUR 6,074 million, and according to the consolidated interim financial statements as of March 31, 2008, which was subject only to a review by the auditor, the equity was EUR 5,493 million.

Disregarding the negative revaluation reserve, which reflects temporary value fluctuations, the equity according to the aforementioned consolidated financial statements amounts to EUR 7,931 million (according to the consolidated interim financial statements as of March 31, 2008: EUR 8,076 million (review by auditor only)). The negative revaluation reserve sank from EUR -1,460 million (December 31, 2006) by EUR 397 million to EUR -1,857 million as of December 31, 2007, and from EUR -1,857 million as of December 31, 2007 by EUR 726 million to EUR -2,583 million as of March 31, 2008.

These equity figures as of December 31, 2007 and as of March 31, 2008 are each based upon a goodwill of EUR 2,313 million (business and firm value including brand names), which is particularly the result of the acquisition of DEPFA BANK plc in October 2007. The IFRS standards do not provide for any scheduled depreciation of goodwill, but goodwill must be reassessed at regular intervals (at least once per year) to determine its actual value (so-called impairment test). These impairment tests were and are performed pursuant to the IDW S1 standard. The underlying assumptions for the impairment tests are the same as for the confirmation of the book values of subsidiaries (see above, Section a): 4-year group business plan, a growth rate of 1.0% per annum from the fifth year, and a uniform 10.25% per annum discount rate for cash flows). The capitalized earnings value for the individual business segments was higher in each case than the equity, calculated in consideration of any allocated goodwill.

The portion of the equity attributable to a single HRE Share, including the revaluation reserve, amounts to approx. EUR 30.20 (as of March 31, 2008: EUR 27.31), and, disregarding such reserve, to approx. EUR 39.44 (as of March 31, 2008: EUR 40.16). Following the (fictitious) conversion of the mandatory convertible bond described under Section II.2, the portion attributable to a single HRE Share, including the revaluation reserve, would amount to approx. EUR 30.94 (as of March 31, 2008: EUR 28.19), and disregarding such reserve, to approx. EUR 39.75 (as of March 31, 2008: EUR 40.44).

c) Developments in the First Quarter of 2008

Developments in the first quarter of 2008 did not entail any requirement to revise the statements in Subsections a) and b) made as per December 31, 2007. The assessments of the book values of the subsidiaries and of the goodwill are also accurate as of March 31, 2008; there were no impairments in this respect.

d) Effects of the Crisis in the Capital and Financial Markets

There is a significant disparity between the afore-described assessments of the intrinsic value of the HRE Group and the HRE Shares and the current market price of the HRE Shares and the consideration offered by the Offeror. The market price of the HRE Shares must be considered within the context of the financial market crisis beginning in 2007. From the current perspective, the effects of the crisis in the capital and financial markets can neither generally, nor with respect to individual companies in the financial sector be definitively assessed. For the HRE Group, this is reflected in the consolidated interim financial statements

for the first quarter of 2008, in which additional revaluations were made based upon higher spreads. At this time, it is impossible to foresee when the crisis in the capital and financial markets will end, and when its effects will subside. It is also not possible to predict whether the market price of the HRE Shares will recover in the short or medium term.

e) Statement of the Management Board and Supervisory Board Regarding the Amount of the Offered Consideration

Based upon the foregoing statements, the Management Board and Supervisory Board hold the view that the portion of the actual company value attributable to a single HRE Share is significantly higher than the consideration per HRE Share being offered by the Offeror.

Nevertheless, the current market price does not reflect the aforementioned statements regarding the company value, because the market price is heavily influenced by the crisis in the capital and financial markets. Since neither the duration nor further effects of the crisis can be comprehensively anticipated, no reliable statements can be made as to whether and when the aforementioned statements will be reflected in higher market prices within the foreseeable future.

HRE Shareholders should take this into consideration when deciding upon a potential acceptance of the Offer. For HRE Shareholders that are interested in a realization of capital gains in the short term or in avoiding possible capital losses, the acceptance of the Offer can be beneficial, depending upon their individual acquisition date and their individual tax circumstances and in view of the market price before publication of the decision to issue an offer.

