

Report on the III. quarter 2006

Colonia Real Estate AG



2005 war ein historisches Jahr für die Colonia Real Estate AG. Innerhalb von weniger als drei Jahren wurde aus einem leblosen Börsenmantel der wachstumsstärkste Immobilienkonzern in Deutschland mit der erfolgreichsten Immobilienaktie Europas.

Company Situation for the Period 1 January 2006 to 30 September 2006

Interim Report, 3rd Quarter 2006

The third quarter was characterised by record income in all the Group's business segments. The Company generated its best quarterly result since starting business operations. At EUR 18.99 million, consolidated net income for the period was up 282% against the corresponding prior-year figure of EUR 4.97 million. Sales soared to EUR 74.7 million, compared to EUR 4.6 million in the comparable prior year reporting period. The results clearly reflect in particular Colonia Real Estate's strategic change from an opportunistic investor to one of the leading investment managers for real estate in Germany.

Within the framework of the Group's strategic realignment, Colonia Real Estate will only make new investments in the area of commercial real estate as a co-investor with a minority shareholding working jointly with customers from the fund and asset management sector. Here, the focus will primarily be on expanding the service area and avoiding potential conflicts of interest with existing customers. The Company will only make proprietary investments or acquire majority shareholdings in the residential real estate sector.

Fund and Asset Management

The successful support of Oaktree Capital Management LLC in the purchase of the "Herkules" portfolio of DEKA Immobilien Investment GmbH provided by the subsidiary Resolution GmbH on 25 August 2006 established the Colonia Real Estate Group as one of the leading European real estate asset managers. The transaction volume was around EUR 1 billion and the portfolio contains 49 office properties spread across all important major German cities. The subsidiary Resolution recently signed an exclusive asset management agreement for this portfolio with a term of 5 years. As asset manager and property representative, the Colonia Real Estate Group will control and monitor the activities of the external property administrator, facility manager and estate agent for all the properties. Colonia Real Estate AG intends to invest in the project company that has acquired the properties as a co-investor with a minority shareholding. The purchase of a real estate project in Cologne city centre for a purchase price of around EUR 20 million together with an institutional fund of UBS AG has also been completed. Colonia Real Estate also intends to invest in this project as an investor with a minority shareholding. Resolution is also supporting this purchase process and is responsible for the project and asset management. With assets under management with a current value of around EUR 1.8 billion for renowned customers including Oaktree, the Blackstone Group and UBS, the targets originally planned for 2009 have already been achieved in 2006.

CRE Fonds Management GmbH signed a purchase agreement for a nursing home in Cologne in the reporting period. The completed building was purchased from the future operator. Purchase agreements were also signed for further nursing homes within the framework of the planned closed-end real estate fund. The negotiations for the full placement of the "Careinvest Eins GmbH & Co. KG" nursing home fund with a volume of around EUR 57 million and a total of 6 properties are proceeding according to plans for the year. The projected term of the fund is 10 years. CRE Fonds Management will retain responsibility for asset management over the entire term.

With EBIT of EUR 1.5 million in the third quarter alone, the Fund and Asset Management segment is already contributing around 15% of the Group's overall net income.

Investments

The development of rental income clearly reflects the record investments made in 2006. At EUR 10.3 million in the first nine months of 2006, rental income was up 124% on the figure for the comparable prior-year period of EUR 4.6 million. As a result of the acquisition of the first Berlin residential portfolio containing 2,487 apartments from an insolvent residential construction company, the Company has since increased its residential portfolio to 8,305 apartments. This portfolio was extensively refurbished in 2001 and 2002 at a cost of EUR 95 million and acquired for EUR 83.2 million directly from the insolvency administrator. This portfolio in the lucrative location of

Berlin was purchased with a net yield of 8.1% per annum at a cost of EUR 562 per m² and a vacancy rate of 21%. With the in-house asset management team located in Berlin, the vacancy rate has fallen by more than 10% compared to as at 15 September 2006 and is currently 18.4%.

