

**Half-yearly Report  
Interim Report for the 2nd Quarter 2006**

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Bonn, 11 August 2006

## **Interim Report for the Period 1 January – 30 June 2006**

- **Dr Wolfhard Lechnitz becomes Chairman of the Board of Management**
- **Significant earnings surge in first half-year**
- **Forecast for 2006: Net profit to rise to around €145 million**

*Dear Shareholders, Ladies and Gentlemen,*

IVG is still performing successfully after the first half of the year.

- All earnings ratios increased significantly as against the previous year:
  - The operating cash flow (EBITDA) rose from €110 million to €207 million.
  - Operating earnings (EBIT) increased from €88 million to €185 million.
  - Net profit improved from €25 million to €116 million.
- The segments contributed to this increase in operating earnings as follows:  
In Portfolio Management, operating earnings rose from €85 million to €149 million (thereof €85 million in disposal gains, previous year €25 million), while for Project Development the figure was up from €-5 million to €25 million and for Funds from €25 million to €26 million.
- In the near future, IVG intends to begin construction on twelve caverns. In addition to the 40 existing caverns which are let on long-term contracts, IVG can expand its capacity by at least 65 caverns.
- The first section of the Airrail Center project is around 60% pre-let. Construction will begin before the end of this year.
- The London fund EuroSelect 11 has been fully placed, around half of the follow-up fund EuroSelect 12 has already been placed within eight weeks as of 30 June
- In the first six months, IVG has achieved 420,000 m<sup>2</sup> (previous year 320,000m<sup>2</sup>) of new leases.
- For the year as a whole, IVG is forecasting an increase in net profit (before minority interests and hybrid investors) to around €145 million (2005: €110 million) and a rise in net asset value to more than €22 (2005: €18) per share.
- As of 1 July 2006, Dr Wolfhard Lechnitz became CEO and the Chairman of the IVG Board of Management. His goal is to continue the successful development of IVG as a European investment house for real estate. This includes the expansion of the business areas while focusing on clear profitability targets.

## 1. Macro-economic Development and Property Markets

Against the background of a robust global economy, economic growth in the euro zone is experiencing an upward trend. European business analysts are forecasting average upwards-adjusted growth of 2.1% for 2006, with an unchanged growth figure of 1.9% for 2007.

Economic growth in Germany for 2006 is currently forecast at 1.6%. The corporate outlook also remains positive: While the Ifo Macro-economic Development Index for July is down slightly on the previous month, it is still at a very high level on a ten-year comparison. The unemployment rate declined significantly. Although the European Central Bank raised its refinancing rate to 3% in August as anticipated, interest rates are still at a historically low level.

The picture of the European investment markets for office property remains positive: stable yields in Germany, London and Paris as well as an end to yield compression in Eastern Europe. In the five major German markets, peak yields remain at 5.25% to 6%, with most major West European cities ranging from 4.0% to 6.0%. Peak yields in Central Eastern Europe (Warsaw, Prague, Budapest) are now a little lower at between 5.75% and 6.25%.

On the rental markets for office space, peak West European rents increased by an average of over 4%. The core London/West End market rose quarter-on-quarter from €115 to €123 (per m<sup>2</sup>/month). By the end of the year, peak rents are now forecast to reach €129, even nominally higher than in the record period of the second quarter of 2001 (€128).

Brussels/Quartier Leopold (European district) remained stable as against the previous quarter, Paris/CBD rose slightly to €58 – with rents forecast to rise by year-end in both regions. On the German markets, peak rents remained constant quarter-on-quarter, which was also the case in Budapest, Prague and Warsaw. Vacancies in Europe were down slightly as against the previous quarter.