We would like to point out as a general note that the results of the statements and business valuations made in this Section 4 do not constitute a share price forecast or expectation. It cannot be excluded that the market price of the HRE Shares will not match the results of the value assessments in the short or long term, even approximately. It also cannot be excluded that the market price of the HRE Shares will once again decline significantly below the Offer price in case of a failure of the Offer. No reliable statements can be made regarding future market price developments. The market price of the HRE Shares depends upon various factors, some of which can be influenced neither by HRE AG nor by the HRE Group. Examples of these factors include the general mood in the capital markets and third-party interpretations of the company data published by the HRE Group.

VI. THE OFFEROR'S OBJECTIVES

1. Synergy Effects

According to the Offering Document, the Offeror's shareholders plan to support the HRE Group in its role as one of the leading providers of commercial real estate financing as well as public sector financing. In particular, and if necessary, they intend to advise the management of the HRE Group with respect to the identification and exploitation of potential

growth opportunities, with the assistance of their own networks in order to gain access to new markets. For example, collaboration with the Shinsei Bank Ltd. within the HRE Group's business segments might be possible and desirable in order to win market shares in Japan and the Far East. This could create business opportunities for both partners from which both could benefit.

The Management Board welcomes the offer of collaboration and will scrutinize any concrete proposals on such collaboration. Given the lack of more detailed information, however, a conclusive evaluation of a possible collaboration with one or more of the Offeror's shareholders is not possible at this point in time.

2. Representation in the HRE AG Supervisory Board

Vis-à-vis the Offeror, the chairman of the Management Board and the chairman of the Supervisory Board of HRE AG have declared their willingness to support a representation of the Offeror's shareholders on the HRE AG Supervisory Board. The quota of representation shall be 25% of the total number of members, provided that the Offeror acquires an initial shareholding of at least 20% of the currently outstanding share capital. It is a prerequisite for the aforementioned willingness to support the aforementioned representation on the HRE AG Supervisory Board that the Offeror's shareholders demonstrate, to the satisfaction of HRE AG, that none of the Offeror's shareholders will obtain control within the meaning of the United States Bank Holding Company Act of 1956 (in its current version).

In this context, the Offeror's shareholders shall hold two seats while the HRE AG Supervisory Board consists of six members and if their aggregate shareholding in HRE AG is at least 20%, and one seat if their aggregate shareholding is at least 14.9%.

If the HRE AG Supervisory Board consists of 12 members, the Offeror's shareholders shall hold three seats if their aggregate shareholding in HRE AG amounts to at least 22%, two seats if their aggregate shareholding in HRE AG amounts to at least 18%, and one seat if their aggregate shareholding in HRE AG amounts to at least 14.9%.

We point out that according to the Stock Corporation Act (*Aktiengesetz*), the Supervisory Board members are generally elected by the Shareholders' Meeting; only the Supervisory Board, but not the Management Board has a right to nominate candidates for the election of Supervisory Board members. Elected Supervisory Board members may resign from their office prior to expiration of their term, or may be dismissed by the Shareholders' Meeting. In the event of a vacant position on the Supervisory Board, the Supervisory Board must be complemented by a resolution of the Shareholders' Meeting or by a court appointment.

VII. EFFECTS OF THE OFFER ON HRE AG

1. Effects of the Participation From the Perspective of Stock Corporation Law

In the event that the Offer is fully successful, the Offeror would acquire approx. 24.9% of the HRE Shares; moreover, the Offer is conditioned on an acceptance rate of at least 20%.

