

# Interim Report

for the 3<sup>rd</sup> Quarter 2006

PASSION FOR REAL ESTATE.



IVG **I**MMOBILIEN





# Interim Report

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- **Significant earnings increase due to disposal gains**
- **Portfolio purchases underline growth strategy**
- **Forecast for 2006: Net profit € 145 million, NAV € 22 per share**

### **Dear Shareholders, Ladies and Gentlemen,**

IVG is still performing successfully after nine months.

- All earnings ratios increased as against the previous year:
  - Operating cash flow (EBITDA) rose from €174 million to € 253 million.
  - Operating earnings (EBIT) increased from € 140 million to € 208 million.
  - Net profit improved from € 56 million to € 127 million.
- The Portfolio Management segment made the primary contribution to the increase in operating earnings with an increase from € 131 million to € 199 million (thereof € 110 million disposal gains, previous year € 35 million). In the Funds segment, operating earnings increased from € 36 million to € 41 million. The Project Development segment (from € 1 million to € -1 million) was below the level of the previous year.
- In September, IVG presented a road map for the further development of the IVG Group. Its targets include the concentration on high-quality office property in business centres with good growth perspectives. Existing locations are currently under examination, with activities in Germany to be reinforced. At the same time, IVG is to establish a more streamlined positioning.
- With the acquisition of three office property portfolios with the focus in Germany valued at over € 1 billion IVG will grow in its own portfolio.
- After the conclusion of further rental contracts IVG has started the construction of initially 12 caverns. In total, IVG can extend its capacity by at least 65 caverns, in addition to the 40 caverns which are already let on long-term contracts.
- The London fund EuroSelect 12 was fully placed within only four months. Overall, in the first nine months of 2006, IVG placed € 202 million equity, more than in the whole year 2005 (€ 170 million).
- In the first nine months, IVG has achieved 585,000 m<sup>2</sup> (previous year 450,000 m<sup>2</sup>) of new lettings.
- For the year as a whole, IVG is forecasting an increase in net profit (before minority interests and hybrid investors) to around € 145 million (previous year € 110 million), Net Asset Value is expected to increase to € 22 (previous year € 18) per share.

## 1. Macro-economic Development and Property Markets

Against the background of a robust global economy, economic growth in the euro-zone is still experiencing an upward trend. European business analysts are forecasting a slight upward revision for average growth of 2.2% for 2006, with a slightly lower figure of 1.9% for 2007.

Economic growth for Germany in 2006 is currently forecast at 2.2% on average. Growth forecasts for 2007 range between 0.5% and 2.2%. The corporate outlook remains positive. In comparison to the previous month, the Ifo Macro-economic Development Index for October increased and it is still at a high level on a ten-year comparison. The unemployment rate again declined; one particularly positive factor is the growth in employees subject to social insurance contributions. Even after the rise of its refinancing rate by the European Central Bank by 25 basis points to the current level of 3.25%, interest rates remain at a historically low level.

The picture of the European investment markets for office property remains positive. In the five major German markets, yields declined by 25 basis points quarter-on-quarter. Germany remains a market with favourable entry prices in a European comparison. Yield compression of recent quarters continued in London to 4% and in Paris has come to a halt at 4.5% for the time being. In the five major German markets, the yield corridor for peak locations is now at 5.0 – 5.75%, for the West European metropolises in the corridor between 3.75% (Madrid) and 6.0% (Lisbon). Peak yields in Central Eastern Europe (Warsaw, Prague, Budapest) are now in the range of 5.5% to 6.25%.

On the rental markets for office space, peak West European rents increased by an average of 1.7% in the third quarter. Against the second quarter, the core London/West End market posted a small plus to € 125 m<sup>2</sup>/month. To the end of the year, with the current forecast level of € 129, the current peak of Q2/01 (€128) will even be exceeded. Brussels/Quartier Leopold (Europe district) and Paris/CBD remained stable against the previous quarter – with rents forecast to rise by year-end in both regions. On the German markets, peak rents remained constant in Berlin, Düsseldorf and Frankfurt quarter-on-quarter, with Hamburg and Munich gaining ground slightly. Budapest and Prague posted a sideward move, while Warsaw increased from € 17 to € 18 m<sup>2</sup>/month. Vacancy levels again moved down slightly in Europe on a quarterly basis. Across Europe the quota is now 7.25%.