## 2. Income Statement

€ million	01.01. - 30.06.2006	01.01. - 30.06.2005	01.04.- 30.06.2006	01.04.- 30.06.2005
Turnover	223.2	211.2	96.1	116.0
Other operating income	135.3	35.6	57.6	27.6
Changes in inventories of finished goods and own work capitalised	-25.9	-0.5	5.8	-1.0
<b>Total operating performance</b>	<b>332.6</b>	<b>246.3</b>	<b>159.5</b>	<b>142.6</b>
Cost of materials	-14.9	-31.6	-11.3	-22.6
Personnel expenses	-42.2	-34.2	-25.1	-17.5
Depreciation and amortisation of intangible assets, property, plant and equipment and investment properties	-21.8	-22.5	-11.4	-11.1
Investment property expenses	-27.7	-28.3	-13.4	-16
Other expenses	-41.8	-46.7	-22.9	-20.1
Income from associated companies measured at equity	-1.5	3.8	-0.7	4.9
Income from participations	2.1	0.7	1.3	0.5
Other financial result	-34.8	-54.5	-27.2	-31.6
<b>Earnings before income taxes</b>	<b>150.0</b>	<b>33.0</b>	<b>48.8</b>	<b>29.1</b>
Income taxes	-34.5	-8.2	-12.8	-7.0
<b>Net profit for the quarter</b>	<b>115.5</b>	<b>24.8</b>	<b>36.0</b>	<b>22.1</b>
Attributable to Group shareholders	108.2	20.5	31.7	19.8
Hybrid investor interests	1.8	0.0	1.8	0.0
Minority interests	5.5	4.3	2.5	2.3
Earnings per share due to shareholders in €				
Basic	0.93	0.18	0.27	0.17
Diluted	0.93	0.18	0.27	0.17
<b>Operating cash flow (EBITDA)</b>	<b>206.6</b>	<b>110.0</b>	<b>87.4</b>	<b>71.8</b>
<b>Operating earnings (EBIT)</b>	<b>184.8</b>	<b>87.5</b>	<b>76.0</b>	<b>60.7</b>

The rise in turnover is primarily due to higher Project Development revenues.

The decline in investment property expenses relates largely to the property disposals in 2005 and 2006.

Total operating performance significantly increased as a result of the gains on property disposals included in other operating income (€114 million; H1 2005: €25 million). Changes in inventories and costs of materials declined as a result of the reduced project development volume in current assets. As a result of the significant rise in the price of IVG shares, personnel expenses and provisions for the stock option program increased by €6.3 million. The drop in other expenses was primarily due to reduced costs for repairs and maintenance as well as lower consulting costs. The improved financial result is due to lower financial liabilities, exchange rate gains on foreign currency loans and higher fair values for derivatives used to hedge interest rates. The tax ratio fell in the first six months from 25% to 23% as a result of tax-optimised gains on disposals. Minority interests in consolidated net profit increased on account of the hybrid bond issued in April.

### 3. Balance Sheet

#### Assets

€ million	30.06.2006	31.12.2005
<b>Non-current assets</b>		
Intangible assets	131.1	131.6
Investment properties	1,837.2	2,080.8
Other properties, plant and equipment	383.9	318.5
Financial assets	188.1	193.3
Shares in associated companies accounted for using the equity method	50.8	30.7
Derivative financial instruments	9.6	10.3
Deferred tax assets	45.1	56.7
Receivables and other assets	180.0	173.3
Prepaid expenses	1.9	2.4
<b>Total non-current assets</b>	<b>2,827.7</b>	<b>2,997.6</b>
<b>Current assets</b>		
Inventories	111.4	106.9
Receivable and other assets	217.9	183.5
Income tax receivables	13.5	13.9
Current asset securities	28.2	30.0
Cash at bank and in hand	69.4	90.9
Prepaid expenses	4.6	6.0
	<b>445.0</b>	<b>431.2</b>
Non-current assets available-for-sale	299.8	258.1
<b>Total current assets</b>	<b>744.8</b>	<b>689.3</b>
<b>Total assets</b>	<b>3,572.5</b>	<b>3,686.9</b>

#### Liabilities and equity

€ million	30,06,2006	31,12,2005
<b>Equity</b>		
Subscribed capital	116.0	116.0
Additional paid-in capital	458.9	458.9
Own shares	0.0	0.0
Other reserves	3.1	6.4
Revenue reserves	406.7	342.8
<b>Equity attributable to Group shareholders</b>	<b>984.7</b>	<b>924.1</b>
Hybrid capital	198.6	0.0
Minority interests	4.6	-2.2
<b>Total equity</b>	<b>1,187.9</b>	<b>921.9</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Financial liabilities	1,525.2	1,728.5
Derivative financial instruments	1.6	11.0
Deferred tax liabilities	153.9	149.6
Pension provisions	10.1	9.9
Other provisions	75.8	75.6
Liabilities	3.8	4.0
Deferred income	7.0	7.1
<b>Total non-current liabilities</b>	<b>1,777.4</b>	<b>1,985.7</b>
<b>Current liabilities</b>		
Financial liabilities	390.3	571.7
Derivative financial instruments	8.7	18.8
Other provisions	26.6	30.5
Liabilities	105.9	118.2
Income tax liabilities	35.3	24.2
Deferred income	12.0	14.1
	<b>578.8</b>	<b>777.5</b>
Liabilities in connection with non-current assets available for sale	28.4	1.8
<b>Total current liabilities</b>	<b>607.2</b>	<b>779.3</b>
<b>Total liabilities and equity</b>	<b>3,572.5</b>	<b>3,686.9</b>