A shareholding of between 20% and 24.9% of the HRE Shares does not guarantee any determinative influence by the Offeror over HRE AG through resolutions in the Shareholders' Meeting (cf. also the following paragraph). As a rule, resolutions are passed in the Shareholders' Meeting with a majority of the votes cast. Special resolutions of the Shareholders' Meeting, e.g. certain capital measures (capital increases with exclusion of preemptive rights, contingent capital increases, creation of contingent capital), require qualified majorities (generally, a majority of the votes cast as well as at least a three-fourths majority of the share capital represented at the time the resolution is passed). Thus, in the event of a successful Offer, the Offeror would not be able to unilaterally effect or block certain resolutions in the Shareholders' Meeting with absolute certainty. For example, the Offeror cannot elect any Supervisory Board members of HRE AG without the votes of other shareholders if the Shareholders' Meeting has an attendance level of at least 50%.

Nevertheless, a shareholding of more than 20% will give the Offeror, or its shareholders following liquidation of the Offeror, substantial voting power in the Shareholders' Meeting, and they could therefore exert considerable influence over the decision-making process at the Shareholders' Meeting. If the attendance level at the Shareholders' Meeting is low, the influence of the voting rights held by the Offeror or its shareholders may increase significantly; the lower the attendance level, the greater the potential for influence of the attending shareholders when passing a resolution; in particular, if the Offeror or its shareholders held an interest of 24.9% and the attendance level at a Shareholders' Meeting were less than 49.8%, the attending Offeror or its shareholders collectively after liquidation of the Offeror, respectively, would hold the majority of voting rights. Even if at least around 0.5% of all shareholders were absent from the Shareholders' Meeting, the Offeror or its shareholders, respectively, with a voting share of 24.9% could block resolutions requiring a three-fourths majority of the votes cast or a three-fourths capital majority.

According to the Offering Document, the Offeror's shareholders intend to dissolve the Offeror and to distribute the HRE Shares held by the Offeror among the Offeror's shareholders. The exercise of voting rights of the Offeror's shareholders is not to be coordinated in the future. If this intention is carried out, the aforementioned possibility of exerting influence in the Shareholders' Meeting would be minimized.

Under the provisions of the German Stock Corporation Act (*Aktiengesetz*), a shareholder, as a rule, cannot directly influence the management by the Management Board or supervision by the Supervisory Board, regardless of the amount of its shareholding, because the Management Board and the Supervisory Board, as well as their individual members, exercise their duties and obligations pursuant to their own responsibility. Only in case of a domination

agreement between a shareholder and the stock corporation or in the event of integration (*Eingliederung*) into another stock corporation, the shareholder or the parent company (*Hauptgesellschaft*), respectively, is entitled to issue directions to the Management Board of the controlled or integrated stock corporation. A valid conclusion of a domination agreement and a valid integration each require a resolution by the Shareholders' Meeting, which must be passed with a three-fourths capital majority.

It cannot be excluded that the Offeror or its shareholders may increase their shareholdings in the future and, thus, from the perspective of the shareholding obtained as a result of this Offer, will obtain even greater power in the Shareholders' Meeting by additional voting rights, particularly if they reach or exceed the thresholds of 50%, 75%, or 95% of the voting rights.

2. Effects of the Participation From the Perspective of Capital Market Law

If the Offer is successful, the free float of HRE Shares can decrease. Free float is the total of all shareholdings held by, or legally attributed to, an individual HRE Shareholder which shareholdings constitute less than 5% of the entire share capital whereby, *inter alia*, shareholdings of funds with a short-term investment strategy of 25% or less of the share capital, according to the definition of Deutsche Börse AG, are also considered free float even if the 5% threshold is reached or exceeded.

If the Offeror or, following its liquidation its shareholders do not hold the HRE Shares as free float, it cannot be excluded that the resulting reduction in free float will have a negative impact on HRE AG's inclusion in the DAX Index.

3. Tax Effects of the Acquisition by the Offeror on HRE AG

In section 8.2 of the Offering Document, the Offeror indicates that a successful execution of the Offer would not affect HRE AG's tax loss carry-forward.