## 2. Income Statement

€ million	01.01. – 30.09.06	01.01. – 30.09.05	01.07. – 30.09.06	01.07. – 30.09.05
Turnover	318.0	314.7	94.8	103.5
Other operating income	194.8	63.4	59.5	27.8
Changes in inventories of finished goods and own work capitalised	-18.0	-0.8	7.9	-0.3
<b>Total operating performance</b>	<b>494.8</b>	<b>377.3</b>	<b>162.2</b>	<b>131.0</b>
Material expenses	-32.3	-47.2	-17.4	-15.6
Personnel expenses	-70.0	-52.8	-27.8	-18.6
Depreciation and amortisation of intangible assets, property, plant and equipment and investment properties	-44.8	-33.5	-23.0	-11.0
Investment property expenses	-41.8	-43.6	-14.1	-15.3
Other expenses	-96.4	-64.2	-54.6	-17.5
Income from associated companies measured at equity	-3.6	2.0	-2.1	-1.8
Income from participations	2.2	2.4	0.1	1.7
Other financial result	-43.8	-72.3	-9.0	-17.8
<b>Earnings before income taxes</b>	<b>164.3</b>	<b>68.1</b>	<b>14.3</b>	<b>35.1</b>
Income taxes	-37.8	-12.2	-3.3	-4.0
<b>Net profit</b>	<b>126.5</b>	<b>55.9</b>	<b>11.0</b>	<b>31.1</b>
Attributable to Group shareholders	112.6	48.7	4.4	28.2
Hybrid investor interests	4.8	0.0	3.0	0.0
Minority interests	9.1	7.2	3.6	2.9
Earnings per share due to shareholders in €				
Basic	0.97	0.42	0.04	0.24
Diluted	0.97	0.42	0.04	0.24
<b>Operating cash flow (EBITDA)</b>	<b>252.9</b>	<b>173.9</b>	<b>46.3</b>	<b>63.9</b>
<b>Operating earnings (EBIT)</b>	<b>208.1</b>	<b>140.4</b>	<b>23.3</b>	<b>52.9</b>

Total operating performance significantly increased as a result of the gains on property disposals contained in other operating income. Changes in inventories and cost of materials declined as a result of reduced project development volume. Personnel expenses increased due to higher expenses for the stock option programme resulting from the higher share price. Depreciation and amortisation rose because of impairments taken on property. This was more than offset by reversals of impairments posted in other operating income. The increase in other expenses was due primarily to value adjustments in Project Development worth € 20 million. The significantly improved financial result is due to exchange rate gains on foreign currency transactions and higher fair values for derivatives used to hedge interest rates. As to the end of the half-year, the tax rate was 23%. It increased year-on-year because deferred taxes on tax losses carried forward were capitalised in the previous year. Minority interests in consolidated net profit increased as a result of the hybrid bond issued in the second quarter.

### 3. Balance Sheet

#### Assets

€ million	30.09.06	31.12.05
<b>Non-current assets</b>		
Intangible assets	132.3	131.6
Investment properties	2,138.6	2,080.8
Other properties	375.1	318.5
Financial assets	208.4	193.3
Shares in associated companies accounted at equity	13,530.7	
Derivative financial instruments	9.4	10.3
Deferred tax assets	43.2	56.7
Receivables and other assets	165.8	173.3
Prepaid expenses	1.8	2.4
<b>Total non-current assets</b>	<b>3,088.1</b>	<b>2,997.6</b>
<b>Current assets</b>		
Inventories	82.4	106.9
Receivables and other assets	230.7	183.5
Income tax receivables	9.4	13.9
Current asset securities	22.1	30.0
Cash at bank and in hand	355.1	90.9
Prepaid expenses	4.7	6.0
	<b>704.4</b>	<b>431.2</b>
Non-current assets available-for-sale	359.5	258.1
<b>Total current assets</b>	<b>1,063.9</b>	<b>689.3</b>
<b>Total assets</b>	<b>4,152.0</b>	<b>3,686.9</b>

