



# Growing Assets

Interim report to the first half of 2014

## Group financials IFRS

in TEUR	01/01 – 06/30/2014	01/01 – 06/30/2013
<b>A. Income statement key figures</b>		
Rental income in total	130,486	125,556
a) Rental income from continuing business	121,988	115,051
b) Rental income from discontinuing business	8,498	10,505
EBITDA	78,292	72,283
EBIT	75,024	68,432
EBT	26,024	21,730
Consolidated net profit/loss	14,177	26,382
FFO I in EURm	41.7	31.5
AFFO in EURm	27.0	23.9
FFO II incl. liquidity from sales in EURm	49.3	79.1
FFO I per share in EUR	0.32	0.24
AFFO per share in EUR	0.21	0.18
FFO II incl. liquidity from sales per share in EUR	0.38	0.61
Earnings per share in EUR	0.11	0.20
<b>B. Balance sheet key figures</b>		
	<b>06/30/2014</b>	<b>12/31/2013</b>
Total assets	3,686,048	3,763,324
Equity before minorities	1,079,730	1,107,306
Equity ratio in %	30	30
Real estate volume	3,347,502	3,606,799
LTV in %	61.5	62.1
LTV in % incl. outstanding convertible bonds	64.8	65.0
NAV in EURm	1,204	1,241
EPRA NAV per share in EUR	9.17	9.45
Diluted NAV per share in EUR	9.02	9.31
Dividend per share in EUR	0.35	0.25
<b>C. Employees</b>		
	<b>06/30/2014</b>	<b>12/31/2013</b>
Number of employees	535	519
<b>Other key figures</b>		
Market cap at 31 June 2014 in TEUR		1,169,992
Share capital in EUR		131,312,199.00
WKN/ISIN		830350/DE0008303504
Number of shares		131,312,199
Free Float in %		100
Index		MDAX/EPRA

## Table of contents

Group financials	02	Group Management Report	26
Foreword	04	Consolidated balance sheet	36
Portfolio	06	Consolidated income statement	38
NAV	16	Consolidated statement of comprehensive income	39
FFO	18	Consolidated cashflow statement	40
TAG share	22	Statement of changes in consolidated equity	41
Dividend	24	Consolidated segment report	42
Corporate bonds	24		
		Notes to the consolidated financial statement	44
		Review report of the independent auditor	54
		Responsibility statement	55
		Financial calendar/Contact	56
		Notes	58

## Foreword

### **Dear shareholders, ladies and gentlemen,**

On the operations side, the first half of 2014 went as we had planned and expected. Rents continue to rise and vacancy is on a steady decline. In Salzgitter for example, after 18.6% vacancy at the turn of the year and 18.0% at the end of the first quarter, we have now achieved a further vacancy reduction to 17.3%.

So our rental performance has accelerated again in the second quarter compared to the first. By investing in the energy efficiency and senior-friendliness of the inventory, we ensure the viability of the inventory locally, and lay the foundations for further steadily increasing rents.

Our FFO I reflects this development at EUR 21.0m for the second quarter. Without the temporary expense of interest costs due to the increase in our corporate bond and the issuance of a new bond, FFO I would have increased even more.

At strategic level we have now achieved a complete focus on the residential segment by selling an 80% stake in our commercial real estate subsidiary, TAG Gewerbeimmobilien GmbH. The sale was completed at the end of May this year and resulted in a small book profit, which makes this strategically important transaction even more gratifying. We lose the rental income from the properties sold, but due to strong operating results we are sticking to our forecast of FFO I of EUR 90m for the full year 2014.

Beyond further increasing rents and reducing vacancy, our focus for the rest of the year will be on integrating the two newly acquired portfolios. A large proportion of these acquisitions will economically transition to our inventory in the third quarter, which will give significant additional tailwind to our rental yields and FFO in the second half of the year.

Further new acquisitions are being reviewed. Thanks to the sale of the commercial real estate, they can be purchased from existing cash and cash equivalents, which currently total approx. EUR 250m.



**Dresdener Ring, Moers**

In contrast to previous years, however, we do not rule out the possibility that we will seize more opportunities to sell residential inventory than we have done in the past. The demand for housing in individual market segments is starting to push prices to levels at which even a long-term holder like TAG Immobilien AG should start considering strategic sales and should take advantage of market opportunities if and when they arise.

After a tax-free dividend of 35 cents per share, NAV per share has fallen accordingly and now amounts to EUR 9.17 compared to EUR 9.45 at the turn of the year.