To the extent that a person, a person affiliated to such person, or a group of acquirors with similar interests to those of the afore-mentioned persons acquire more than 25% of HRE Shares within five years, the tax loss carry-forwards of HRE AG in existence at the time the 25% threshold is exceeded will partially be lost unless there is an acquisition of more than 50% of HRE Shares (in the latter case, the tax loss carry-forwards will be lost completely). The same applies for the subsidiaries of HRE AG in case of an acquisition of more than 25% or more than 50% participation, respectively, calculated for each subsidiary on a pro rata basis. Because the interpretation of the term "group of acquirors with similar interests" has not yet been clarified, one can, in particular, not exclude that the Offeror's limited partners may fall under this category following the liquidation of the Offeror. Thus, there is a risk that additional acquisitions of HRE Shares by one or more of these shareholders or persons affiliated with these shareholders could lead to the loss of tax loss carry-forwards if the other afore mentioned conditions are fulfilled. If there is a partial or complete loss of the tax loss carry-forwards, the amounts shown as deferred tax assets in the IFRS consolidated financial

statements of HRE AG would have to be reduced accordingly, and this could have negative effects on the net assets, the financial position, and the results of operation of the HRE Group.

The Offeror and the Offeror's limited partners have declared to HRE AG that they do not currently intend to acquire altogether more than 24.9% of HRE Shares.

VIII. CONSEQUENCES OF THE OFFER FOR THE HRE SHAREHOLDERS

The information below is provided to assist HRE Shareholders with assessing the consequences of an acceptance or rejection of the Offer. The issues presented do not claim to be complete. Each HRE Shareholder itself is responsible for examining and assessing the consequences of an acceptance or rejection of the Offer. The Management Board and the Supervisory Board recommend that HRE Shareholders consult a professional advisor if necessary.

The Management Board and the Supervisory Board also point out that they are not providing, and cannot provide an assessment as to whether HRE Shareholders possibly might incur tax disadvantages by accepting or rejecting the Offer (in particular a potential tax liability for capital gains) or might lose tax advantages. Also in this respect, the Management Board and the Supervisory Board recommend that HRE Shareholders, before a decision to accept or reject the Offer is made, seek advice that takes into account their personal tax situation.

1. Consequences of Accepting the Offer

HRE Shareholders lose the membership rights and pecuniary rights conferred by shares tendered under the Offer upon transfer of those shares during implementation of the accepted Offer and, if the total number of HRE Shares tendered by all HRE Shareholders accepting the Offer is higher than 50,076,000 HRE Shares (approx. 24.9% of the HRE Shares), upon transfer of the number of shares determined by means of proportional allocation in accordance with Sec. 19 of the German Securities Acquisition and Takeover Act (WpÜG) in combination with the Offering Document. Dividend drawing rights pass to the Offeror upon transfer of the HRE Shares to the Offeror during implementation of the accepted Offer; this also applies to dividend rights to net retained profits from the current or previous periods, provided the transfer takes place before the record date for the dividend distribution.

Upon transfer of their HRE Shares due to the acceptance of the Offer, HRE Shareholders no longer participate in any positive developments of HRE AG and the HRE Group and no longer profit from potential positive market price developments of the HRE Shares. In this respect, the Management Board and Supervisory Board refer to their own assessments with respect to the value of the HRE Group, according to which the intrinsic value of the HRE Group could be substantially higher than the consideration of EUR 22.50 offered for each HRE Share (see Section V.4.). However, the Management Board and Supervisory Board once again point out in this regard that the results of these assessments and the statement connected therewith do not constitute a price forecast or expectation and that it cannot be

excluded that the market price of HRE Shares could fail to match these assessments or at least to rise above the offered consideration of EUR 22.50 in the short or long term. It is impossible to make reliable statements regarding future market price developments.

Since the Offer is not aimed at the acquisition of all of the shares of HRE (a so-called partial offer), it is possible, if an HRE Shareholder tenders under the Offer all or a portion of the HRE Shares that it holds, that in case of a successful Offer such HRE Shareholder is only taken into regard proportionally if the total number of HRE Shares tendered by HRE Shareholders under the Offer is higher than 50,076,000 HRE Shares (approx. 24.9% of the HRE Shares). In the extreme case, if all HRE Shareholders tendered all of the HRE Shares that they hold, each HRE Shareholder would only be taken into regard with slightly less than one quarter of its tendered HRE Shares. HRE Shareholders should also take this into account when considering whether to accept the Offer, in particular, with respect to whether all or only a portion of the HRE Shares that are held should be tendered.