<b>Liabilities</b>		
<b>€ million</b>	<b>30.09.06</b>	<b>31.12.05</b>
<b>Equity</b>		
Subscribed capital	116.0	116.0
Additional paid-in capital	458.9	458.9
Own shares	-1.2	0.0
Other reserves	3.7	6.4
Revenue reserves	411.2	342.8
<b>Equity attributable to Group shareholders</b>	<b>988.6</b>	<b>924.1</b>
Hybrid capital	201.5	0.0
Minority interests	6.1	-2.2
<b>Total equity</b>	<b>1,196.2</b>	<b>921.9</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Financial liabilities	1,779.1	1,728.5
Derivative financial instruments	6.3	11.0
Deferred tax liabilities	152.7	149.6
Pension provisions	10.4	9.9
Other provisions	75.8	75.6
Liabilities	3.6	4.0
Deferred income	7.0	7.1
<b>Total non-current liabilities</b>	<b>2,034.9</b>	<b>1,985.7</b>
<b>Current liabilities</b>		
Financial liabilities	479.6	571.7
Derivative financial instruments	7.2	18.8
Other provisions	53.5	30.5
Liabilities	250.0	118.2
Income tax liabilities	28.4	24.2
Deferred income	17.3	14.1
	<b>836.0</b>	<b>777.5</b>
Liabilities in connection with non-current assets available for sale	84.9	1.8
<b>Total current liabilities</b>	<b>920.9</b>	<b>779.3</b>
<b>Total liabilities and equity</b>	<b>4,152.0</b>	<b>3,686.9</b>

The growth of total assets is due primarily to a higher level of cash and cash equivalents as well as other liabilities. As a result of the investments made in the third quarter, investment properties and thus non-current assets increased, despite property sales and the reclassification of property as "Non-current assets available for sale". The rise in current receivables and other assets was largely due to input tax receivables.

The equity item "hybrid capital" results from the subordinate IVG hybrid bond issued 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					1.2	1.2		-2.3	-1.1
- Exchange rate difference				5.2		5.2			5.2
- Sales and securities available for sale, hedges				1.4		1.4			1.4
Total				6.6	1.2	7.8	0.0	-2.3	5.5
Distribution					-40.6	-40.6		-1.1	-41.7
Quarterly net profit					48.7	48.7		7.2	55.9
<b>As at 30.09.2005</b>	<b>116.0</b>	<b>459.7</b>	<b>-0.2</b>	<b>0.2</b>	<b>301.5</b>	<b>877.2</b>	<b>0.0</b>	<b>1.5</b>	<b>878.7</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					-0.1	-0.1		0.2	0.1
- Exchange rate difference				-2.6		-2.6			-2.6
- Sales and securities available for sale, hedges				-0.1		-0.1		1.9	1.8
Total				-2.7	-0.1	-2.8	0.0	2.1	-0.7
Distribution					-44.1	-44.1		-2.9	-47.0
Capital increase						0.0	196.7		196.7
Changes in own shares			-1.2			-1.2			-1.2
Quarterly net profit					112.6	112.6	4.8	9.1	126.5
<b>As at 30.09.2006</b>	<b>116.0</b>	<b>458.9</b>	<b>-1.2</b>	<b>3.7</b>	<b>411.2</b>	<b>988.6</b>	<b>201.5</b>	<b>6.1</b>	<b>1,196.2</b>

Equity increased in the first nine months 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. – 30.09.06	01.01. – 30.09.05	01.07. – 30.09.06	01.07. – 30.09.05
Portfolio Management	557.2	203.5	321.2	23.4
Project Development	76.1	59.7	14.9	10.9
Funds	2.3	7.4	1.6	0.0
Corporate Functions	0.9	0.8	0.0	0.0
Non-core Business	0.0	0.0	0.0	0.0
<b>Group</b>	<b>636.5</b>	<b>271.4</b>	<b>337.7</b>	<b>34.3</b>

Investments were up significantly as against the previous year, both after nine months and also in the third quarter. Property purchases of a further € 375 million initiated in the first nine months will only be recognised in the balance sheet in the fourth quarter of the year and in 2007. The investment in Portfolio Management included acquisitions of portfolios with properties in London, Paris, Hamburg and in the Düsseldorf region in particular, as well as individual acquisitions of 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, the building D in Budapest's Infopark and in a joint venture with the AXA Group in London.

