

Interim Report 1 Jan. - 30 Sept. 2002

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Bonn, 20 November 2002

Interim Report (1 Jan. – 30 Sept. 2002)

- **Earnings of the quarter clearly increased by project development**
- **Breakthrough in the negotiations on the airport Berlin-Brandenburg**
- **IVG was presented with the EPRA-Award**
- **Again, annual earnings will probably exceed previous year's level**

1. Outline

Dear Madam or Sir, dear shareholders,

In the course of the first nine months IVG succeeded in achieving clearly increased earnings. They show how a consistent internationalisation and the focus on high-quality real estate bear yield. Post-tax earnings rose by 49.3%, operating earnings (EBIT) by 38.8%, with the sale of the project development on Gresham Street contributing considerably to this result. The property situated in the City of London with 10,200 m² of lettable space that was sold to Lloyds Bank was handed over and allowed for in the third quarter according to plan. Again, earnings benefited from a successful project development. Group net rents could be raised by 12.2% to € 160.2 m due to the consolidation of the Stodiek Group that was consolidated for the first time.

In a still very difficult economic situation IVG expects another increase in earnings for the total year compared with the high level that had been reached in the previous year. This would be the eighth successive record earnings.

The consortium led by IVG and Hochtief was able to reach the breakthrough in the negotiations with public authorities on the airport project Berlin Brandenburg. A Letter of Intent on the takeover of the existing airport system in Berlin and the construction of the new airport Berlin was signed at the end of August. We expect that the final contract will be concluded soon.

In September, IVG was presented with the EPRA-Award for the best European real-estate annual report.

2. Total economic situation and real-estate markets

The economic recovery in Europe that had been expected for the first quarter has not started yet. Most economic research institutes reckon on a moderate economic growth of 0.8% or 1.7% in Europe both for 2002 and 2003. The real-estate markets, too, could not escape the total economic development. Leases and top rents declined whereas vacancy rates continued to grow. Region-related differences are to be observed: Frankfurt faces the consolidation in the bank sector, and Munich suffers from the severe crisis in the New Economy. On the international scale, Brussels with its Europe Quarter is booming, as extensive office space is required in view of the imminent enlargement of the European Union. Milan proves itself a growing metropolis in the southern part of Europe. In the mid-term run, the major European real-estate markets keep their high and attractive level.

3. Profit-and-loss account

€ m	1.1. – 30.09.02	1.1. – 30.09.01	Changes in %
Turnover	374.3	205.2	+82.4
Total operating performance	328.3	259.3	+26.6
Material expenses	-56.2	-42.3	+32.9
Personnel expenses	-35.1	-33.7	+ 4.2
Depreciation	-32.3	-32.3	-
Other corporate expenses	-63.9	-49.7	+28.6
Leasing expenses	-8.6	-8.3	+3.6
Earnings from participating interests	3.3	6.8	-51.5
Interest earnings	-64.6	-53.8	+20.1
Net income from ordinary activities	70.9	46.0	+54.1
Income tax	-10.0	-2.8	+257.1
Other taxes	-9.4	-8.7	+ 8.0
Net profit	51.5	34.5	+49.3
Operating cash flow (EBITDA)	167.0	131.6	+26.9
Operating earnings (EBIT)	126.2	90.9	+38.8
Earnings per share (€)	0.44	0.30	+46.7

The clear increase in turnover to € 374.3 m derives from the consolidation of the Stodieck Group that was consolidated for the first time, and the sale of the project development on Gresham Street in London. IVG was able to rise net rents by 12.2 % to € 160.2 m. Owing to the higher turnover total operating performance was raised, too. Total operating performance was lower than turnover because the disposal of the Gresham Street project led to a decrease in inventories of finished goods while adding a significant amount to turnover.

The increase in material expenses primarily results from the project development on Gresham Street. Particularly the first integration of the Stodiek Group into the consolidated financial statement has led to declining interest earnings as well as higher liabilities.