The reduction of the balance sheet is due primarily to property sales and the repayment of financial liabilities. In addition to property sales, the drop in Investment Properties and therefore in non-current assets was also due to the reclassification of property as non-current assets available for sale under current assets. The rise in current receivables and other assets was largely due to input tax receivables.

The equity item "hybrid capital" has been recognised on the balance sheet for the first time. This is due to the placement of a subordinate IVG hybrid bond in the second quarter (volume: around €200 million). In accordance with the International Financial Reporting Standards (IFRS), the structure of the bond guarantees 100% imputation as equity in the balance sheet on the one hand, while the interest is fully tax deductible on the other. A further advantage of this form of equity injection is that shareholder structure and key profitability ratios are not diluted. The successful placement – with foreign investors claiming a total interest of around 40% – not only opens up a group of interesting new investors to IVG, but also documents its solid standing on the capital market. By broadening its finance base, the Company has also increased its scope for further profitable growth.

#### 4. Statement of Changes in Equity

€ million	Subscribed capital	Additional paid-in capital	own shares	Other reserves	Revenue reserves	Equity attributable to Group shareholders	Hybrid capital	Minority interests	Equity
<b>As at 01.01.2005</b>	<b>116.0</b>	<b>459.7</b>	<b>-0.2</b>	<b>-6.4</b>	<b>292.2</b>	<b>861.3</b>	<b>0.0</b>	<b>-2.3</b>	<b>859.0</b>
Earnings recognised directly in equity									
- Change in ownership and scope of consolidation					-1.3	-1.3		-0.2	-1.5
-Exchange rate difference				7.9		7.9			7.9
-Shares and securities available for sale, hedges				-3.2		-3.2		-2.7	-5.9
<b>Total</b>				<b>4.7</b>	<b>-1.3</b>	<b>3.4</b>	<b>0.0</b>	<b>-2.9</b>	<b>0.5</b>
Distribution					-40.6	-40.6		-1.1	-41.7
Quarterly net profit					20.5	20.5		4.3	24.8
<b>As at 30.06.2005</b>	<b>116.0</b>	<b>459.7</b>	<b>-0.2</b>	<b>-1.7</b>	<b>270.8</b>	<b>844.6</b>	<b>0.0</b>	<b>-2.0</b>	<b>842.6</b>
<b>As at 01.01.2006</b>	<b>116.0</b>	<b>458.9</b>	<b>0.0</b>	<b>6.4</b>	<b>342.8</b>	<b>924.1</b>	<b>0.0</b>	<b>-2.2</b>	<b>921.9</b>
Earnings recognised directly in equity									
- Change in ownership and scope of consolidation					-0.2	-0.2		0.2	0.0
-Exchange rate difference				-5.7		-5.7			-5.7
-Shares and securities available for sale, hedges				2.4		2.4		3.3	5.7
<b>Total</b>				<b>-3.3</b>	<b>-0.2</b>	<b>-3.5</b>	<b>0.0</b>	<b>3.5</b>	<b>0.0</b>
Distribution					-44.1	-44.1		-2.2	-46.3
Capital increase						0.0	196.8		196.8
Quarterly net profit					108.2	108.2	1.8	5.5	115.5
<b>As at 30.06.2006</b>	<b>116.0</b>	<b>458.9</b>	<b>0.0</b>	<b>3.1</b>	<b>406.7</b>	<b>984.7</b>	<b>198.6</b>	<b>4.6</b>	<b>1187.9</b>

Equity increased both in the first half of the year as well as against the previous year, primarily as a result of the hybrid capital issued and higher earnings. On 30 May 2006, the Annual General Meeting resolved a dividend increase of 3 cents to 38 cents per dividend-bearing share. This represents a distribution amount of €44.08 million (+ 8.6%).