## 6. Cash Flow Statement/Financing

€ million	01.07. – 30.09.06	01.07. – 30.09.05
Net profit for the period	126.5	55.9
+/- Depreciation and amortisation/reversals of write-downs	38.7	32.5
+/- Other non-cash expenses/income	16.4	9.0
- Net proceeds from disposal of non-current assets	-147.0	-18.5
Receivables and other assets (+ increase/- decrease)	27.7	106.1
Trade payables (+ increase/- decrease)	-123.1	-55.2
<b>Cash provided by/used for operating activities</b>	<b>-60.8</b>	<b>129.8</b>
<b>Cash provided by/used for investment activities</b>	<b>140.6</b>	<b>-94.2</b>
<b>Cash provided by/used for financing activities</b>	<b>186.2</b>	<b>-3.5</b>
Net change in cash and cash equivalents	266.0	32.1
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>355.5</b>	<b>106.6</b>
Less cash and cash equivalents of the group of assets held for sale	-0.4	0.0
Balance sheet bank balances and cash in hand	355.1	106.6

At the end of the third quarter, cash and cash equivalents were around € 355 million, higher than in the previous year. The increase is particularly due to liquidity inflows from property sales. Due to the deployment of long-term interest hedging transactions, the average interest rate for consolidated financial liabilities was lower than 5% to the first nine months of the year.

## 7. Notes

The quarterly financial statements were 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 September 2006, IVG held 50,000 own shares which were acquired in the third quarter to service the employee stock plan. This is equivalent to 0.043% of the share capital. 731 own shares were sold in the second quarter. Please also see pages 123ff of the IVG Annual Report 2005.

## 8. Segment Reporting

€ million	Turnover			
	01.01. – 30.09.		01.07. – 30.09.	
	2006	2005	2006	2005
Portfolio Management	202.2	213.1	60.8	69.1
Project Development	38.9	34.5	0.0	7.8
Funds	81.1	73.3	35.1	28.3
Corporate Functions	-4.2	-6.6	-1.1	-1.9
Non-core business	0.0	0.3	0.0	0.1
<b>Group</b>	<b>318.0</b>	<b>314.6</b>	<b>94.8</b>	<b>103.4</b>

€ million	Operating earnings (EBIT)			
	01.01. – 30.09.		01.07. – 30.09.	
	2006	2005	2006	2005
Portfolio Management	199.2	131.2	50.7	45.8
Project Development	-1.0	1.2	-26.2	6.6
Funds	41.2	35.6	14.8	10.3
Corporate Functions	-31.3	-27.4	-16.0	-9.0
Non-core business	0.0	-0.2	0.0	-0.8
<b>Group</b>	<b>208.1</b>	<b>140.4</b>	<b>23.3</b>	<b>52.9</b>

### Portfolio Management

With an own property portfolio of around € 3.5 billion in major European cities (thereof € 635 million in caverns), 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.

In the future, IVG will concentrate on the acquisition of high-quality office property in the 4 to 5 large German and 4 to 5 selected key European office metropolis. At the same time, IVG will divest properties with other types of use. To achieve a higher level of transparency, IVG will use the IFRS fair value method to enter its property portfolio in the balance sheet.

In the first nine months, turnover and the net rents included in turnover (€ 161 million after € 170 million) still declined on account of disposals in 2005 and 2006. As a result of disposal gains, operating earnings were considerably higher.