4. Balance

in € m

Assets	30.09.02	31.12.01	Changes
Fixed assets and immaterial assets	2,367.5	2,219.3	+148.2
Financial assets	244.6	222.2	+22.4
Liquid assets	125.6	20.2	+105.4
Other current assets and RAP	342.8	560.2	-217.4
	3,080.5	3,021.9	+58.6

Liabilities	30.09.2002	31.12.2001	Changes
Subscribed capital	116.0	116.0	0.0
Reserves	575.5	574.8	+0.7
Quarterly earnings / Group net earnings	51.5	39.4	+12.1
Minority interests	15.8	28.1	-12.3
Special tax-allowable reserves	20.9	20.9	0.0
Provisions	145.2	152.1	-6.9
Liabilities and RAP	2,155.6	2,090.6	+65.0
	3,080.5	3,021.9	+58.6

Positive net investments led to increased fixed assets. Current assets declined, as debts could be reduced and project developments such as Gresham Street were sold. The reduction in debts primarily results from the collection of the deferred purchase price to be paid for the building Long Acre that had been sold for approximately € 87 m at the end of the previous year. Cash flow was clearly raised by the sales of Gresham Street and Long Acre. It was invested mainly in fixed-term deposits and day-to-day money. Total balance sum grew slightly to € 3.08 bn.

According to international usage, IVG calculates the equity ratio on the basis of market values. For IVG it comes to 44%. The balance-related equity ratio - that does not take the hidden reserves of € 1 bn into account - amounted to 25.1%..

The quarterly account has been made out according to the regulation of the German commercial code, the German Companies Act and the rules of orderly bookkeeping. The quarterly accounts of incorporated companies are based on standardised accounting and valuation principles. Compared with the annual accounts of 2001, the consolidation methods, currency conversions as well as accounting and valuation principles apply unchanged and are depicted in the IVG annual report 2001 on the pages 87 ff.

5. Investments

€ m	1.1.-30.9.02	1.1.-30.9.01	Changes in %
Portfolio management	116.9	189.4	-38.2
Project development	58.6	19.1	+ 206.8
Non-core business	0.9	0.8	+12.5
Other / Consolidation	26.5	2.0	+1,225
Group	202.9	211.3	- 4.0

In the IVG Group, investments amounted to more than € 200 m and reached the level of the previous year. The investments made in the portfolio management referred to the purchases of the properties Piazzale Lodi in Milan, and Coslada in Madrid as well as to the upgrading and further development of the business parks. In the segment project development investments were made in the London-based properties Lombard Street and Soho Square as well as in the properties that are developed in Paris jointly with AXA.

6. Cash flow statement

€ m	1.1. - 30.09.02	1.1. - 30.09.01
Inflow / outflow of funds from current business operations	203.4	-22.9
Outflow of funds from investments	-155.2	-176.2
Inflow of funds from financing activities	57.2	235.0
Payment-effective change in capital funds	105.4	35.9
Capital funds at the beginning of the accounting period	20.2	39.8
Capital funds at the end of the accounting period	125.6	75.7

IVG succeeded in rising clearly the inflow of funds from current business operations to € 203.4 m, mainly a result from the reduction in stocks and debts. Investments were financed by means of the cash flow. As a consequence borrowing could be clearly reduced compared with the previous year. Capital funds were raised to more than € 125 m at the end of the third quarter.

7. Financing

The first nine months of the year 2002 were marked by falling interest rates for all terms owing to the economic situation. In September all over Europe lows were reached that came close to the historical interest low of 1999. IVG took advantage of this situation and reached

a further optimisation of the interest-binding structure and the interest terms by means of the conclusion of interest swaps (face value € 100 m) on the basis of the existing loan portfolio. 90 % of the liabilities to banks have a term of more than one year, with 41% hereof having a term of more than five years. The term structure of the liabilities is based on the binding of funds in the portfolio.

8. Segment reporting

€ m	Turnover		Operating Earnings (EBIT)	
	1.1. - 30.9.02	1.1. - 30.9.01	1.1. - 30.9.02	1.1. - 30.9.01
Portfolio Management	197.2	174.0	107.5	106.4
Project Development	156.8	9.3	45.4	-2.3
Non-core business	19.4	19.9	4.0	4.2
Other / Consolidation	0.9	2.0	-30.7	-17.4
Group	374.3	205.2	126.2	90.9

Portfolio Management

With about € 5 bn Assets under Management – including the own portfolio worth about € 3.3 bn in eleven European countries – IVG is among the major listed real-estate companies in Europe. In the fields of office properties and business parks IVG takes up a prominent position throughout Europe. With its portfolio management IVG pursues the aim to reach a sustainable increase in value and rate of return of the portfolio and to realise attractive profits from sales by an active buy-and-sell strategy. Half of the real-estate portfolio is located in Germany, with the other half situated in European growth centres such as London, Paris, Brussels, and Milan.