## 5. Investments

€ million	01.01. to 30.06.		2nd quarter	
	2006	2005	2006	2005
Portfolio Management	236.0	180.1	209.7	151.2
Project Development	61.2	48.8	46.9	26.6
Funds	0.7	7.4	0.1	6.1
Corporate Functions	0.9	0.8	0.0	0.7
Non-core Business	0.0	0.0	0.0	0.0
<b>Group</b>	<b>298.9</b>	<b>237.1</b>	<b>256.8</b>	<b>184.6</b>

Investments were up significantly as against the previous year, both in the second quarter and in the first half of the year as a whole. Property purchases of a further €155 million that were initiated in the first six months will not be recognised on the balance sheet until later in the year. The investments in Portfolio Management included particularly the following acquisitions: the office property 55 Moorgate in London, two properties in Hamburg, the Cap Sud and Rue des Fauvelles properties as well as the progress in construction work on the Park Avenue property in Paris. In the Project Development segment, IVG invested in the refurbishment of the Vuorikatu property in Helsinki, the progress in construction work on the London Cornhill and Caxton Hall projects, a building in Budapest's Infopark and in a joint venture with the AXA Group in London.

## 6. Cash Flow Statement/Financing

€ million	01.01.-30.06. 2006	01.01.-30.06. 2005
Net profit for the period	115.5	24.8
+/- Depreciation and amortisation/reversals of write-downs	30.3	22.5
+/- Other non-cash expenses/income	20.0	5.1
- Net proceeds from disposal of non-current assets	-124.1	-24.6
<i>Changes in current assets and liabilities:</i>		
Receivables and other assets (+ increase/- decrease)	-44.5	135.4
Trade payables (+ increase/- decrease)	15.9	53.2
<b>Cash provided by operating activities</b>	<b>13.1</b>	<b>216.4</b>
<b>Cash provided by/used for investment activities</b>	<b>171.8</b>	<b>-120.5</b>
<b>Cash used by financing activities</b>	<b>-204.9</b>	<b>-71.4</b>
Net change in cash and cash equivalents	-20.0	24.5
Change in cash and cash equivalents due to currency effects	-0.3	0.0
Payments to plan assets	-2.2	0.0
Cash and cash equivalents at the beginning of the period	92.0	74.5
<b>Cash and cash equivalents at the end of the period</b>	<b>69.5</b>	<b>99.0</b>
Less cash and cash equivalents of the group of assets held for sale	-0.1	0.0
Balance sheet bank balances and cash in hand	69.4	99.0

At the end of the first quarter, cash and cash equivalents were around €70 million. Liquidity resulting from property sales was used to repay financial liabilities. IVG currently has the financial scope for portfolio transactions exceeding €1 billion.

As a result of long-term interest hedging transactions, the average interest rate for consolidated financial liabilities was 4.85% in the first half of the year.

## 7. Notes

The quarterly financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS). The quarterly financial statements of the companies included are based on uniform accounting policies. Methods of consolidation, currency translation, recognition and measurement remain unchanged from the consolidated financial statements for 2005 and are presented in the IVG Annual Report on pages 97ff. Details on stock option plans can be found on pages 150ff of the Annual Report 2005.

As of 30 June 2006, IVG held no own shares. 731 own shares were sold in the second quarter. Please also see pages 123 ff of the IVG Annual Report 2005.

## 8. Segment Reporting

€ million	Turnover			
	First half-year		2nd quarter	
	2006	2005	2006	2005
Portfolio Management	141.4	144.0	68.9	75.0
Project Development	38.9	26.7	1.7	15.7
Funds	46.0	45.0	26.7	28.0
Corporate Functions	-3.1	-4.7	-1.2	-2.8
Non-core business	0.0	0.2	0.0	0.1
<b>Group</b>	<b>223.2</b>	<b>211.2</b>	<b>96.1</b>	<b>116.0</b>

€ million	Operating earnings (EBIT)			
	First half-year		2nd quarter	
	2006	2005	2006	2005
Portfolio Management	148.5	85.4	72.5	55.7
Project Development	25.2	-5.4	-6.3	-5.9
Funds	26.4	25.3	17.8	20.4
Corporate Functions	-15.3	-18.4	-8.0	-10.1
Non-core business	0.0	0.6	0.0	0.6
<b>Group</b>	<b>184.8</b>	<b>87.5</b>	<b>76.0</b>	<b>60.7</b>

## Portfolio Management

With an own property portfolio of around €3.5 billion in major European cities, IVG ranks as one of Europe's major listed property companies. In its portfolio management, IVG pursues the goal of sustainably increasing the value of the portfolio and yields on it.