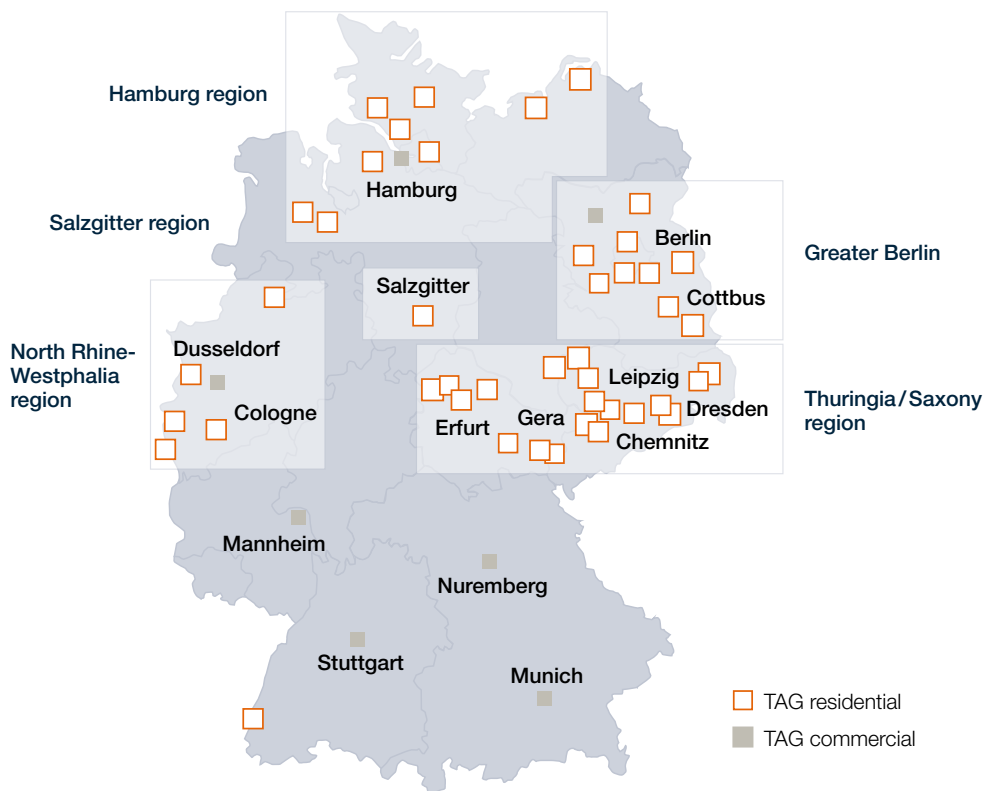
We thank you for your trust and confidence in us on this journey, and in particular for your widespread support at this year's Annual General Meeting in June 2014.

Sincerely,

**Rolf Elgeti**  
**CEO**

## Total portfolio (residential and commercial)

TAG Group's property portfolio comprises approximately 70,500 units as of 30 June 2014, mostly located in good urban locations in German growth regions. It focuses on selected regional locations with development potential, stable cashflows and attractive returns, where TAG already has investments. These regions are the Thuringia/Saxony region, the Metropolitan Areas of Hamburg and Berlin, Salzgitter and North Rhine-Westphalia. Concentrating on just a few locations allows for centrally and cost-effectively managing large parts of the portfolio using existing structures.



<b>Portfolio as of 06/30/2014</b>	<b>Total (Residential and Commercial)</b>
Units	70,556
Rentable area in sqm	4,337,236
Real estate volume in TEUR	3,347,502
Net actual rent in EUR/m <sup>2</sup>	5.16
Vacancy in %	9.40

The portfolio of around 4,000 units in Thuringia and Saxony acquired at the beginning of the year was incorporated into the inventory on August 1, 2014, so the real estate portfolio as of the date of this interim report's publication totals approximately 74,500 units.

### **Closing of last year's acquisitions in TAG group now complete**

Both the 3,000 units from the December 2013 acquisition, spread across twelve cities in former East Germany, and the 4,000 units in Thuringia and Saxony purchased in February this year, are entirely included in the TAG Group portfolio as of today. This increases TAG's importance and presence in the East German real estate market and strengthens its property management expertise in that region.

## Sales in the first half of 2014

At the end of March 2014, the commercial real estate division was sold in a share deal involving a transfer of shares in TAG Gewerbeimmobilien GmbH – with 21 properties, an area of approximately 270,000 sqm and a real estate volume of EUR 297 m properties as at December 31, 2013 – to an Apollo Global Management fund. The agreement was done in March 2014 and finalized at the end of May 2014, that is, the commercial units were deconsolidated in the consolidated financial statements with effect from 30 May 2014. TAG retains a 20% stake in TAG Gewerbeimmobilien GmbH, which will do business as Texas Gewerbeimmobilien GmbH from now on.