Compared with the same period of the previous year an increase was reached both in turnover and operating earnings. This rise results from the consolidation of the Stodiek Group that was conducted for the first time, and a higher income from rents. Net rents rose to € 160.2 m. With Stodiek not taken into account, net rents amounted to € 142.4 m and reached the level of the previous year. In Germany the income from rents grew by 5.6% to € 79.7 m. Primarily project developments in Munich and Nuremberg had a positive effect on this result. In the European countries rents were below previous year's level, as apart from the sales made at the end of last year (Long Acre), leases of the Brussels-based office tower Madou Plaza were terminated according to plan. Madou Plaza will be renewed and enlarged in the following two years. After completion in 2004 a doubling of the current rent can be expected. With the institutions of the European Union situated in the immediate vicinity, there is a brisk demand for lettable space already today.

In the first nine months IVG acquired two properties in Milan and Madrid: for € 35 m an attractive and fully let office property on Piazzale Lodi in the metropolis of Lombardy. This four-storey office building is conveniently situated and provides 20,000 m² of lettable space. In Madrid it was for € 12 m that IVG acquired a logistics centre in Coslada near the international airport Madrid-Barajas with optimal transport links to the national and international road and air traffic networks. The centre comprises two buildings, a two-storey logistics centre with 21,900 m² of usable space for logistics and offices and a two-storey training centre with 2,900 m² of usable space. With regard to this property an interesting development can be expected in the medium term.

According to plan, the Office Tower in the IVG-Businesspark MEDIA WORKS MUNICH (20,000 out of 120,000 m²) was sold to an institutional investor in October. The profit will be allowed for in the fourth quarter, with optimal use made of fiscal regulations pursuant to § 6b EStG (German Income Tax). Furthermore, IVG sold, among others, properties in Antwerp and Kassel. Further sales of properties within the framework of the active buy-and-sell policy are planned for the fourth quarter.

In 2002, letting rate in the IVG real-estate portfolio averages 95 %.

Project Development

It is jointly with renowned partners that IVG is developing projects with a proportional volume of about € 1.0 bn, and with approximately € 400 m currently invested. Half of the invested capital is tied up in projects that were already sold.

The sale of London-based project development Gresham Street that was allowed for in the third quarter after its completion and handover can be seen as the outstanding transaction of the first nine months. As a result, both turnover and operating earnings of this division rose considerably. Lloyds has moved its headquarters into this office building (10,200 m²) that is situated in the heart of the London bank district. Concurrently, IVG acquired the bank's former headquarters on 71 Lombard Street in the immediate vicinity of the Bank of England. The lease contract with Lloyds Bank is expiring in spring 2003. Afterwards IVG will start a project development (14,900 m²) for this building in a prime location of London.

The commercialisation of another London-based project on Soho Square is making good progress. It is here where IVG is modernising approx. 5,600 m² of office space in a prime

location between the centre of London and West End. There is brisk demand for space of companies that are household names.

The projects in Paris are developing positively, too. It is jointly with AXA that IVG is developing several projects in the French capital with a total value of about € 800 m by 2007. Presently, four projects are under preparation. The first project "Perisud", an office building with 33,500 m² of space situated on Boulevard Périphérique, was let in its entirety to an international group already before the beginning of the construction. Negotiations on sales have been started with institutional investors. In the project Bois Colombes IVG / AXA were able to let 50,000 m² to international companies from the early planning stage. In total the joint venture were able to let in the current year more than 80,000 m² and is one of the most successful lessors in Paris.

In summer 2002 IVG sold the fully let first section of the Duesseldorf-based project Global Gate to an open-end real-estate fund. The second section (12,600 m²) is being constructed. The letting activities are marked by a brisk demand, underlining the specific quality of the location.