The major event in the third quarter was the acquisition of portfolios with office property in Germany and in selected key European metropolis. IVG is thus continuing its growth strategy for its own portfolio, reinforcing in particular its position on the German office market. In the first nine months, IVG acquired property with a total value of over € 1.4 billion, some of which will only be recognised in the balance sheet in 2007. Subtracting the sales of € 600 million realised in 2006, this represents net investment of € 800 million.

## Purchases

In the third quarter, IVG acquired two office property portfolios at a total price of € 880 million for its own portfolio. With a 2/3 value share, Germany is the investment focus for the new acquisitions.

Together the two portfolios cover a total of 31 properties with total rental space of 279,000 m<sup>2</sup>. The buildings were constructed in the 1990s or have been modernised and are in a very good condition. The main lever for value appreciation is letting. With a current vacancy rate of approximately 10%, IVG is aiming to achieve new rental contracts quickly. With its branch network IVG is well positioned in the markets to achieve this.

- One portfolio exclusively contains real estate in Germany, 86% of which is office space. A further 4% relates to retail and 5% each to logistics and other space. Some properties can be further upgraded in the scope of project development. The purchase price for the 215,000 m<sup>2</sup> is € 505.1 million plus € 20.2 million incidental costs. The economic transfer takes place on 2 January 2007. The seller is an open-ended real estate fund owned by WestInvest. 80% of the 25 properties are located in the office strongholds of Hamburg, Munich, Düsseldorf and Frankfurt. The properties on German secondary locations with values under € 10 million are to be sold at a profit, leveraging the current positive demand situation. At the current letting rate of 91%, the net initial yield is 5.7% after incidental costs. At full letting, the yield amounts to 6.25%.
- The second portfolio comprises a total of six properties, two each in London (46% of the portfolio value) and Paris (40%), and a further two in Hamburg (11%) and in the Düsseldorf region (3%). The purchase price for the 64,000 m<sup>2</sup> is € 374.1 million plus € 20.4 million incidental costs. The seller is the open-ended real estate fund CS Euroreal of Credit Suisse Asset Management Immobilien Kapitalanlagegesellschaft. With a current letting rate of 90%, the net initial yield is 5.0% after incidental costs. At full letting, the yield amounts to 5.6%.

The returns of both portfolios will increase as a result of:

- The increase in the economic letting rate with the help of the IVG branch network,
- Index adjustments and upturning rental markets resulting in higher rent valuations.

Over the past few years, the prices and rents for office properties have increased substantially in almost all of Europe's key office cities. As the most popular business locations in Europe, London and Paris continue to record high demand for modern office space. Germany is increasingly emerging as a strong magnet for international capital flows. The upturn in the German office markets will continue to accelerate as a result of the growing economy. Further rental price increases are foreseeable on the London and Paris markets. The acquisition of the portfolios enables IVG to benefit from these trends.

Further property purchases in the third quarter related to:

- 22 German logistics properties (416,000 m<sup>2</sup> rental space, thereof 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 infrastructure. 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. Its tenants include consulting companies, law offices and an insurance company.
- In Munich, two offices 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 18,600 m<sup>2</sup>. The main tenant of the property is Bosch Siemens Hausgeräte. The property has substantial appreciation and development potential.
  - The first section of the 5,500 m<sup>2</sup> Fashion Mall business complex within the middle ring near Parkstadt Schwabing. The property will be completed in 2007. Tenants include the fashion companies Max Mara, Armani, Esprit and Cavalli.

Munich is one of the property markets with the best prospects 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.

In the first half-year, IVG already acquired the following properties:

- An office ensemble in Billstrasse in Hamburg City Süd (16,800 m<sup>2</sup> rental space) for € 31 million. 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.
- Also in Hamburg's City Süd, an 8-storey office and commercial property for € 4 million. 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.
- 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 underground 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 Citroën 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.
- 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. A large share of the properties has already been sold and generated good profits.

