



TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft

**Tegernsee
Immobilien- und Beteiligungs-Aktiengesellschaft**

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Report for the quarter ending September 30, 2003

- ◆ **TAG cleaning up consolidated balance sheet by writing off goodwill; delisting sought for Bau-Verein zu Hamburg AG**
- ◆ **EBITDA of EUR 12.0 million on September 30, 2003 virtually unchanged over the previous year (EUR 12.3 million)**
- ◆ **TAG is creating the basis for possible acquisition or merger considerations in 2004**



Business performance

Dear shareholders and business associates,

In the third quarter of 2003, high unemployment, the muted state of the global economy as well as heightened uncertainty surrounding the future of the social-security systems again took their toll on the TAG Group's performance. To date, the bringing-forward effects on the part of potential home buyers to escape the impact of the possible abolition of home-ownership tax allowances have not yet materialized. In its capacity as the management company of the Group's Residential Properties segment, Bau-Verein zu Hamburg AG engaged in several rounds of negotiations for the acquisition of sizable packages of residential units from residential property companies in order to stabilize and increase revenues from steady rental income. Portfolio extensions form part of TAG's strategy for its investment in Bau-Verein zu Hamburg AG. Thanks to its skills in the residential property segment, Bau-Verein zu Hamburg AG has been invited to lodge major tenders in the course of 2003, although no decisions concerning a sale have so far been made. The TAG Group is convinced that acquisitions should only be made if they make sound economic sense as this is the only way of harnessing the potential harbored by the residential property market. TAG is confident that Bau-Verein zu Hamburg AG can additionally enlarge its portfolio of residential property in 2004 by acquiring even smaller packages at favorable prices. Nevertheless, TAG's Management Board performs impairment tests on the Group's equity interests at least once a year and has taken an additional goodwill charge to allow for the current situation. In this way, it is able to gain the transparency required by international accounting standards and creditors.

TAG's goal is to stabilize profitability and dividend distributions on a sustained basis.

TAG holds an 87.9 % stake in Bau-Verein zu Hamburg AG. In view of the small free float and the resultant minor volume of trading in Bau-Verein shares, there have been considerable differences for quite some time between the higher enterprise value of the company and the price at which its stock is trading. In addition, the stock-market listing causes sizeable costs, the necessity of which is debatable given the shareholder structure. Accordingly, TAG will be seeking to have Bau-Verein zu Hamburg AG delisted.

Meanwhile, JUS AG is reporting a continuation of the strong sales figures seen in the first half of the year.

Banks' willingness to finance real-property projects is still very muted, something which results in obstacles as well as additional work in day-to-day business. Our subsidiaries are able to make up for this partially by adopting alternative financing models such as private equity. We review on an ongoing basis other sources of finance which are being offered to meet the heightened demand of companies from all sectors.

Following the adoption of IAS/IFRS accounting for the year ending December 31, 2002, the TAG Group is now also compiling its quarterly and half-year reports on the basis of IAS/IFRS together with the appropriate comparison figures for the previous year.

TAG stock

In the third quarter of 2003, TAG stock posted substantial gains, rising from EUR 5.70 at the beginning of the quarter to EUR 7.20 at the end of the quarter and peaking at EUR 8.50. On a Group level, equity per share was valued at EUR 16.61 on September 30, 2003, i.e. still far in excess of the price at which the stock is currently trading. On an encouraging note, TAG stock was added to the Hamburger Sparkasse

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HASPAX index on September 1, 2003. The HASPAX reflects the diversity of the city of Hamburg's economy. TAG replaced Bau-Verein zu Hamburg in the list after the latter was removed on account of its overly small free float and the resultant limited tradability of the stock. To quote a Hamburger Sparkasse publication: "With the addition of TAG AG, the index has gained a company which has completed the transition from a railway company to a property company in a creative and innovative manner, without ignoring its origins and traditions."