The Group generated a pleasing purchase price of EUR 62 million from the sale of 1,546 apartments from Grasmus B.V.'s portfolio and of a mixed property in Cologne belonging to our subsidiary CRE Gewerbeimmobilien GmbH to a foreign investor within the scope of its active portfolio management activities. The apartments, most of which were purchased a year ago, were valued at EUR 52.5 million as at December 31, 2005. The Group therefore realised a profit before tax of around EUR 9 million on the sale. This shows that the carrying values recognised in the consolidated financial statements in accordance with IASs can still differ significantly from the prices that can be generated on the market. In addition to the positive market environment for residential real estate, the main reason for the increase in value was the reduction in the vacancy rate in this portfolio from 14% at the time of purchase to 6.4% at the time of sale as a result of proactive rental management. The agreement was signed at the end of September. We expect contract to be fulfilled and the purchase price of EUR 62 million to be realised by the start of December 2006.

Intensive property examinations and purchase agreement and financing negotiations were initiated for a further major project in the Berlin conurbation containing 2,204 residential units in the third quarter of 2006. The Company aims to conclude the purchase agreement before the end of 2006. The goal of increasing the entire Group residential portfolio to between 15,000 to 20,000 apartments by the middle of 2007 remains unchanged.

Outlook for the Fourth Quarter of 2006 and the 2007 Financial Year

The Managing Board expects to see further growth in income for the fourth quarter of 2006. Net income for the whole of the 2006 financial year, which was originally forecast to be EUR 25 million, is now expected to be between EUR 32 million to EUR 34 million. In particular the high demand for fund and asset management services and the positive market environment for real estate are expected to have a positive effect on the Group's sales and earnings situation.

The successful business developments in the financial year provides the Managing Board with further support in drawing up an ambitious business plan for 2007. As the target of increasing assets under management, which totalled EUR 700 million at the beginning of the year, to EUR 2 billion had already been achieved by the third quarter of 2006, the Managing Board now expects assets under management to re-double to EUR 4 billion by the end of 2008. CRE Fonds Management GmbH will also contribute to this increase. Due to non-competition clauses, the entire team could not begin work until August. A placement volume of at least EUR 80 million is planned for the current year. The planned expansion of the residential real estate portfolio to a size of 15,000 to 20,000 residential units appears very probable based on the existing offerings and such a development would facilitate further economies of scale on the cost side.

The Managing Board is therefore projecting consolidated annual net income of EUR 50 to 54 million for the 2007 financial year, with projected income from the fund and asset management area accounting for a third of the recurring income (rental income and service fees).

General Notes on the Financial Statements to 30 September 2006

The consolidated financial statements of Colonia Real Estate AG for the period ending 30 September 2006, consisting of the balance sheet, income statement, statement of changes in equity, cash flow statement and supplementary disclosures contained in the notes, were prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable at the reporting date, which were also applied for the consolidated financial statements for the previous year, and comply with the provisions of IAS 34.

The accounting policies applied for the interim financial statements are the same as those applied for the consolidated financial statements for the 2005 financial year.

The IASB and the IFRIC have adopted further standards and interpretations that are not yet mandatorily applicable in the 2006 financial year.

According to the information currently available, the entering into force of these standards will have no or only an insignificant impact on the Colonia Real Estate Group's accounting policies and practices.

The consolidated financial statements for the period ending 30 September 2006 have not been audited.

Balance Sheet Disclosures

Market values of investment property

The real estate purchased during the preceding financial year was carried over to these consolidated financial statements at the same values recognised in the 2005 consolidated financial statements.

Different fair values were determined for this purchased real estate in the reporting period. Consequently, costs of purchase totalling EUR 141,246 thousand had to be written up by EUR 17,071 thousand to EUR 158,317 thousand.

The real estate portfolio fell by EUR 52,546 thousand as due to portfolio sales in the Commercial Real Estate and Residential Real Estate segments. As at 30 September 2006, the balance of the real estate portfolio in the consolidated balance sheet was EUR 228,131 thousand (previous year: EUR 122,270 thousand).

Trade receivables

Trade receivables relate to the purchase price receivable from the portfolio sale in the Commercial Real Estate and Residential Real Estate segments. The purchase price receivable amounts to EUR 62 thousand. Trade receivables thus increased by EUR 62,479 thousand to EUR 63,073 thousand.

Liquidity

Liquidity increased by EUR 10,840 thousand EUR 28,343 thousand. The Group's liquidity situation remains extremely satisfactory.

Changes in shareholders' equity

The equity ratio increased to 27.3% (previous year: 22.6%) as a percentage of total assets.

The development of shareholders' equity in the third quarter of 2006 is shown in the statement of changes in shareholders' equity.