2. Consequences of Rejecting the Offer

HRE Shareholders who do not accept the Offer remain shareholders of HRE AG, unless they dispose of their shares otherwise. They therefore participate in the opportunities and risks of the future development of the HRE Group and the market price of HRE Shares. In addition, they should in particular take into account the potential consequences outlined hereinafter:

If the Offer is successful, HRE Shareholders that do not accept the Offer could be faced with strong voting rights power of the Offeror and its shareholders in the Shareholders' Meeting of HRE AG. Voting rights in excess of 20% give the holder considerable influence over resolutions passed in a Shareholders' Meeting, especially in case of low attendance levels. This might result in a *de facto* impossibility for shareholders' resolutions to be passed against the votes of the Offeror or its shareholders.

Even if this is not stated in the intentions currently expressed by the Offeror, if the Offer is successful, it cannot be excluded that the Offeror or its shareholders could increase their direct or indirect shareholdings in the future, thereby gaining even greater influence over the decision-making in Shareholders' Meetings and, consequently, over HRE AG. This would create the possibility, for example, of electing Supervisory Board members without the cooperation of other HRE Shareholders; enterprise agreements (e.g., a profit transfer agreement) can be concluded with HRE AG as the controlled company with a majority of 75% or more of the votes cast in a Shareholders' Meeting. If shareholdings are increased, then there is also a risk, as discussed above in Section VII.3., that HRE Group tax loss carry-forwards might no longer be usable. However, if an HRE Shareholder directly, or by indirect attribution, reaches or exceeds a threshold of at least 30% of the voting rights, this shareholder is, as a rule, obligated under the WpÜG to make another public offer aimed at acquiring all of the HRE Shares outstanding (so-called mandatory offer).

IX. CONSEQUENCES OF THE OFFER FOR EMPLOYEES, THEIR REPRESENTATIONS, THE CONDITIONS OF EMPLOYMENT, AND BUSINESS LOCATIONS OF THE TARGET COMPANY

According to the Offering Document, the Offeror and its shareholders do not intend to use their influence to alter the legal relationships with the employees of the HRE Group, their conditions of employment, their representations, or the business locations of the HRE Group. Instead, it is the stated objective of the Offeror and its shareholders that the HRE Group continue on its current path with the current management, with the Offeror's shareholders desiring to stand at the side of the HRE Group ready to provide assistance using their know-how and network when the opportunity arises or when needed. The implementation of the Offer itself is not associated with any of the consequences mentioned. In addition, if successful, the Offeror and its shareholders can essentially only effectively exercise their rights by voting in Shareholder's Meetings and, based on a maximum shareholding of 24.9%, cannot implement measures which might have direct consequences for the employees, their representations, the conditions of employment or the business locations of the HRE Group.

The Management Board and Supervisory Board therefore believe, and welcome the fact, that the Offer will have no direct consequences for the employees, their representations, the conditions of employment, or business locations of the Company.

X. ENGAGEMENT OF J.P. MORGAN PLC

After the market price losses in January 2008, HRE AG engaged J.P. Morgan plc to advise HRE AG with respect to a potential acquisition of a significant portion of its share capital by a purchaser. Potential purchasers contacted J.P. Morgan plc and declared their interest in acquiring the Company in full or in part. Selected parties interested in acquiring an interest in HRE AG, including J.C. Flowers & Co. LLC, Shinsei Bank, Ltd. and Grove International Partner LLP, were given access to a limited amount of Company data within a contractually specified process (*due diligence*). In this regard, the interested parties, which were given access to sensitive Company information, bound themselves in the usual manner by contract to treat this information as confidential and to discontinue trading for their own account in HRE Shares and securities linked to the stock exchange price of HRE Shares for a specified period (*standstill*) in order to maintain the integrity of the market. This process resulted in an offer, namely the Offer made by the Offeror, without any other offers having been rejected.