Bau-Verein zu Hamburg AG

Bau-Verein zu Hamburg AG generated revenues of EUR 47.8 million as of September 30, 2003, down from EUR 64.2 million in the previous year. This slump was primarily due to the protracted troubles afflicting the overall economy as well as restrictive bank lending to property-buyers. Strict cost management had a favorable impact, resulting in a further reduction in personnel expenses and other operating expenses as well as an optimization of net financial result. Savings in these areas came to EUR 2.2 million or 12%. Other operating income rose to EUR 3.5 million (previous year: EUR 0.6 million) due, among other things, to exchange-rate gains. Personnel expenses and other operating expenses were cut by 17% or a total of EUR 1.3 million. All told, Bau-Verein zu Hamburg sustained a net loss of EUR 0.9 million for the period, marking a swing away from the net income of EUR 0.6 million achieved one year earlier. Total assets of the Bau-Verein zu Hamburg AG subgroup were valued at EUR 427.5 million on September 30, 2003, i.e. almost unchanged over the same date one year earlier (EUR 428.6 million). The Management Board does not expect any major residential property portfolios to be acquired before the end of the year. Looking forward, Bau-Verein zu Hamburg AG nonetheless remains committed to widening

its holdings of residential properties by means of large or small acquisitions.

JUS AG

With revenues coming to EUR 7.7 million (previous year: EUR 3.1 million), JUS AG continued to perform well in the third quarter of 2003. As a result, revenues for the first nine months of 2003 stand at EUR 18.6 million (previous year: EUR 21.3 million). In this connection, it should be noted that the previous year's revenues were inflated by the completion of the large-scale "Elsterlofts" project in spring 2002. The bulk of revenues stems from percentage-of-completion accounting in connection with JUS AG's renovation activities. JUS AG offers an attractive and broad range of renovated properties. With sales proceeds of EUR 8.3 million (including 53 apartments), JUS AG's success continued in the third quarter, with a further increase expected for the fourth quarter. This entails large volumes of capital tied up in properties especially as JUS AG does not receive any liquidity until after the properties have been completed and handed over to the buyers. At the moment, JUS AG is working on roughly 30 properties and projects. In view of the higher volume of work involved, it has raised its headcount to 32. JUS AG is seeking close ties with Bau-Verein zu Hamburg AG for its activities in Berlin. In this way, it will be possible to harness synergistic benefits within the TAG Group. At the same time, contacts with international investors interested in forging a joint venture with JUS AG for renovating residential properties, are being established.

Assets

The TAG Group had total assets worth EUR 608.5 million on September 30, 2003, constituting a further slight decline over the first half of 2003. Still, this marks an increase over

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the end of 2002 (EUR 576.6 million). As the goodwill of EUR 9.1 million attributable to Bau-Verein zu Hamburg AG was written off in full in addition to scheduled goodwill charges, total goodwill contracted to EUR 27.4 million, down from EUR 37.0 million at the end of the first half of 2003 and EUR 38.0 million at the end of 2002.

Revenues and earnings

At EUR 67.6 million, the TAG Group's revenues were down again on the year-ago figure of EUR 86.6 million. However, the 30% decline in revenues at the end of the first half of 2003 was reduced to 22% at the end of the third quarter of 2003 thanks to improved business. EBITDA was virtually unchanged at EUR 12.0 million over the previous year (EUR 12.3 million) after other operating income of EUR 6.0 million (previous year: EUR 2.2 million) and changes in inventories of work in progress of EUR 15.5 million (previous year: EUR 8.4 million). The results of the annual impairment test prompted TAG's Management Board to write off in full the remaining goodwill of EUR 9.1 million attributable to Bau-Verein zu Hamburg AG and to take it to the income statement. Including scheduled charges, total goodwill charges thus came to EUR 10.6 million, up from EUR 1.5 million in the previous year. The TAG Group sustained a net loss for the period of EUR 13.3 million, up from the year-ago loss of EUR 3.5 million.

Employees

On September 30, 2003, the TAG Group had 146 employees, down from 154 one year earlier.

Outlook

The fourth quarter continues to be the quarter with the highest revenues of the year for the property sector. During the third quarter, part of the decline in revenues sustained in the first half of the year was recouped, with this trend expected to continue in the fourth quarter. Even so, the fact remains that the bringing-forward effects arising from discussion of the possible abolition of home-ownership tax allowances have not materialized to the extent which had been expected. The Group's performance as at the end of the third quarter provides the basis for the full-year earnings for 2003.