The first six months were primarily characterised by the successful continuation of the sales program, starting the extension of the cavern facilities, acquiring property in Germany, London and Paris as well as successful lettings.

Turnover almost matched the level of the previous year. Net rents included in turnover declined from €118.9 million to €109.5 million on account of the disposals in 2005 and 2006. As a result of disposal gains, operating earnings were considerably higher.

## Purchases

In the second quarter IVG acquired the following properties:

- An office ensemble in Billstrasse in Hamburg (16,800 m<sup>2</sup> rental space) for €31 million. It is located in Hamburg City-Süd in an existing development area. In the medium term, the location will increasingly benefit from its direct proximity to the new Hafencity, the health authorities complex and the town planning master plan. Long-term leases for the properties have been concluded with the Free and Hanseatic City of Hamburg as well as a public law institution. Thanks to this investment, IVG has the opportunity to profit from the ongoing positive development of this location with long-term leases.
- A 6,000 m<sup>2</sup> office property in the banking district in the City of London for €75 million. The property was bought from a German open-ended property fund. The six-storey building 55 Moorgate was completed in 1990 and is fully let. The tenancy agreements run till 2015/2016. The main tenant is the international banking group BNP Paribas, which uses 5,000 m<sup>2</sup> – more than 83% – of rental space.
- An office project development (12,300 m<sup>2</sup>) at the Montrouge office location in the southwest of Paris. The total investment amounts to €47 million, payment will be made pro rata temporis in line with the progress of construction work. The planned "Cap Sud" building consists of eight aboveground and three subterranean levels.

Completion is scheduled for the second half of 2008. The project is being managed and let locally by the IVG branch office in Paris. This investment in one of Europe's key property markets offers good letting and yield prospects for IVG.

- The office and commercial property Rue des Fauvelles (11,000 m<sup>2</sup> rental space) in the Courbevoie district of Paris for €38 million. The tenant is the automotive manufacturer PSA Peugeot Citroen Automobiles, which uses the building as its research centre. A long-term tenancy agreement has been concluded for the property, which offers attractive development potential.
- Already in the first quarter, IVG acquired an 8-storey office and commercial property in Hamburg City-Süd near the Main Railway Station. The property, which has rental space of 21,600 m<sup>2</sup>, was acquired as part of a foreclosure. It has substantial appreciation potential.

Acquisitions initiated in the first half of the year which will only be recognised on the balance sheet after the reporting period were:

- 22 German logistics properties (416,000 m<sup>2</sup> rental space, including 58,000 m<sup>2</sup> office space) for a purchase price of €121 million. The properties were sold by the French retail group ITM Entreprises and are spread across several locations throughout Germany, all of which have excellent transport infrastructures. IVG believes that this complex portfolio offers substantial opportunities for restructuring, appreciation and subsequent disposal.
- A fully let office property (5,000 m<sup>2</sup> rental space) in Berlin-Wilmersdorf for €10 million. The office building on Rankeplatz was renovated in 2000 and is in excellent condition. Its tenants include a large number of consulting companies, law offices and an insurance company.
- In Düsseldorf, an office and commercial real estate portfolio (37,500 m<sup>2</sup> of rental space) for €43 million. It comprises four buildings including an option to expand and is leased medium- to long-term to tenants with good credit rating.

- In Munich, two office and commercial properties for €24 million:

A 50% holding in an office and commercial park in Domagkstrasse in Munich's Schwabing district with rental space of 18,200 m<sup>2</sup>. The main tenant of the almost fully leased property is Bosch Siemens Hausgeräte. The property has substantial appreciation and development potential.

The first section of the 8,000 m<sup>2</sup> Fashion Mall business complex within the middle ring near Parkstadt Schwabing. The property will be completed in autumn. Tenants include the fashion companies Max Mara, Armani, Esprit and Cavalli.

Munich is one of the most attractive property markets in Germany. Science, high tech, electronics, software, financial economy, media, tourism and fashion combine to form a healthy economic structure. The forecasts indicate strong growth in rents in the coming years.

## Sales

In the second quarter, IVG continued its strategy of increasing the value of properties with renovation work and the conclusion of new rental contracts, and selling them at attractive profits. In the first half-year, IVG generated disposal gains of €85 million. On average, Sales proceeds were more than 13% above the market values calculated at the end of 2005.