XI. INTERESTS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In their capacity as members of the executive bodies of HRE AG, the members of the Management Board and Supervisory Board in principle welcome the Offer, as it indicates that there was a discrepancy between the market price of HRE Shares before the decision to make the Offer was announced and the intrinsic value of these shares. In the opinion of the Management Board and Supervisory Board the Offer is, in particular, suited for stabilizing the shareholder base.

The members of the Management Board and Supervisory Board of HRE AG hold no positions in the administrative bodies of the Offeror, any company holding an interest in the Offeror, or any person otherwise acting in concert with any of the foregoing.

The success of the Offer and its implementation will have no direct effect on the composition of the Management Board or Supervisory Board. The Offeror and its shareholders stated that they consider the current members of the Management Board to be critical for the success and positive development of the HRE Group and that they assume that the Management Board will continue its work.

The members of the Management Board and Supervisory Board have not been granted or promised any cash or non-cash benefits by the Offeror or any person acting in concert with the Offeror in connection with the Offer.

XII. INTENTIONS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD WITH RESPECT TO ACCEPTANCE OF THE OFFER

All of the members of the Management Board and Supervisory Board of HRE AG have made declarations with respect to the HRE Shares that each of them holds. According to the information disclosed by the members of the Management Board and Supervisory Board of HRE AG themselves, they hold the following shareholdings as of May 25 or 26, 2008, respectively:

Shares held by the members of the Management and Supervisory Board

Cyril Dunne.....	94,079 HRE Shares
Dr. Markus Fell.....	7,688 HRE Shares
Georg Funke.....	60,876 HRE Shares
Thomas Glynn.....	3,032 HRE Shares
Dr. Robert Grassinger.....	3,000 HRE Shares
Bo Heide-Ottosen.....	58,546 HRE Shares
Frank Lamby.....	9,107 HRE Shares
Bettina von Oesterreich.....	2,318 HRE Shares
Dr. Frank Heintzeler.....	0 HRE Shares
Antoine Jeancourt-Galignani.....	5,500 HRE Shares
Dr. Pieter Korteweg.....	0 HRE Shares
Prof. Dr. Klaus Pohle.....	17,500 HRE discount certificates
Thomas Quinn.....	0 HRE Shares
Kurt F. Viermetz.....	60,000 HRE Shares

Even though the members of the Management Board and Supervisory Board welcome the Offer in principle, those members of the Management Board and Supervisory Board that are holding HRE Shares or HRE-Discount Certificates, respectively, intend to reject the Offer, since they are personally convinced that the consideration offered does not sufficiently reflect the intrinsic value of the HRE Group.

XIII. RECOMMENDATION

In principle, the Management Board and the Supervisory Board of HRE AG welcome the participation of one or more financial investors and tender offers directed at acquiring such participation, because such participation can lead to a stabilization of the shareholder base and consequently, to the extent that the business development of HRE AG is dependent on its share price, can better facilitate long-term planning.

The Management Board and the Supervisory Board of HRE AG refrain from making a recommendation to accept or reject the Offer: According to the assessment of the Management Board and the Supervisory Board, HRE Shares have an intrinsic value significantly higher than EUR 22.50, which would argue against acceptance of the Offer; this is nevertheless not a share price forecast or expectation, so that it cannot be excluded that the price of HRE Shares will not match the results of the value assessments of the HRE Group in the short or long term or even reach or rise above the offered consideration of EUR 22.50. In particular, the continuing crisis in capital and financial markets and the overall consequences of this crisis for the banking sector – whose full extent can still not be foreseen – need to be taken into account here. Depending upon the individual acquisition date and the shareholder's personal tax circumstances and in view of the stock exchange price before publication of the decision to issue an offer, the Offer may appear beneficial to HRE Shareholders interested in realizing capital gains in the short term or avoiding possible capital losses.

Munich, May 26, 2008

Hypo Real Estate Holding AG

The Management Board

The Supervisory Board