Acquisitions initiated in the first nine months which will only be recognised in the balance sheet after the end of the reporting period were:

- An office property portfolio in Germany with total lettable space of 66,000 m<sup>2</sup> at a purchase price of €190 million plus € 7 million incidental costs. The seller is an open-ended fund of DIFA Deutsche Immobilien Fonds AG. With a current letting rate of 88%, the net initial yield is currently 5.2% after incidental costs. At full letting, the yield increases to 5.9%. The four properties are located in Munich (44% of the portfolio value), Düsseldorf (25%) and Stuttgart (31%). The majority of the buildings were erected in the 1990s or later and are in excellent condition. The portfolio has a 97% share of office space. The reduction of the current 12% vacancy rate and the rising rental markets are significant levers for value appreciation. As all the vacant space is located in Munich, IVG can benefit particularly from the expected rent increases in the Bavarian capital. Forecasts indicate considerable growth in rental levels over the next few years.

The portfolio has an average remaining letting period of 6.25 years. Each of the two fully let properties in Stuttgart and Düsseldorf has a remaining letting period of eight years. Most of the letting contracts have normal letting conditions with indexation.

- An office building in Hamburg City Süd at the Heidenkampsweg with 18,600 m<sup>2</sup> rental space at a purchase price of € 35 million. The main tenant is E.ON Hanse. New lettings of the vacant space indicate considerable development potential. IVG will benefit from the expected positive development of the location.

## Sales

In the third quarter, IVG continued its strategy of selling properties at attractive profits after increasing the value of properties with renovation work and the conclusion of new rental contracts. In the first nine months, IVG generated disposal gains of € 110 million.

- In German business parks in Düsseldorf, Munich, Hamburg, Nuremberg and Kassel, IVG sold 29 office, commercial and logistics properties with 260,000 m<sup>2</sup> rental space and 3,000 parking spaces for € 315 million. After improving the properties with new development, renovation and letting, IVG took advantage of the favourable market phase to sell the properties and continued its concentration on office properties. The realised profit is partly attributable to the third quarter.
- IVG sold the 9,300 m<sup>2</sup> office property Twin House in Brussels and the 15,800 m<sup>2</sup> Palazzi Fermi & Galeno office complex in Milan for a total of € 57 million. The Brussels Twin House is completely let to Base, the mobile telecoms service provider. The Milan office complex is let to the listed Internet bank Mediolanum S.p.A. As part of an active buy-and-sell strategy, the properties were sold following successful value appreciation as a result of new rental agreements.

In the first half-year, IVG had already sold the following properties:

- In Stockholm, an 81,000 m<sup>2</sup> building complex almost fully leased to Vattenfall AB for € 77 million. As the transaction was processed in the form of a share deal, most of the capital gains remain tax-free. IVG acquired the building complex in 2001 for € 68 million and has profited from the rise in property prices in Stockholm with this disposal.
- In London's West End, the office building 20 Soho Square for € 75 million. 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 Brussels, IVG sold a retail and residential complex with rental space of 12,500 m<sup>2</sup> in the shopping street Louise Village, thus continuing its concentration on office properties.
- In Budapest, 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. 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.

## Rentals

In the first nine months, in its own portfolio IVG achieved new rentals of over 148,000 m<sup>2</sup>.

<b>Branch</b>	<b>m<sup>2</sup></b>
Berlin	23,406
Dusseldorf	2,372
Frankfurt	2,502
Hamburg	11,814
Munich	10,821
<b>Germany</b>	<b>80,916</b>
Brussels	1,183
Helsinki	52,437
Iberia	655
London	1,545
Milan	9,182
Paris	2,132
<b>Europe (without Germany)</b>	<b>67,134</b>
<b>Total</b>	<b>148,050</b>

As at 30 September, despite the sale of fully rented property and the selective acquisition of properties with vacancies, the IVG portfolio's commercial rental ratio is 90.1% (excluding caverns).

## Caverns

Caverns are underground hollows in salt domes, which offer environmentally friendly and secure storage facilities for large quantities of natural gas and crude oil. Currently, IVG has 40 oil and gas caverns, which are let on long-term contracts. 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 cavern facility in Etzel is part of the Western European Natural Gas Association. A crude oil pipeline connects Etzel with the Wilhelms-haven deeper water oil port. Via pipelines, this oil port supplies the refinery centres of Hamburg and the Rhein-Ruhr region.

