

Report on the II. 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 June 2006

Interim report, 2nd quarter 2006

The second quarter of 2006 was dominated by the substantial expansion of our real estate portfolios and the integration of the majority share in Resolution GmbH, one of Germany's leading real estate asset managers. In the first half of 2006 alone, Colonia Real Estate AG made new investments totalling some EUR 200 million. That means the company more than doubled its fixed assets over the past 6 months compared to the 2005 results. Despite an increasingly competitive market for residential property in Germany, Colonia Real Estate AG with its focus on smaller to medium-sized apartment portfolios was able to purchase attractive and profitable properties.

For instance, on 30 June 2006 the company acquired 2,487 residential units (RU) with a living area totalling 148,000 m² from a stock of insolvent assets in Berlin. The RU were extensively refurbished in 2001 and 2002 for just under EUR 95 million. The purchase price is EUR 83.2 million, which is due for payment at the beginning of January 2007. However, the rents will be collected from September 2006. This portfolio, with a current vacancy rate of 22% due to the insolvency, generates an annual net rent of EUR 6,654,000. Yet the board expects the vacancies to be halved within the next 2 years. This purchase marked the first time Colonia Real Estate AG invested in the burgeoning residential market in the German capital. Further purchases in Berlin are already planned.

The purchase agreement for another apartment portfolio with 925 residential units was signed as early as April 2006. These properties are located in the greater Aachen, Erfurt, Dresden and Cottbus areas. The investment sum here was EUR 18.4 million, and the annual net rent amounts to EUR 1,900,000.

We were able to acquire a Cologne property used for mixed purposes from a community of heirs in April 2006. It contains 56 residential units and 4 commercial units. The investment of EUR 4.8 million compares well with the net rent (without heating costs) of EUR 580,000.

We also benefited from an insolvency and supplemented our residential properties in Brake by purchasing another 114 residential units at a purchase price of EUR 2.7 million. This portfolio generates a net rent of EUR 300,000.

In the period covered by this report, experts prepared detailed plans for an extensive refurbishment of our real estate in Itzehoe and Elmshorn, and work can begin in the course of this business year. The condition for this is the expected approval of extensive subsidies which provide for extremely favourable financing of the investment. These funds will come from schemes run by the Kreditanstalt für Wiederaufbau (Bank for Reconstruction) and Schleswig-Holstein state. The negotiations with the funding institutions are in an advanced stage. Once realised, these investments will lead to a substantial increase in value and significant improvement in living quality of the apartments.

Colonia Real Estate has now amassed a residential real estate portfolio comprising some 8,300 units. Taking into account the already held hotel and commercial properties, the total useful area amounts to some 532,000 m². The entire investment volume including the planned refurbishments amounts to some EUR 310 million, with a current annual net rent income of EUR 26.6 million. This figure is achieved without the potential for improvements in the new purchases described above.

The takeover of Resolution GmbH, a company that operates throughout Germany, was completed on 1 April 2006. This company has already commenced its activities as the asset manager of the Colonia Real Estate group. Not restricted to its work for the CRE group, the company is intensively involved in expanding the external business it manages from the current figure of some EUR 700 million. As a result, it achieved a turnover of EUR 1,436,000 and a pre-tax profit of EUR 986,000 according to HGB (German Commercial Code) in the period under review. Major new contracts for third parties are at an advanced stage of negotiation.

Founded in March 2006, CRE Fonds Management GmbH started business in the 2nd quarter of 2006. This company was included in the group accounting process on the key date. It acquired the first property in Cologne for its planned first closed real estate fund, "CareInvest I" GmbH & Co KG, a fund specialising in nursing homes. Preparations are already under way to purchase more nursing homes. The target volume of the fund is some EUR 55 million, and full placement is planned in the 4th quarter of 2006.

The group achieved sales amounting to EUR 6,527,000 in the reporting period. The commercial real estate segment accounted for EUR 1,703,000 of this amount, while the residential segment contributed EUR 4,592,000. The total performance including other operating income and income from increases in value according to IFRS 40 amounted to EUR 19,586,000. The group result for the first half of the year totals EUR 8,923,000, which is the best half-year result in our corporate history.