Trade payables

The increase in trade payables of EUR 92,865 thousand to EUR 93,173 thousand (previous year: EUR 308 thousand) primarily relates to the as yet unsettled purchase price obligations from the sale of the Berlin portfolio.

Income Statement Disclosures

Sales

Sales increased by EUR 70,123 thousand against the comparable prior-year reporting period to EUR 74,731 thousand (previous year: EUR 4,608 thousand). Sales are attributable to the various segments as follows:

<u>Real Estate Investments</u>		
Commercial Real Estate	TEUR	945
Hotel Real Estate	TEUR	1,479
Residential Real Estate	TEUR	69,874
<u>Fund and Asset Management</u>	TEUR	2,434

Commercial Real Estate sales include an amount of EUR 7,000 thousand from the sale of the portfolio. Residential Real Estate sales include an amount of EUR 55,000 thousand that also relates to the sale of a portfolio.

Materials and supplies

Costs of materials and supplies increased by EUR 1,466 thousand against the comparable prior-year reporting period to EUR 2,047 thousand (previous year: EUR 581 thousand). This item includes non rechargeable costs of repairs, maintenance and administration.

Staff costs

As at 30 September 2006, Colonia Real Estate AG employed 17 staff, while the total number of staff employed by the Group was 29. Colonia Real Estate AG took on five new employees in the third quarter of 2006. Four staff were permanently employed in the comparable prior-year period of 2005. Staff costs totalled EUR 2,802 thousand (previous year: EUR 324 thousand). Staff costs include costs of the employee share option scheme and costs of severance payments for past employees.

Other operating expenses

Other operating expenses increased by EUR 1,443 thousand to EUR 4,694 thousand (previous year: EUR 3,251 thousand). Other operating expenses primarily consist of costs for legal services and surveyor costs for real estate purchases either completed or under negotiation, annual general meeting costs and costs of property management.

Interest expense

The interest expense increased by EUR 2,708 thousand to EUR 4,586 thousand (previous year: EUR 1,878 thousand) in the reporting period. This reflects the external financing of the real estate.

Taxes on income

Taxes on income essentially relate to deferred taxes arising on the fair-value recognition of real estate in accordance with IAS 40.

EBIT by segment

The consolidated EBIT of EUR 29,926 thousand is attributable to the segments as follows:

Commercial Real Estate	TEUR	945
Hotel Real Estate	TEUR	1,279
Residential Real Estate	TEUR	31,753
Asset Management	TEUR	1,538

Other overheads contributed EBIT of minus EUR 5,589 thousand.

Profit from ordinary activities/net income for the year

The group generated a profit from ordinary activities of EUR 25,609 thousand (previous year: EUR 7,081 thousand) in the reporting period. The net income for the year after deducting taxes on income was EUR 18,999 thousand (previous year: EUR 4,971 thousand).

Earnings per share

The basic earnings per share were calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. As at 30 September 2006, earnings per share were EUR 1.24 (previous year: EUR 0.47).

Diluted earnings per share are calculated in the same way as undiluted earnings per share, with the exception that all the effects of all dilutive potential ordinary shares in circulation in the period are also taken into consideration. As at 30 September 2006, diluted earnings per share amounted to EUR 0.96 (previous year: EUR 0.36).

Managing Board and Supervisory Board

There were no changes in the composition of the Supervisory Board or the Managing Board in the reporting period.

Cologne, 14 November 2006

The Managing Board

Assets	Aktiva	Quartalsbericht (Stichtag aktuelles Quartal)	Abschluss (Stichtag letzter Jahresabschluss)
		Quarterly Report (Date of current Quarter)	Annual Report (Date of last annual report)
(Thsd. €)	(Tsd. €)	30.09.2006	31. 12. 2005
Current Assets	Kurzfristige Vermögensgegenstände		
Cash and cash Equivalents	Liquide Mittel	28.343	17.503
Trade accounts receivable	Forderungen aus Lieferungen und Leistungen	63.073	594
Inventories	Vorräte	102	102
Deferred tax assets	Latende Steuern	0,00	0,00
Prepaid expenses and other current assets	Rechnungsabgrenzungsposten und sonstige kurzfristige Vermögensgegenstände	945	1.024
OTHER	ÜBRIGE	608	1
Total current assets	Kurzfristige Vermögensgegenstände, gesamt	93.070	19.223
Non current assets	Langfristige Vermögensgegenstände		
Property, plant and equipment	Sachanlagevermögen	228.403	122.332
Intangible assets	Immaterielle Vermögensgegenstände	0	0
Goodwill	Geschäfts- oder Firmenwert	1.972	0
Investments	Finanzanlagen	826	750
Total non current assets	Langfristige Vermögensgegenstände, gesamt	231.201	123.082
Total Assets	Aktiva, gesamt	324.271	142.305