The German property market will experience substantial changes in 2004 impacting the companies engaged in it. Accordingly, TAG has created the basis for possible acquisition or merger considerations in 2004.

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TAG Report for the quarter ending September 30, 2003 TAG Report for the quarter ending September 30, 2003

Consolidated balance sheet

ASSETS		9/30/2003 EUR 000s	12/31/2002 EUR 000s
A.	<u>Fixed assets</u>		
I.	Investment properties	81.436	82.024
II.	Tangible assets	8.014	6.687
III.	Intangible assets	111	118
IV.	Goodwill	27.443	38.047
V.	Financial assets		
	Shares in associated companies	2.275	1.232
	Other financial assets	4.881	5.739
B.	<u>Current assets</u>		
I.	Land available for sale and other inventories		
	Properties and leasehold rights with finished buildings	331.160	314.825
	Properties and leasehold rights with unfinished buildings	54.648	57.433
	Other inventories	26.803	7.441
II.	Receivables and other assets		
	Trade receivables	33.382	32.989
	Other assets	14.312	12.669
III.	Cash and cash equivalents	14.697	9.622
C.	<u>Deferred taxes</u>	9.088	7.564
D.	<u>Prepaid expenses</u>	231	229
		608.481	576.619

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Consolidated balance sheet

		SHAREHOLDERS' EQUITY AND LIABILITIES	
		9/30/2003	12/31/2002
		EUR 000s	EUR 000s
A.	<u>Shareholders' equity</u>		
I.	Subscribed capital	5,663	5,163
II.	Capital reserve	101,427	97,777
III.	Revenue reserves	6,689	6,689
IV.	Unappropriated surplus/accumulated deficit	-19,732	-6,455
V.	Own shares	0	0
B.	<u>Minority interests</u>	9,363	9,533
C.	<u>Long-term liabilities</u>		
	Liabilities to banks	105,336	108,438
	Pension provisions	2,360	2,413
	Other long-term liabilities	1,275	1,391
D.	<u>Short-term liabilities</u>		
	Liabilities to banks	301,492	267,163
	Trade accounts payable	25,772	36,381
	Tax provisions	1,922	2,117
	Other short-term liabilities	57,526	37,052
E.	<u>Deferred taxes</u>	9,201	8,820
F.	<u>Prepaid expenses</u>	187	137
		608,481	576,619

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Consolidated income statement

	EUR 000s 9M 2003	EUR 000s 9M 2002	EUR 000s Q3 2003	EUR 000s Q3 2002
Revenues	67,621	86,581	22,184	21,603
Other operating income	6,011	2,153	1,455	131
Changes in inventories, work in progress	15,505	8,436	5,043	2,594
Other own work capitalized	783	813	315	328
Cost of materials	-60,937	-68,282	-20,283	-15,735
Personnel expenses	-6,141	-6,310	-1,839	-2,133
Other operating expenses	-10,819	-11,070	-3,898	-3,033
EBITDA	12,023	12,321	2,977	3,755
Amortization on intangible assets and depreciation on tangible assets	-506	-473	-165	-156
Revaluation of investment properties	-600	-600	-200	-200
EBITA	10,917	11,248	2,612	3,399
Goodwill amortization	-10,604	-1,453	-9,574	-489
EBIT	313	9,795	-6,962	2,910
Income from investments	63	0	42	0
Income from financial assets	-14,877	-13,767	-4,801	-4,577
EBT	-14,501	-3,972	-11,721	-1,667
Income taxes	1,014	542	1,422	333
Minority interests	210	-89	82	5
Earnings on ordinary business activities	-13,277	-3,519	-10,217	-1,329
Consolidated earnings	-13,277	-3,519	-10,217	-1,329
Earnings per share (EUR), basic	-2.37	-0.70	-1.82	-0.26

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Consolidated cash flow statement