Only six objects remain in the TAG commercial inventory. They have a real estate volume of around EUR 146 m, and significant parts of them include other forms of use, such as housing and our own owner-occupied corporate headquarters in Hamburg:

- Rathausgalerie, Markkleeberg
- Schleinufer, Magdeburg
- Südtor, Stuttgart
- Ferdinand-Porsche-Strasse, Cologne
- Steckelhörn, Hamburg
- Hofmannstrasse, Munich





**Karolinenstrasse, Castrop-Rauxel**

With a view to optimizing the portfolio, sales will also be made from the residential portfolio. This year, about 20 properties primarily from the Saxony/Thuringia region but also 40 properties in the Greater Berlin Area were sold during the first half of 2014. Opportunities are seized selectively and in exceptional cases, and the equity released is then reinvested by purchasing of objects with higher initial returns.

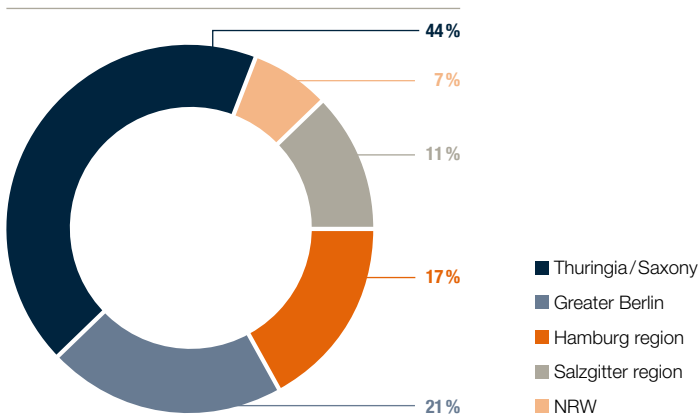
## The residential portfolio

TAG's residential portfolio is concentrated in five regions: the Thuringia/Saxony region, the Greater Metropolitan Areas of Hamburg and Berlin, Salzgitter as well as North Rhine-Westphalia. As part of its strategy, TAG will continue to make future purchases at locations where it can build on the existing infrastructure, and the newly acquired inventory can be cost-effectively integrated and profitably managed.

Region	Units	Floor area sqm	Vacancy %	Vacancy excluding properties for sale %	Net actual TEUR p. a.	Net actual EUR / m <sup>2</sup>	In place / target rent TEUR p. a.
<b>Residential portfolio*</b>	<b>70,065</b>	<b>4,273,899</b>	<b>9.25</b>	<b>8.74</b>	<b>235,357</b>	<b>5.06</b>	<b>255,608</b>
Thuringia / Saxony	32,053	1,932,412	9.93	8.80	102,621	4.91	111,745
Greater Berlin	13,545	828,965	4.82	4.58	48,553	5.13	50,597
Hamburg region	11,389	689,215	8.15	8.18	39,638	5.22	42,709
Salzgitter region	9,200	564,557	17.28	17.28	27,574	4.92	32,891
NRW	3,878	258,751	3.79	3.64	16,971	5.68	17,665

\* as at 30 June 2014 by balance sheet value

### Residential real estate inventory by region\*



\* as at 30 June 2014 by balance sheet value

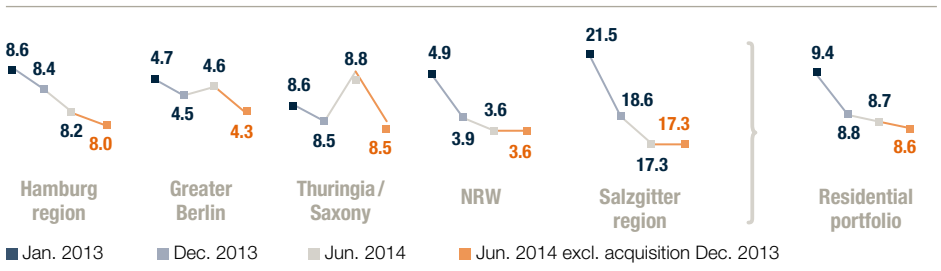
<b>Book value TEUR</b>	<b>Maintenance costs EUR / sqm</b>	<b>thereof „Capex“ EUR / sqm</b>	<b>Return on target rent p. a. at IFRS book value %</b>
3,180,635	6.09	3.35	8.0
1,376,259	4.72	2.68	8.1
672,248	5.96	3.79	7.5
540,491	7.43	4.62	7.9
362,510	9.32	4.43	9.1
229,127	6.03	1.18	7.7

## Vacancy development by region in the first half of 2014

Active asset and property management led to further successes in vacancy reduction. At year-end 2013, vacancy in the core inventory of the Group's residential portfolio – i. e. without properties held for sale – was 8.8%. By the end of the first half of 2014 it had been reduced to 8.7%, even though some newly acquired units had higher average vacancy. Not including the 3,000 units in East Germany acquired at the end of last year, vacancy across the portfolio was 8.6% at 30 June 2014.