- In Stockholm, IVG sold the 81,000 m<sup>2</sup> fully leased Vattenfallet building complex for €77 million. As the transaction was processed in the form of a share deal, most of the capital gains remain tax-free. Main tenant is the Swedish energy company Vattenfall AB. IVG acquired the building complex in 2001 for €68 million as part of a sale-and-lease-back transaction, and has profited from the rise in property prices in Stockholm with this disposal.
- In London's West End, IVG sold the office building 20 Soho Square for €75 million, generating an attractive capital gain. At the end of 2005, the property was valued at only €56 million. In the disposal, IVG benefited from considerably higher property prices in the British metropolis. IVG acquired the office building in 2000, and modernised it by 2002 and fully leased it.

In the first quarter, IVG had already sold the following properties:

- In Brussels, IVG sold a retail and residential complex with rental space of 12,500 m<sup>2</sup> in the shopping street of Louise Village, thus continuing its concentration on office properties.
- In Budapest, IVG sold two modern office buildings in the Infopark Budapest (16,800 m<sup>2</sup>) and two listed properties in the city centre on the Andrásy út Boulevard (7,700 m<sup>2</sup>). IVG acquired the two buildings in the late 1990s and modernised them in line with the original plans. The tenants include Budapest Bank, the Hungarian Investment and Trade Development Agency (ITDH) and the international solicitors, White & Case.

IVG has been developing Infopark Budapest in close cooperation with the Technical Universities since 1998, and it is now one of Central Europe's cutting edge science and technology parks. Renowned technology companies such as Hewlett Packard, Epson, T-Systems, T-Online, the Hungarian National Office of Research and Technology (NKTH) as well as Daewoo and Nissan have chosen Infopark Budapest as a location for their offices.

After the end of the reporting period, IVG sold 29 office, commercial and logistics properties for €315 million as part of an international tender. The capital gains are in the clear double-digit millions and will mostly benefit the 2007 consolidated profit. The buyer is Scarborough Continental Partners Ltd. The property portfolio comprises 260,000 m<sup>2</sup> of rental space with 3,000 parking spaces. The properties are located in business parks in Düsseldorf, Munich, Hamburg, Nuremberg and Kassel. In recent years, IVG increased the value of the properties through new development, renovation and leasing, prepared them for sale and has now taken advantage of the current favourable market phase to sell.

## Rentals

IVG was also successful in its rental business. In the first half-year, IVG again achieved a good rental result in its own portfolio with more than 85,000 m<sup>2</sup>.

<b>Branch</b>	<b>m<sup>2</sup></b>
Berlin	15,190
Düsseldorf	1,191
Frankfurt	2,502
Hamburg	8,252
Munich	9,601
<b>Germany</b>	<b>36,735</b>

Brussels	1,183
Budapest	0
Helsinki	38,460
Iberia	0
London	0
Milan	6,838
Paris	2,132
Stockholm	0
<b>Europe (excluding Germany)</b>	<b>48,613</b>
<b>Total</b>	<b>85,348</b>

Despite the sale of fully rented property and the selective acquisition of properties with vacancies, the IVG portfolio's commercial rental ratio for the full year is at 92.3%.

## Caverns

Currently, IVG has 40 oil and gas caverns, which are let on long-term contracts. Caverns are underground hollows in salt domes, which offer environmentally friendly and secure storage facilities for large quantities of natural gas and crude oil. On the basis of the salt rights it has secured, IVG can add at least 65 more caverns to its facility. The steadily increasing market for energy storage and the strategically favourable geographical situation provide a solid foundation for this. The caverns in Etzel are connected to the most important international natural gas and crude oil pipeline systems and are an energy hub for imported natural gas and crude oil. The oil pipelines lead to the refinery centres of Hamburg and the Rhine-Ruhr region. The gas pipelines connect the site with the Western European Natural Gas

Association. Furthermore, the Wilhelmshaven oil port is in the immediate vicinity of the IVG caverns.

With the cavern business, IVG is generating stable and long-term cash flow returns of over 10% p.a. Due to the high demand IVG intends to commence construction of twelve caverns in the near future.

## **Project Development**

On its own or together with well-known partners, IVG develops office properties in key European cities and growth centres. IVG has a share in the project development volume of €1.2 billion. It has currently invested around €300 million.