Liabilities and shareholders equity	Passiva	Quartalsbericht (Stichtag aktuelles Quartal)	Abschluss (Stichtag letzter Jahresabschluss)
		Quarterly Report (Date of current quarter)	Annual Report (Date of last annual report)
(Thsd. €)	(Tsd. €)	30.09.06	31. 12. 2005
Current liabilities	Kurzfristige Verbindlichkeiten		
Short term debt and current portion of long-term debt	Kurzfristige Darlehen und kurzfristiger Anteil an langfristigen Darlehen	2.976	1.900
Trade accounts payable	Verbindlichkeiten aus Lieferungen und Leistungen	93.173	308
Advance payments received	Erhaltene Anzahlungen	413	237
Accrued expenses	Rückstellungen	136	181
Income tax payable	Verbindlichkeiten aus Ertragsteuern	2.127	1.978
OTHERS	ÜBRIGE	23.835	2.043
Total current liabilities	Kurzfristige Verbindlichkeiten, gesamt	122.659	6.646
Non current liabilities	Langfristige Verbindlichkeiten		
Long-term debt, less current portion	Langfristige Darlehen	89.504	84.247
Capital lease obligations, less current portion	Anleihe	9.570	8.832
Deferred tax liability	Latente Steuern	16.466	10.191
Total non current liabilities	Langfristige Verbindlichkeiten, gesamt	115.540	103.270
Minority interest	Minderheitenanteile	173	299
Shareholders' equity	Eigenkapital		
Share Capital	Gezeichnetes Kapital	15.704	3.569
Additional paid-in capital	Kapitalrücklage	44.272	21.597
Retained earnings / accumulated deficit	Bilanzgewinn / Bilanzverlust (inklusive Gewinnrücklagen)	25.923	6.924
Total shareholders' equity	Eigenkapital, gesamt	85.899	32.090
Total liabilities and shareholders' equity	Passiva, gesamt	324.271	142.305

Income Statement	Gewinn- und Verlustrechnung	Quartalsbericht (aktuelles Quartal)	Quartalsbericht (Vergleichsquartal Vorjahr)	Kumulierter Zeitraum (aktuelles Geschäftsjahr)	Kumulierter Zeitraum (Vergleichsperiode Vorjahr)
		Quarterly Report (current quarter)	Quarterly Report (comparative quarter previous year)	Quarterly Report (current year to date)	Quarterly Report (comparative period previous year)
		01.07.2006 - 30.09.2006	01.07.2005 - 30.09.2005	01.01.2006 - 30.09.2006	01.01.2005 - 30.09.2005
(Thsd €)	(Tsd €)				
Revenues	Umsatzerlöse	68.206	3.373	74.731	4.608
Other operating income	Sonstige betriebliche Erträge	4.182	8.468	17.244	8.544
Changes in inventories of finished goods and work in progress	Bestandsveränderung an fertigen und unfertigen Erzeugnissen	-52.460	-89	-52.460	-89
Cost of purchased materials and services	Materialaufwand / Aufwand für bezogene Leistungen	-675	-581	-2.047	-581
Personnel expenses	Personalaufwand	-1.574	-98	-2.802	-324
Depreciation and amortization	Abschreibungen auf Sachanlagen (und immaterielle Vermögensgegenstände	-9	-1	-24	-5
Other operating expenses	Sonstige betriebliche Aufwendungen	-2.280	-2.717	-4.694	-3.251
Operating income / loss	Betriebsergebnis	15.390	8.355	29.948	8.902
Interest income and expense	Zinserträge / -aufwendungen	-1.707	-1.059	-4.317	-1.820
Result before income taxes (and minority interest)	Ergebnis vor Steuern (Minderheitenanteilen)	13.683	7.296	25.630	7.081
Income Tax	Steuern vom Einkommen und Ertrag	-3.568	-2.122	-6.579	-2.070
Other Tax	Sonstige Steuern	-2	-2	-5	-2
Result before minority interest	Ergebnis vor Minderheitenanteilen	10.113	5.172	19.047	5.009
Minority interest	Minderheitenanteile	30	-57	48	-38
Net income / loss	Überschuss / Fehlbetrag	10.143	5.115	18.999	4.971
Net income per share (basic)	Ergebnis je Aktie (unverwässert)	0,66	0,45	1,24	0,43
Net income per share (diluted)	Ergebnis je Aktie (verwässert)	0,51	0,37	0,96	0,36
Weighted average shares outstanding (basic)	Durchschnittlich im Umlauf befindliche Aktien (unverwässert)	15.377.651	11.464.160	15.377.651	11.464.160
Weighted average shares outstanding (diluted)	Durchschnittlich im Umlauf befindliche Aktien (verwässert)	19.838.348	13.861.156	19.838.348	13.861.156