Prospects in business year 2006

Added to the new investments to the amount of EUR 200 million in the period covered by the report, the company plans to increase its real estate stock by a further EUR 300 million to a volume of approx. EUR 500 million in the second half of the year. This will involve not only the planned expansion of residential property to approx. 10,000 - 15,000 RU in the next 12 months, but also substantial investment in commercial property. There is a special focus here on retail property in the form of specialist retail centres.

Given that the asset management business area is expanding strongly, the company anticipates major contracts in the second half of the year, which will contribute even more to the group result. The current volume of some EUR 700 million for third parties is set to grow to EUR 2 billion by 2008. The management capacity necessary to achieve this is already available and is being steadily increased. Independent research institutes forecast an additional volume of EUR 80 billion for the property asset management area in Germany by 2010. Colonia Real Estate AG with its nationally operating subsidiaries CRE Research & Management GmbH and Resolution GmbH occupies a leading position in this dynamic business field.

Due to the positive market situation and the imminent investments, the board continues to expect a group profit for the business year totalling EUR 25 million after tax.

General notes on the financial statement of 30 June 2006

The group financial statement of Colonia Real Estate AG of 30 June 2006, consisting of balance sheet, profit and loss statement, equity capital change account, flow of funds statement and appendices, was issued in accordance with the International Financial Reporting Standards (IFRS) already applied in the previous year's group financial statement and valid on the key date, and complies with the requirements of IAS 34.

The half-yearly financial statement uses the same accounting and evaluation methods as the 2005 business year group financial statement.

The IASB and the IFRIC have passed further standards and interpretations that are not yet obligatory in the 2006 business year.

According to current information, the Colonia Real Estate group can expect no or only insignificant impacts on its future preparation and publishing of financial statements when these standards come into force.

The group financial statement for 30 June 2006 has not been audited.

Explanatory notes on the balance sheet statement

Market values of the real estate held as financial investments

The real estate purchased during the last business year is carried over into this financial statement at the same values as in the 2005 group financial statement.

There are different current values for the real estate purchased in the period covered by this report. Therefore, the purchasing costs to the amount of EUR 49,374,000 must be increased by EUR 12,930,000 to EUR 62,304,000.

Liquidity

Liquidity fell by EUR 1,841,000 to EUR 15,661,000. This reflects the company's investment activities. The group liquidity situation remains very positive.

Development of equity capital

In the second quarter of 2006, the contribution of Resolution GmbH resulted in an increase in non-cash capital. This meant an inflow of EUR 17,000 to the capital stock and of EUR 1,983,000 to the capital reserves.

Additionally, a stock split led to a reduction in capital reserves by EUR 11,778,000 and an increase in capital stock by the same amount. The stock split was performed to a ratio of 1 : 4. Therefore shareholders received 3 new shares for each share held.

The equity capital quota increased from 22.6 % to 36.5 %, measured against the balance sheet total.

The development of the equity capital in the second quarter of 2006 can be derived from the equity capital development.

Accounts payable for goods and services

The increase in accounts payable for goods and services of EUR 12,788,000 to EUR 13,096,000 (previous year EUR 308,000) mainly results from purchase price obligations that are still due.

Explanatory notes on the profit and loss statement

Revenues

The revenues increased compared to the reference period by EUR 5,290,000 to EUR 6,525,000 (previous year: EUR 1,235,000). The revenues are made up as follows in the various segments:

Real estate investments

Commercial real estate	EUR 703,000
Hotel real estate	EUR 1,000,000
Residential real estate	EUR 4,593,000
<u>Asset management</u>	EUR 229,000

Spending on materials

Spending on materials increased by EUR 1,372,000 compared to the reference period. This item includes costs for repairs and upkeep which must not be further charged.

Personnel costs

On 30 June 2006, 12 employees were on the payroll of Colonia Real Estate AG, and the total for the group as a whole was 17. One new member of staff was hired in the second quarter of 2006. In the reference period in 2005, 4 people had permanent jobs. The personnel costs amount to EUR 1,225,000 (previous year: EUR 226,000).