	9M 2003 EUR 000s	9M 2002 EUR 000s
Consolidated earnings	-13.277	-3.519
Depreciation / appreciation of tangible assets and intangible assets	506	473
Goodwill amortization	10.604	1.453
Depreciation/appreciation of properties held as financial investments	600	600
Increase/decrease in other long-term liabilities (excluding financial liabilities)	-169	243
Increase/decrease in deferred tax liabilities	-1.143	-554
Cash flow in accordance with DVFA/SG	-2.879	-1.304
Adjustment to income from financial assets and taxes (excl. deferred taxes)	14.952	14.248
Profit/loss from sale of fixed assets	0	0
Increase/decrease in receivables and other assets	-14.244	-18.765
Increase /decrease in accounts payable and other liabilities (excluding financial liabilities)	9.550	-17.949
Interest paid/received from operating activities	-12.990	-12.014
Income tax paid	-138	-481
Cash flow from operating activities	-5.749	-36.265
Payments made for investments in properties held as financial investments	-13	0
Proceeds from sale of properties held as financial investments	0	1.473
Payments for investments in intangible assets	-27	-61
Proceeds from sale of intangible assets	63	3
Payments for investments in fixed assets	-1.948	-386
Proceeds from sale of fixed assets	69	58
Payments made for investments in financial assets	-154	-22
Proceeds from sale of financial assets	0	2
Payments for acquisition of consolidated companies	0	-16.837
Interest paid/received for financial investments	-1.824	-1.753
Cash flow from investing activities	-3.834	-17.523
Proceeds from capital increases	4.150	0
Proceeds from sale of own stock	0	986
Raising/repayment of debt	8.754	-8.064
Cash flow from financing activities	12.904	-7.078
Net change in cash and cash equivalents	3.321	-60.866
Consolidation-related changes	1.754	32.708
Cash and cash equivalents at the beginning of the period	9.622	40.809
Cash and cash equivalents at the end of the period	14.697	12.651

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Consolidated statement of equity changes

	Subscribed capital	Capital reserves	Revenue reserves	Unappr. profit	Own shares	Total
	EUR 000s	EUR 000s	EUR 000s	EUR 000s	EUR 000s	EUR 000s
1/1/02	2,754	73,364	6,689	-7,509	-1,847	73,451
Consolidated earnings				1,054		1,054
Non-cash capital increase	649	26,270				26,919
Bonus shares	1,721	-1,721				0
Miscellaneous	39	-136			1,847	1,750
12/31/02	5,163	97,777	6,689	-6,455	0	103,174
Consolidated earnings				-13,277		-13,277
Cash capital increase	500	3,650				4,150
9/30/03	5,663	101,427	6,689	-19,732	0	94,047

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Segment reporting

	Railway infra structure 9M 2003 EUR 000s	Building manage- ment 9M 2003 EUR 000s	Construct- ion activity 9M 2003 EUR 000s	Reconcil- iation 9M 2003 EUR 000s	Con solidated 9M 2003 EUR 000s
External revenues	946	6,421	60,254	0	67,621
<i>Previous year</i>	851	7,169	78,561	0	86,581
Internal revenues	0	664	218	-882	0
<i>Previous year</i>	0	618	525	-1,143	0
Revenues	946	7,085	60,472	-882	67,621
Segment earnings	106	2,323	-3,747	-13,087	-14,405
<i>Previous year</i>	225	1,830	-3,432	-4,774	-6,151
- of which earnings from associated companies	0	0	0	63	63
- of which depr./amortization	48	248	210	0	506
- of which interest income	0	2,108	927	-2,278	757
- of which interest expenses	1	4,328	13,115	-1,810	15,634
- of which non-cash items	0	-595	514	0	-81
Segment liabilities	1,205	111,678	409,361	-17,173	505,071
<i>Previous year</i>	1,072	113,193	377,010	-18,736	472,539
Segment assets	2,756	216,640	441,957	-52,871	608,482
<i>Previous year</i>	2,446	219,828	403,977	-52,450	573,801
-of which associated companies	0	0	0	2,275	2,275
Segment investments	0	1,758	112	0	1,870
<i>Previous year</i>	0	255	192	0	447
Employees*	11	53	82	0	146

*The number of employees is for the final day of the quarter in question

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Notes

General information

The interim consolidated financial statements of TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft (TAG) for the period ending September 30, 2003 have been prepared in accordance with the International Accounting Standards (IAS/IFRS - International Financial Reporting Standards (IFRS)) adopted by the International Accounting Standards Committee (IASC), now known as the International Accounting Standards Board (IASB) and their interpretations issued by the Standing Interpretations Committee (SIC/IFRIC - International Financial Reporting Interpretations Committee). The standards which have already been adopted and published and are therefore binding have been applied.