As real-estate sites, airports and their surroundings are of particular interest to IVG. Airports are not just places of transit, but are becoming more and more communications centres of economic relevance:

- The consortium led by IVG and Hochtief succeeded in reaching a breakthrough in the negotiations with the public authorities on the airport project Berlin Brandenburg International: a Letter of Intent was signed on 29 August 2002. In 2003, the consortium intends to take over the existing airport system in Berlin and to erect the new major airport. In the surrounding of the airport more than 2 m m² space of office, hotel and logistics will be developed in the next 20 years.
- At Frankfurt Airport, one of the major hubs in Europe, it is with renowned partners that the IVG Group is developing the AIRRAIL center frankfurt, the superstructure of the ICE train station with 660 m of length. At the intersection of air and train traffic approx. 117,000 m² of high-quality office, hotel, and retail space are being erected. Owing to the function of AIRRAIL as a turnstile and traffic junction there is a growing demand for office space. Particularly international companies will benefit from this attractive location. With „Le Méridien“ Group, IVG was able to win a renowned tenant for 36,000 m² of hotel space. Therefore, already one third of the project is let. The start of the construction is scheduled for spring 2003.

- It is also at Frankfurt Airport, in the Cargo City South that IVG is developing “airbizz” an office / logistics property with about 30,000 m² of lettable space in cooperation with its subsidiary Tercon. Already six months before its completion 70% of the building have been let. After its completion IVG intends to integrate the property into its own portfolio. The investment volume amounts to € 45 m.

9. Personnel

Number	30.09.02	31.12.01	Changes in %
Portfolio management	326	314	+3.8
Project development	125	123	+1.6
Non-core business	137	137	-
Other / Consolidation	145	140	+ 3.6
Group	733	714	+ 2.7

10. IVG share

In the course of the first nine months, the international share markets have been just as weak as before. Despite a slight recovery at the end of October the relevant indices have had a weak performance since the beginning of this year: Dow Jones-Index –15 %, Nikkei-Index –22 %, EuroStoxx 50 –32 % (as per 19.11.02). DAX came to a new five-year low with 2,597 points. Since the beginning of 2002 the indices have lost considerable value: DAX –39 %, MDAX –28 %.

The IVG share, too, failed to escape this generally negative and in Germany highly unsatisfying development in the share markets, however, was able to keep the decline of the share (–11 % in 2002) in limits and to show a better performance than the entire German market. The decrease of the IVG share price is inconsistent with the fundamental development of the company. We are confident that the quality of our transactions will exert sustainable influence on the share price.

11. EPRA-Award

In September IVG was presented with the new award of the European Public Real Estate Association (EPRA) for the best annual report of a European listed real-estate company. EPRA, the association of listed real-estate companies in Europe, analysed 75 European an

nual reports. A jury, consisting of renowned European financial analysts, investors, accountants, and economists of Cambridge University (UK) assessed the transparency for investors by means of the observance of the Best Practices Recommendations for the accounting of European listed real-estate companies. For IVG this award is both commitment and motivation. Also in future, we will continue our active information policy to reach the optimal transparency of the values we stand for. This enables the capital market to develop an extensive profile of the company's value and its share.

12. Outlook

Despite the severe macro-economic situation and the difficulties in the real-estate markets we again expect record earnings for the total year 2002 compared with the high level reached in the previous year. Our letting business, profits from sales, and returns from project developments will contribute to the positive development in earnings.

In 2003 IVG will expand the segment real estate funds / funds distribution. For this IVG will adopt 100 % of the Wert-Konzept-group prematurely to January 1st, 2003. Together with this experienced initiator we will originate closed-end funds with an European investment focus. The objective of this approach is to exhaust the diverse methods to secure equity and to offer under the IVG umbrella investors a wide range of opportunities of indirect high quality real estate investments.

Dr. Eckart John von Freyend

Dr. Bernd Kottmann

Dr. Dirk Matthey

IVG financial calendar 2002 / 2003

Analysts' conference in Frankfurt	20.11.2002
IVG-Presentation German Mid Cap Conference (GMCC) in Frankfurt	05.12.2002
Press conference on financial statement / Analysts' conference for the financial year 2002	10.04.2003
Presentation of the figures for the first quarter 2003	15.05.2003
IVG Annual General Meeting in Bonn	27.05.2003

Press

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