EIGENKAPITALENWICKLUNG
EQUITY DEVELOPMENT

30.09.2006

		Stand Balance at		Verminderung Decrease		Erhöhung Increase		Stand Balance at	
		31.12.2005	31.12.2004	30.09.2006	30.09.2005	30.09.2006	30.09.2005	30.09.2006	30.09.2005
in Tsd €	Thsd €								
Gezeichnetes Kapital	Capital Stock	3.569.200	13.050.000	0	10.440.000	12.134.800	859.200	15.704.000	3.469.200
Kapitalrücklage	Reserve from capital surplus	21.596.673	0	11.778.000	163.434	34.453.119	18.436.883	44.271.792	18.273.449
Gewinnrücklage	Profit reserve	172.411	-10.431.023	0	0	6.751.413	10.603.434	6.923.824	172.411
Bilanzgewinn	Unappropriated retained earnings	6.751.413	0	6.751.413	0	18.999.653	4.971.009	18.999.653	4.971.009
Minderheiten	Minority interest	299.338	600.416	126.098	360.000	0	38.139	173.240	278.555
Summe Eigenkapital	Total stockholders' equity	32.389.035	3.219.393	18.655.511	10.963.434	72.338.985	34.908.665	86.072.509	27.164.624

Cash Flow Statement		Kapitalflussrechnung	
(Thsd €)		(Tsd €)	
		Kumulierter Zeitraum (aktuelles Geschäftsjahr)	Kumulierter Zeitraum (Vergleichsperiode Vorjahr)
		Quarterly Report (current year to date)	Quarterly Report (comparative period previous year)
		01. 01. 2006 - 30.09.2006	01.01.2005 - 30.09.2005
Cash flows from operating activities:	Cashflow aus betrieblicher Tätigkeit:		
Net profit before taxation, and extraordinary Item	Periodengewinn vor Steuern und außerordentlichen Posten	29.948	8.902
Adjustment for:	Anpassungen für:		
Depreciation and amortization	Abschreibungen	24	5
Increase / decrease in provisions and accruals	Zunahme / Abnahme der Rückstellungen und Wertberichtigungen	-45	-105
Other	Sonstige	528	548
Change in net working capital	Veränderungen des Nettoumlaufvermögens	-1.425	5.145
Net cash provided by operating activities	Aus betrieblicher Tätigkeit erwirtschaftet Zahlungsmittel	29.030	14.495
Cash flows from investing activities:	Cashflow aus der Investitionstätigkeit:		
Purchase of property, plant and equipment	Erwerb von Anlagevermögen	-141.246	-12.052
Proceeds from sale of equipment	Erlöse aus dem Verkauf von Anlagevermögen	62.000	0
Net cash used in Investing activities	Für Investitionen eingesetzte Zahlungsmittel	-79.246	-12.052
Cash flows from financing activities:	Cashflow aus der Finanzierungstätigkeit		
Proceeds from issuance of share capital	Erlöse aus Eigenkapitalzuführung	53.809	0
Cash repayment of amounts borrowed	Auszahlungen aus der Tilgung von Darlehen	7.071	2.491
Other	Sonstige	176	15.029
Net cash provided by financing activities	Aus der Finanzierungstätigkeit erzielte Zahlungsmittel	61.056	17.520
Net increase / decrease in cash and cash equivalents	Erhöhung / Verminderung der liquiden Mittel	10.840	19.963
Cash and cash equivalents at beginning of period	Liquide Mittel zu Beginn der Periode	17.503	22
Cash and cash equivalents at end of period	Liquide Mittel am Ende der Periode	28.343	19.985