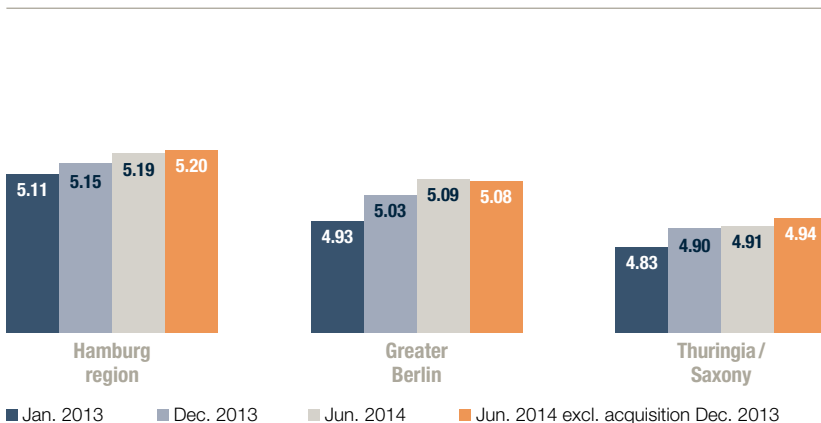
The year-on-year vacancy development in the core inventory – i.e. without properties held for sale – in the five regions of TAG's residential portfolio is described in the following. It shows vacancy reduction both including and as excluding the afore-mentioned acquisition, since this shows the operational success in renting the existing inventory:

## Vacancy in %



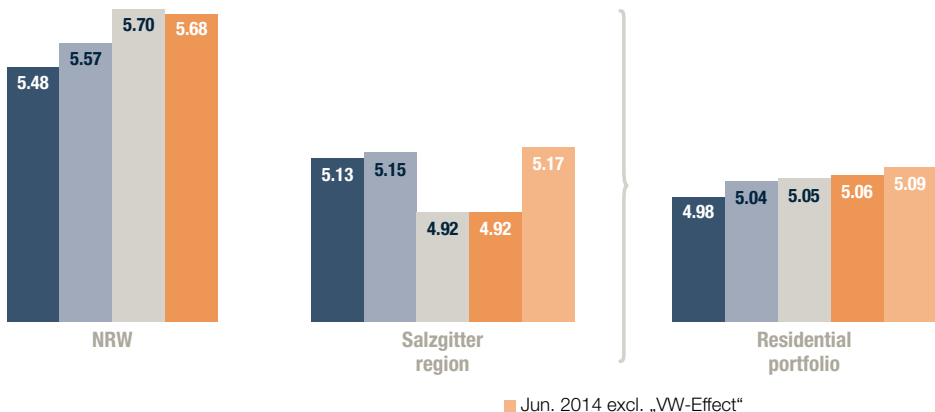
In the first half of 2014 vacancy reduction was driven forward in all TAG regions and at the same time, rental income increased by up to EUR 0.13 per sqm due to higher new leases, especially in the Hamburg, Berlin and North Rhine-Westphalia regions.