Other operating costs

The other operating costs increased by EUR 1,872,000 to EUR 2,406,000 (previous year: EUR 534,000). Essentially the other operating costs consist of costs for legal advice and surveyor costs for real estate

purchases either completed or under negotiation, costs for the general meeting and costs for property management.

Interest paid

In the period covered by this report, the interest paid increased by EUR 1,849,000 to EUR 2,610,000 (previous year: EUR 761,000). This reflects the external financing of the real estate.

Taxes on income and revenue

Essentially, the taxes on income and revenue consist of deferred taxes on the evaluation of the real estate according to IAS 40 with the appropriate current value.

Profit on ordinary activities/annual net profit

In the period under review, the group achieved a profit on ordinary activities of EUR 11,956,000 (previous year: EUR -217,000). After taxes on income and revenue, an annual net profit to the amount of EUR 8,941,000 (previous year: EUR -165,000) remained.

Net earnings per share

The undiluted earnings per share were calculated by dividing the period earnings attributable to the common shareholders by the mean, weighted number of common shares outstanding during the period in question. The earnings per share on 30 June 2006 amounted to EUR 0.59 (previous year: EUR -0.06).

The calculation of the diluted earnings per share corresponds with the calculation of the undiluted earnings per share. However, in this case all the effects of all diluting potential common shares that were in circulation during the period in question are taken into account. The earnings per share on 30 June 2006 amounted to EUR 0.45 (previous year: EUR -0.04).

Other remarks

The General Shareholders' Meeting on 6 June 2006 resolved to increase the capital stock of Colonia Real Estate AG from the original EUR 3,926,000 by EUR 11,778,000 to EUR 15,704,000 by converting part of the capital reserves. After this, the capital stock was re-distributed by splitting the shares by a ratio of 1:4, as of 30 June 2006. This move meant that the share price quoted at this point in time was divided by four, while the number of shares increased fourfold. The aim of this step was to increase the shares' marketability and thus to make it possible in particular for private investors to buy shares at reduced prices.

Moreover, the General Shareholders' Meeting passed further resolutions for future capital changes with large majorities:

- Decrease in conditional capital stock II from EUR 180,000 to EUR 165,000 to supply the 2005 share option plan for employees and board members, from which only 165,000 share options were issued
- Creation of a conditional capital stock III to supply the 2006 share option plan for employees and board members, amounting to EUR 227,600
- Creation of a conditional capital stock IV to the amount of EUR 445,400 for issuing shares to holders or creditors of convertible or warrant bonds
- Creation of an approval capital stock 2006 for issuing new shares against cash or non-cash capital contributions to the amount of EUR 7,852,000
- Authority to acquire own shares.

The increase in conditional and approval capital stocks gives the managing board the option, if necessary, of using various instruments to create equity capital in order to take advantage of attractive investment opportunities at short notice. No concrete plans are currently in place for this.

Managing board and supervisory board

The member of the supervisory board Mr. Ingmar Schmitt resigned from his post with effect from the end of the General Shareholders' Meeting convened on 6 June 2006. The General Shareholders' Meeting appointed Mr. Lutz Wille, bank employee, of Cologne, as a new member of the supervisory board. Furthermore, Dr. Rainer Bernstein, lawyer, of Frankfurt am Main, was elected as a deputy member.

Mr. Edgar Krauss left the managing board for personal reasons on mutual agreement with effect from 2 June 2006.