The accounting and valuation principles as well as the notes and explanations on the interim consolidated financial statements are fundamentally based on the accounting and valuation principles applied for the first time to the consolidated financial statements for the year ending December 31, 2002 compiled pursuant to IAS.

For more details of the accounting and valuation principles applied, please refer to the consolidated financial statements for the year ending December 31, 2002 compiled pursuant to IAS, which pursuant to IAS 34 form the material basis for these interim financial statements.

Material transactions

In January 2003, a cash capital increase, for which the subscription rights held by the existing shareholders were excluded, was completed and 500,000 new shares issued. Of these, HSH Nordbank AG (formerly Hamburgische Landesbank) subscribed to 400,000 shares. As a result, TAG's equity capital increased to EUR 5,663 million.

In the third quarter of 2003, a charge was taken to allow for the value impairment of intangible assets. As a result, the entire goodwill arising from the acquisition of Bau-Verein zu Hamburg AG was written off in full. This unscheduled goodwill charge generated additional expenditure of EUR 9.1 million.

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As part of a private-equity program organized by TAG's subsidiaries, payments of EUR 5.7 million were received from various members of TAG's Supervisory Board. No other material transactions occurred in the period under review.

Consolidation group

There were no material changes to the consolidation group compared with December 31, 2002. VFHG Wohnanlagen Friedrichstadt GmbH & Co. KG was consolidated in full following the acquisition of further shares in the company. In the previous year, it had been carried at equity. Restructuring activities resulted in the incorporation of two new companies (BV Sandtorkai-Investitions GmbH & Co. KG and Sandtorkai-Investitionsverwaltungs GmbH), which are consolidated in full.

Changes to structure of the cash flow statement

The structure of the cash flow statement was modified slightly as of the first quarter of 2003. This primarily concerns interest and tax payments which are now assigned to the appropriate cash flow types. As a result, the comparison figures for the previous year have been recomputed.

Personnel

Changes to the Group's management and supervisory bodies are set out in the management report. The number of employees at the end of the quarter is stated in the segment report (included as of the first quarter of 2003 for the first time).

The preparation of the consolidated interim financial statements pursuant to IAS requires the management boards and management staff of the consolidated companies to make assumptions and estimates influencing the assets and liabilities carried on the balance sheet, the disclosure of contingent liabilities on the balance-sheet date and the expenses and income reported during the periods under review. The actual amounts arising in future periods may differ from these estimates. Moreover, this interim report includes statements which do not entail reported financial data or any other type of historical information. These forward-looking statements are subject to risk and uncertainty as a result of which the actual figures may deviate substantially from those stated in such forward-looking statements. Many of these risks and uncertainties are related to factors which TAG can neither control, influence nor precisely estimate. This concerns, for example, future market and economic conditions, other market participants' behavior, the ability to successfully integrate companies after acquisition and tap expected synergistic benefits as well as changes to tax legislation. Readers are reminded not to place any undue confidence in these forward-looking statements, which apply only on the date on which they are given. TAG is under no obligation whatsoever to update such forward-looking statements to allow for any events or circumstances arising after the date of this material.

Schedule of events

October 6 – 8 , 2003

EXPO Real fair in Munich

October 23, 2003

3rd conference on listed property companies
in Frankfurt/M.

April 2004

Publication of the annual financial statements
for fiscal 2003

May 2004

Publication of report for the first quarter of
fiscal 2004

May 2004

Annual press conference, analyst conference
for 2004

August 2003

Publication of report for the first half of fiscal
2004

Production credits



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