Caverns are in demand among state organisations with the responsibility of maintaining stocks in times of crisis for storing their strategic crude oil reserves and for energy companies to store oil and gas. The IVG caverns are let to these customers with high credit-worthiness on a long-term basis, something which allows a favourable financing structure.

With its cavern business, IVG is generating stable and long-term cash flow returns of over 10% p.a. After the conclusion of further long-term rental contracts IVG has started the construction of initially 12 caverns in October 2006.

## Project Development

On its own or also 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 € 1.4 billion. It has currently invested around € 360 million.

In future, IVG will concentrate on project development of medium-sized office properties in a total of 8 to 10 German and European branches. The objective is to settle annual project volumes of € 50 million to € 70 million per branch and thus make segment results more stable and sustainable. The branches will have lean management structures and be managed on the basis of value-oriented controlling instruments.

Key events in the first nine months 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 construction start 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 in 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 office projects in the London area. A total investment 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 nine months.

In the first nine months, the segment operating result declined due to value adjustments on land and capitalised start-up costs of € 20 million.

## 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.

In the third quarter and in the first weeks of the fourth quarter, IVG fully placed the EuroSelect 12 fund with an equity volume of € 160 million. The sales start was at the end of May. The fund allowed a participation in the office property 60 London Wall in the banking district of the City of London, the London headquarters of the ING Bank. It was rated "very good" by the independent rating agency Feri.

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.

IVG placed a total of € 202 million for closed-end funds in the first nine months, 19% more than in the whole of 2005 (€ 170 million).

The successor of the EuroSelect 12 is EuroSelect Balanced Portfolio UK. This umbrella fund enables private investors to access property funds which otherwise are reserved only for institutional, professional investors. The three selected target funds from AXA and IVG, ING and UBS invest in properties in growth centres around Great Britain with the focus in the London region. Sales are to be initiated in November 2006. The planned volume is approximately GBP 105 million which is to be financed fully by equity. IVG itself has invested GBP 25 million in the Greater London Fund.

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

### Investment products for institutional investors

The IVG subsidiary Oppenheim Immobilien Kapitalanlagegesellschaft mbH (OIK), the market leader for special funds, currently manages properties worth € 10 billion in 29 special funds. The market share is around 40%. In order to leverage synergies with IVG in the areas of asset management, transaction volume and administration, in a first step IVG increased its 50.1% stake in OIK to 75% in November and in a second step will increase this to 94% in January 2007. The expertise on which the purchase price was based generated a valuation of € 311 million for 100% of OIK. OIK will be the contact for institutional investors in the IVG Group. To increase transparency, primarily to customers, OIK will focus exclusively on institutional customers, while the EuroSelect platform is reserved for private investors

In addition, IVG is further expanding its product range for structured funds. The IVG Italy Office Fund is currently being designed for non-profit foundations and organisations. The fund enables a participation in a portfolio containing ten fully-let quality Italian office properties with a value of approximately € 250 million, allowing attractive tax-free distributions. With a clearly defined disposal strategy, investors receive ongoing distributions even during the fund term of seven years. The target fund is aligned exclusively to institutional investors.

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 € 160 million. As part of this performance-oriented mandate, IVG has already achieved letting successes and implemented sales.

In the first nine months, IVG let a total of 330,000 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.

## 9. Staff

Number at the end of the quarter	30.09.2006	31.12.2005
Portfolio Management	322	327
Project Development	45	70
Funds	311	296
Corporate Functions	146	128
· of which trainees:	(38)	(27)
<b>Group</b>	<b>824</b>	<b>821</b>

## 10. Changes in the Board of Management

Dr Bernd Kottmann (48), Vice Chairman of the IVG Immobilien AG Board of Management, will assume responsibility for the Finance area from 1 January 2007. Since 2001, Kottmann has been responsible for Portfolio Management and Caverns. Previous positions Kottmann has held include CFO at Harpen AG.

Dr Dirk Matthey (57), CFO at IVG Immobilien AG, is to leave the company to the end of the year by mutual agreement and will retain a friendly relationship to the company. The Supervisory Board thanks Matthey for more than 10 years of successful work as a member of the IVG Immobilien AG Board of Management and wishes him all the best for the future.