Key events in the first half of the year were the successful sale of the Infopark C project in Budapest and Madou Plaza in Brussels, the conclusion of a management contract with the hotel operator Hilton at the Airrail Center project in Frankfurt and the start of a joint venture with AXA in London.

- In future, Madou Plaza will be used by the European Union. At the real estate fair MIPIM in Cannes the 33-storey building was presented with an MIPIM Award, the Oscar of the real estate industry.
- The realisation of the Airrail Center at Frankfurt airport commences this year. Project partners IVG and Fraport obtained Hilton International for the Airrail Center Frankfurt. Hilton will operate two hotels at the Airrail Center on the basis of a management contract: one premium Hilton hotel with 247 rooms and a mid-market Hilton Garden Inn with 314 rooms. Together, both hotels cover 30,000 m<sup>2</sup> of the 59,000 m<sup>2</sup> rental space in the first section of the building. The contract with Hilton International is for 20 years and commences on completion at the beginning of 2009.

In addition to the hotels, 28,000 m<sup>2</sup> of office space and 1,000 m<sup>2</sup> of retail space is available in the first section of the Airrail Center building. Around 60% of the first building section has already been pre-let.

The project volume of the 660-metre long property is around €660 million. The net rental space is 130,000 m<sup>2</sup>, of which 95,000 m<sup>2</sup> is office space, 30,000 m<sup>2</sup> is hotel space and 5,000 m<sup>2</sup> is retail and catering space.

- IVG, together with AXA Real Estate Managers, has set up a joint venture in London. It develops, refurbishes and upgrades office projects in the London area. A total volume of around €500 million is planned until 2013.

In terms of project developments, IVG let more than 100,000 m<sup>2</sup> in the first quarter.

Project developments are not recognised in turnover and earnings before being completed, sold and handed over to the investor. However, pro rata realisation of earnings in line with the percentage-of-completion method is used for contract manufacturing.

In the first half of the year, earnings within the segment increased considerably, primarily due to project sales in Brussels and Budapest.

From 1 August, Andreas Barth (43) supports the project development area as the Managing Director of IVG Management GmbH. Barth was previously responsible for project developments in Germany and Central Europe as member of the management board of Viterra Development GmbH.

## **Funds**

Issuing, marketing and management of property investment products and the asset management of property portfolios supplement IVG's range of services. The expertise and experience of IVG's branch offices are systematically leveraged.

### Funds for private investors

With the EuroSelect property funds, IVG enables private investors to invest in property in Europe managed by local IVG branches. The high quality of the funds was confirmed recently by the independent ratings agency Scope. IVG won the Scope Award for best issuing house in the European closed-end property fund segment.

Already In the first quarter, IVG fully placed the EuroSelect 11 London fund which was launched in November 2005. It has an equity volume of €85 million and was marketed in short span of time. Investors in the fund participate in the office property 20 Moorgate in the City of London, which is fully let to the global banking group JP Morgan Cazenove.

In the second quarter, IVG launched the follow-up fund EuroSelect 12 (€350 million investment volume, €160 million equity), which allows private investors to secure an interest of €15,000 and upwards in the London headquarters of ING Bank. The initial distribution is 5.75%. Like the preceding funds, key factors for IVG were quality and a high level of security: the fund property (24,000 m<sup>2</sup> rental space) is located in the heart of the banking district in the City of London and is fully leased until at least 2016. This fund enjoys all the benefits of the EuroSelect line: buy-back guarantee in case of personal hardship, tax exemption on income of up to €7,500 due to the German-British double taxation agreement (represents an investment amount of €100,000) and unit trading on the secondary market. The fund is rated "very good" by the independent rating agency Feri.

IVG placed a total of €113 million in the first six months. The figure for the year as a whole is forecast at around €250 million.

#### Investment products for institutional investors

The IVG subsidiary Oppenheim Immobilien Kapitalanlagegesellschaft mbH (OIK), the market leader for special funds, currently manages properties worth €9.7 billion in 29 special funds. The market share is around 40%.

In addition, IVG is further expanding its product range for structured funds. Two funds are currently poised for market launch: a European office property fund and a specialised Italian fund with a portfolio in Milan and Rome.

In addition to property funds, IVG also manages portfolios, which remain the property of institutional investors. Since the beginning of 2005, IVG has been managing the portfolio of a professional welfare provider in Berlin, which consists of ten German office properties and has a total value of €170 million. As part of this performance-oriented mandate, IVG has already achieved letting successes and implemented sales.