Cologne, 8 August 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. €)	
		30.06.2006	31. 12. 2005
Current Assets	Kurzfristige Vermögensgegenstände		
Cash and cash Equivalents	Liquide Mittel	15.661	17.503
Short-term investments / marketable securities	Wertpapier des Umlaufvermögens	0	0
Trade accounts receivable	Forderungen aus Lieferungen und Leistungen	729	594
Accounts receivable from relate parties	Forderungen im Verbundbereich	0	0
Inventories	Vorräte	102	102
Deferred tax assets	Latende Steuern	0,00	0,00
Prepaid expenses and other current assets	Rechnungsabgrenzungsposten und sonstige kurzfristige Vermögensgegenstände	670	1.024
OTHER	ÜBRIGE	669	1
Total current assets	Kurzfristige Vermögensgegenstände, gesamt	17.832	19.223
Non current assets	Langfristige Vermögensgegenstände		
Property, plant and equipment	Sachanlagevermögen	184.655	122.332
Goodwill	Geschäfts- oder Firmenwert	1.972	0
Investments	Finanzanlagen	755	750
Total non current assets	Langfristige Vermögensgegenstände, gesamt	187.382	123.082
Total Assets	Aktiva, gesamt	205.213	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 €)	
		30.06.06	31. 12. 2005
Current liabilities	Kurzfristige Verbindlichkeiten		
Current portion of capital lease obligation	Kurzfristiger Anteil der Finanzleasingverbindlichkeiten	0	0
Short term debt and current portion of long-term debt	Kurzfristige Darlehen und kurzfristiger Anteil an langfristigen Darlehen	1.850	1.900
Trade accounts payable	Verbindlichkeiten aus Lieferungen und Leistungen	13.096	308
Advance payments received	Erhaltene Anzahlungen	381	237
Accrued expenses	Rückstellungen	162	181
Income tax payable	Verbindlichkeiten aus Ertragsteuern	2.125	1.978
OTHERS	ÜBRIGE	1.802	2.043
Total current liabilities	Kurzfristige Verbindlichkeiten, gesamt	19.416	6.646
Non current liabilities	Langfristige Verbindlichkeiten		
Long-term debt, less current portion	Langfristige Darlehen	88.404	84.247
Capital lease obligations, less current portion	Anleihe	9.371	8.832
Deferred tax liability	Latente Steuern	12.962	10.191
Total non current liabilities	Langfristige Verbindlichkeiten, gesamt	110.737	103.270
Minority interest	Minderheitenanteile	155	299
Shareholders' equity	Eigenkapital		
Share Capital	Gezeichnetes Kapital	15.704	3.569
Additional paid-in capital	Kapitalrücklage	43.354	21.597
Retained earnings / accumulated deficit	Bilanzgewinn / Bilanzverlust (inklusive Gewinnrücklagen)	15.847	6.924
Total shareholders' equity	Eigenkapital, gesamt	74.905	32.090
Total liabilities and shareholders' equity	Passiva, gesamt	205.213	142.305

Income Statement		Gewinn- und Verlustrechnung			
		Quartalsbericht (aktuelles Quartal)	Quartalsbericht (Vergleichs Quartal 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)
(Thsd €)	(Tsd €)	01.04.2006 - 30.06.2006	01.04.2005 - 30.06.2005	01.01.2006 - 30.06.2006	01.01.2005 - 30.06.2005
Revenues	Umsatzerlöse	3.695	734	6.525	1.235
Other operating income	Sonstige betriebliche Erträge	7.044	48	13.062	76
Cost of purchased materials and services	Materialaufwand / Aufwand für bezogene Leistungen	-923	0	-1.372	0
Personnel expenses	Personalaufwand	-922	-113	-1.228	-226
Depreciation and amortization	Abschreibungen auf Sachanlagen (und immaterielle Vermögensgegenstände	-11	-5	-15	-6
Other operating expenses	Sonstige betriebliche Aufwendungen	-1.197	-441	-2.406	-534
Operating income / loss	Betriebsergebnis	7.686	223	14.565	545
Interest income and expense	Zinserträge / -aufwendungen	-1.216	-436	-2.610	-761
Result before income taxes (and minority interest)	Ergebnis vor Steuern (Minderheitenanteilen)	6.470	-213	11.956	-217
Income Tax	Steuern vom Einkommen und Ertrag	-1.584	51	-3.011	52
Other Tax	Sonstige Steuern	-2	0	-3	0
Result before minority interest	Ergebnis vor Minderheitenanteilen	4.884	-162	8.941	-165
Minority interest	Minderheitenanteile	-11	19	18	19
Net income / loss	Überschuss / Fehlbetrag	4.873	-143	8.923	-146
Net income per share (basic)	Ergebnis je Aktie (unverwässert)	0,32	-0,05	0,59	-0,06
Net income per share (diluted)	Ergebnis je Aktie (verwässert)	0,25	-0,04	0,45	-0,04
Weighted average shares outstanding (basic)	Durchschnittlich im Umlauf befindliche Aktien (unverwässert)	15.214.477	2.610.000	15.214.477	2.610.000
Weighted average shares outstanding (diluted)	Durchschnittlich im Umlauf befindliche Aktien (verwässert)	19.685.780	3.428.341	19.685.780	3.428.341