A new appointment to the Board of Management is Andreas Barth (43), who will assume the mandate as of 1 January 2007. Barth is to assume responsibility for Project Development. Previously he exercised various functions at HOCHTIEF Project Development, was Managing Director Project Development at Viterro Development GmbH and joined IVG Immobilien AG in August this year.

The Supervisory Board resolved the staff changes in its regular meeting on 09 November 2006.

## 11. IVG Shares

With an increase of 64% in the first nine months of 2006, IVG shares performed considerably better than the DAX (+32%), MDAX (+16%) and the European property share index EPRA Europe (+28%). Further share price potential results from the strategic positioning as a European investment company for office property, the reduction of operating costs as well as the increase of recurring income.

On 02 November 2006, the German government passed the legislative draft for introducing REITs. With the rapid introduction of REITs, Germany can become a leading investment and capital market. Public authorities, investors, property industry and thus Germany as a location will all benefit together. In the UK, the scheduled introduction of REITs remains 01 January 2007.

## 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 – particularly in Munich and Hamburg – 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 increase potential and high returns. For this reason, IVG intends to increase its own portfolio, primarily in Germany. Acquiring whole portfolios has priority here.

We will rapidly expand the IVG cavern facility in North Germany. We expect to be able to let ten caverns a year in the period 2006 to 2008. 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 the funds business, IVG is expecting an increase in placed equity in funds for private investors from € 170 million in the previous year to € 250 million in 2006. IVG will also offer further structured investment opportunities for institutional investors.

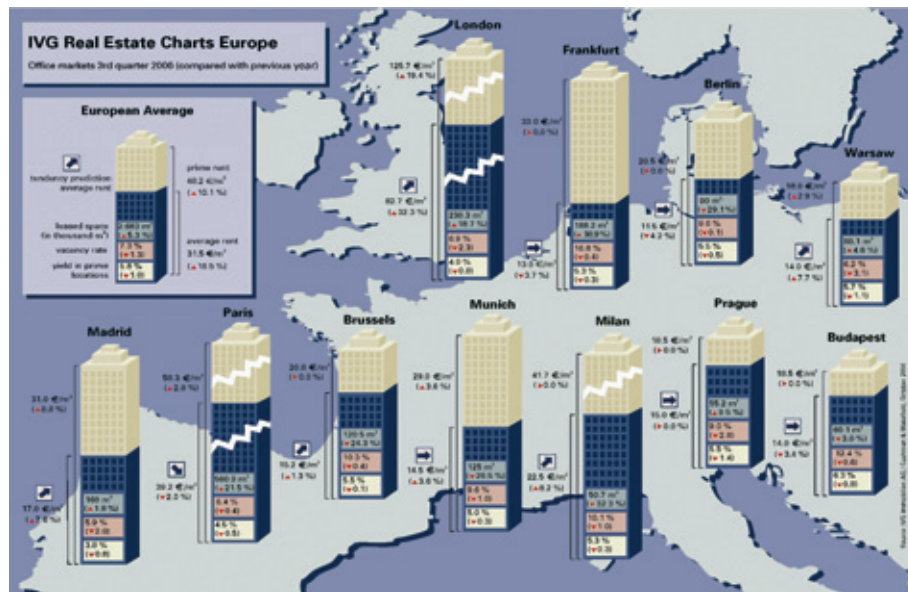
For the year as a whole, IVG is forecasting an increase in net profit (before minority interests and hybrid investors) to around € 145 million (previous year € 110 million), Net Asset Value is expected to increase to € 22 (previous year € 18) per share.

Bonn, 14.11.2006

**Board of Management**

## 13. IVG Financial Calendar

Financial Statement 2006	03.04.2007
Interim Report: Q1 2007	10.05.2007
Annual General Meeting for financial year 2006	24.05.2007
Interim Report: Half-year / Q2 2007	09.08.2007
Interim Report: Nine Months / Q3 2007	08.11.2007



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