In the first half-year, IVG let a total of more than 225,000 m<sup>2</sup> in the funds business.

Turnover and earnings in this segment mainly increased as a result of the successful placement of the EuroSelect funds.

In order to fully concentrate on its EuroSelect series for closed-end funds, IVG Immobilien AG sold its 25% interest in Hannover Leasing GmbH & Co. KG. IVG generated an attractive disposal gain, which is reported in the Corporate Functions segment. The holding was bought by Landesbank Hessen-Thüringen, which increased its interest to 75%.

The financial interest held in Hannover Leasing since 1996, which in addition to closed-end real estate funds also offers investments in films, ships and aircraft, was a successful investment for IVG. Since IVG has established a leading market position as a provider of closed-end real estate funds with its EuroSelect series over recent years and can exploit further considerable growth potential, this concentration strategically makes sense.

## 9. Staff

Number at the end of the quarter	30.06.2006	31.12.2005
Portfolio Management	329	327
Project Development	46	70
Funds	309	296
Corporate Functions	142	128
• of which trainees:	(32)	(27)
<b>Group</b>	<b>826</b>	<b>821</b>

## 10. Changes in the Board of Management and the Supervisory Board

Dr Wolfhard Lechnitz became CEO and the Chairman of the Board of Management of IVG Immobilien AG as of 1 July 2006. The previous CEO and Chairman of the Board of Management, Dr Eckart John von Freyend, who held the position for 11 years, is joining the Supervisory Board as planned. Since 1 July, Dr Bernd Kottmann has been the Deputy Chairman of the Board of Management, while the previous deputy member of the Board of Management, Dr Georg Reul, responsible for the funds area, is now an ordinary member of the Board of Directors. The finance area remains in the experienced hands of Dr Dirk Matthey.

Dr Gert Haller resigned from the Supervisory Board. On 30 May 2006, the Annual General Meeting also resolved to increase the Supervisory Board from six to nine members and elected Paul William Marcuse, CEO of AXA Real Estate Investment Managers, and Friedrich Merz, MdB to the supervisory body. Franz-Xaver Baumgartner was also appointed as an employee representative.

## **11. IVG Shares**

With an increase of 36% in the first half of 2006, IVG shares again performed considerably better than the DAX (+5%), MDAX (+8%) and the European property share index EPRA Europe (+13%). IVG shares have recorded current value growth of 41% since the beginning of the year. Further share price potential results from the good strategic positioning as a European investment company for property and the expected increase in profit and net asset value.

The introduction of Real Estate Investment Trusts in Germany (G-REITs) offers additional opportunities for profitable growth. The Federal Ministry of Finance announced that a new draft law will be presented as early as autumn, with the result that G-REITs could be launched from the beginning of 2007. In the forthcoming legislative process, creating a G-REIT capable of competing internationally is the crucial point.

With the swift launch of the REIT, Germany can become a leading investment and capital market for property. The public authorities, investors, property industry, and therefore the whole German economy would all benefit together.

## **12. Outlook**

Thanks to the improved business growth in conjunction with a limited offering of new developments, we anticipate a recovery on the German and European *rental markets* from which IVG will benefit.

The European *investment markets* are likely to remain amicable as a result of the high demand for properties. In particular, the German office market is currently attractive due to lower rents, the expected appreciation potential and high returns.

We will rapidly expand the IVG cavern facility in North Germany. The construction of 12 caverns is currently in preparation. IVG will profit from rising demand for oil and gas storage facilities due to the global energy shortage and the increasing volatility of energy prices.

In *funds business*, IVG is expecting an increase in placed equity in funds for private investors from €170 million in 2005 to €250 million in 2006. IVG will also offer further structured investment opportunities for institutional investors.

Based on the positive performance of business, IVG is expecting an increase in consolidated net profit after income taxes (before minority interests and hybrid investors) to a total of around €145 million (2005: €110 million) and a net asset value of over €22 (2005: €18) per share. We forecast an increase in net asset value to over €24 per share for 2008.

Bonn, 11 August 2006

The Board of Management

### 13. IVG Financial Calendar

Interim report: Nine Month/Q3	14.11.2006
Analyst/Press Conference	14.11.2006
Annual General Meeting for financial year 2006	24.05.2007

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