EIGENKAPITALENWICKLUNG
EQUITY DEVELOPMENT

30.06.2006

		Stand Balance at		Verminderung Decrease		Erhöhung Increase		Stand Balance at	
		31.12.2005	31.12.2004	30.06.2006	30.06.2005	30.06.2006	30.06.2005	30.06.2006	30.06.2005
in Tsd €	Thsd €								
Gezeichnetes Kapital	Capital Stock	3.569.200	13.050.000	0	10.440.000	12.134.800	118.000	15.704.000	2.728.000
Kapitalrücklage	Reserve from capital surplus	21.596.673	0	11.778.000	0	33.535.620	980.580	43.354.293	980.580
Gewinnrücklage	Profit reserve	172.411	-10.431.023	0	0	6.751.413	10.431.023	6.923.824	0
Bilanzgewinn	Unappropriated retained earnings	6.751.413	0	6.751.413	155.723	4.051.266	0	8.922.812	-155.723
Minderheiten	Minority interest	299.338	600.416	144.112	360.000	0	18.752	155.226	259.168
Summe Eigenkapital	Total stockholders' equity	32.389.035	3.219.393	18.673.525	10.955.723	56.473.099	11.548.355	75.060.155	3.812.025

Cash Flow Statement	Kapitalflussrechnung	Kumulierter Zeitraum (aktuelles Geschäftsjahr)	Kumulierter Zeitraum (Vergleichsperiode Vorjahr)
		Quarterly Report (current year to date)	Quarterly Report (comparative period previous year)
(Thsd €)	(Tsd €)	01. 01. 2006 - 30.06.2006	01.01.2005 - 30.06.2005
Cash flows from operating activities:	Cashflow aus betrieblicher Tätigkeit:		
Net profit before taxation, and extraordinary item	Periodengewinn vor Steuern und außer- ordentlichen Posten	14.565	545
Adjustment for:	Anpassungen für:		
Depreciation and amortization	Abschreibungen	15	6
Increase / decrease in provisions and accruals	Zunahme / Abnahme der Rückstellungen und Wertberichtigungen	-19	-90
Other	Sonstige	-135	679
Change in net working capital	Veränderungen des Nettoumlaufvermögens	12.618	25
Net cash provided by operating activities	Aus betrieblicher Tätigkeit erwirtschaftet Zahlungsmittel	27.044	1.165
Cash flows from investing activities:	Cashflow aus der Investitionstätigkeit:		
Purchase of property, plant and equipment	Erwerb von Anlagevermögen	-76.106	-12.052
Net cash used in Investing activities	Für Investitionen eingesetzte Zahlungsmittel	-76.106	-12.052
Cash flows from financing activities:	Cashflow aus der Finanzierungstätigkeit		
Proceeds from issuance of share capital	Erlöse aus Eigenkapitalzuführung	42.815	0
Cash repayment of amounts borrowed	Auszahlungen aus der Tilgung von Darlehen	4.646	1.089
Other	Sonstige	-241	10.029
Net cash provided by financing activities	Aus der Finanzierungstätigkeit erzielte Zahlungsmittel	47.220	11.118
Net increase / decrease in cash and cash equivalents	Erhöhung / Verminderung der liquiden Mittel	-1.842	231
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	15.661	253