## Net actual rent in EUR / sqm

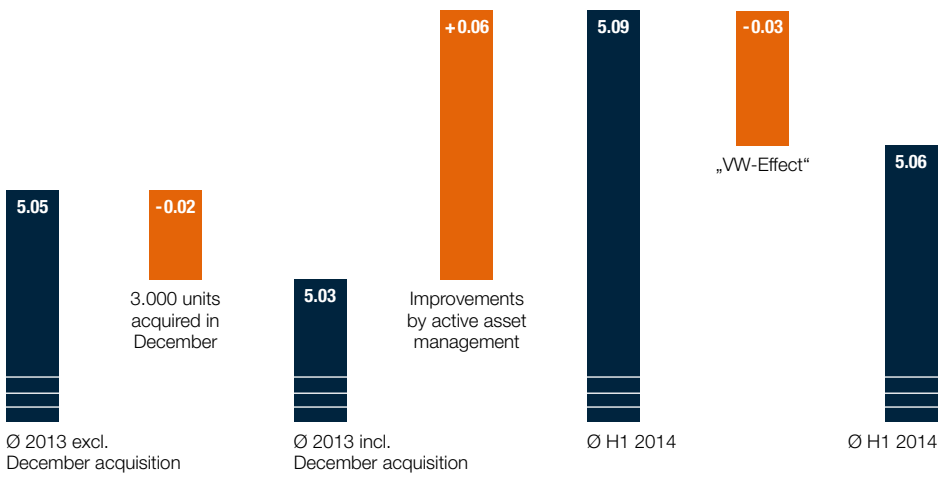


In the Salzgitter region a temporary year-on-year drop in average rents was recorded (from EUR 5.15 per sqm to EUR 4.92 per sqm) as a general lease agreement with Volkswagen AG involving approximately 460 residential units expired in the first half of the year, and the inventories are now being marketed again. Without this effect, there would have been an increase in rents to EUR 5.17 per sqm in this region. At the same time, the highest vacancy reduction – by another 1.5 percentage points – was recorded here during the second quarter. This underscores the positive trend sparked by the right rental concepts in Salzgitter.

No significant rent increases were imposed on existing tenants in the first half of the year, which makes it all the more noteworthy that during this period, average rent across all locations in the residential portfolio increased from EUR 5.04 per sqm and month to EUR 5.06 per sqm per month. This is mainly due to the increased rent for new leases, which was raised from an average EUR 5.15 per sqm in the first half of 2013 to EUR 5.30 per sqm in the first half of 2014. Again, viewed without the VW special effect, average rent at the end of the first half would be EUR 5.09 per sqm in the core inventory. This confirms organic rental growth across all TAG Group regions of about 1% for the first half of the year, or 2% if extrapolated for the full year.



## Rental income in EUR / sqm



## Successful renovation concept in Elmshorn lowers vacancy costs

Back in 2012, after a careful review, TAG chose not to demolish a dilapidated seven-storey building in Elmshorn and instead to completely renovate and comprehensively modernize it. By May this year, 42 modern 1-bedroom apartments, each between 30 sqm and 36 sqm and each with a balcony, were created. In addition to predominantly wheelchair-friendly access, a new lift system and senior-friendly bathrooms, the building meets energy efficiency standards thanks to façade and window insulation and is connected to a (power and heat) cogeneration unit.

Since the beginning of June 2014, around 80 % of the residential units were rented within a few weeks at an average price of EUR 9.04 per sqm. This significantly exceeds the original expectations of a net actual rent after renovation of EUR 8.50 per sqm. At the same time, the total costs for the project remained well within the budget.

With this measure, TAG proves that meaningful investment can reduce vacancy costs while also increasing operating profits. Similar projects in locations such as Bestensee near Berlin and in Döbeln will lead to further vacancy reduction and rent increases in the next few quarters.

### **Systematic utilities cost management leads to significant savings**

Targeted, active utilities cost management at various locations is a major contributor to improving the quality and attractiveness of the residential portfolio. Taking advantage of the size that the Group has now attained, contracts are being optimised or renegotiated in the areas of metering service providers, energy costs, waste management and infrastructure services, and new ways of service delivery are being found. For example, TAG recently took over the operation of a boiler house and the delivery of heat in Blankenhain, which will lead to approx. 20 % savings on heating costs for the tenants. Savings of a similar order of magnitude will be achieved through the construction of cogeneration plants at other sites. Furthermore, at several locations we are reorganising waste management and have installed waste locks, resulting in more equitable billing for each tenant's volume of waste as well as overall lower costs. The specific objective of these measures is to cut down vacancy costs for both the tenant and for TAG as the landlord. The „second rent“ (utilities) has become a determining factor in the rental of living space and – with rigorous management – offers a clear competitive advantage.

## Net Asset Value – NAV

NAV is the international benchmark for evaluating real estate companies; it represents the company's intrinsic strength. The calculation of NAV in accordance with EPRA (European Public Real Estate Association) guidelines is designed to show the fair value of net assets on a consistent and long-term basis.

When calculating NAV only the equity before non-controlling interests according to the balance sheet is considered, divided by the number of shares. Derivatives and deferred taxes are not included in the calculation. All real estate values that are relevant for the calculation are validated annually by expert opinions. The EPRA NAV at 30 June 2014 is EUR 1.2 billion or EUR 9.17 per share. The decrease compared to the NAV at 31 December 2013 is due to the June 2014 dividend payment of EUR 0.35 per share.

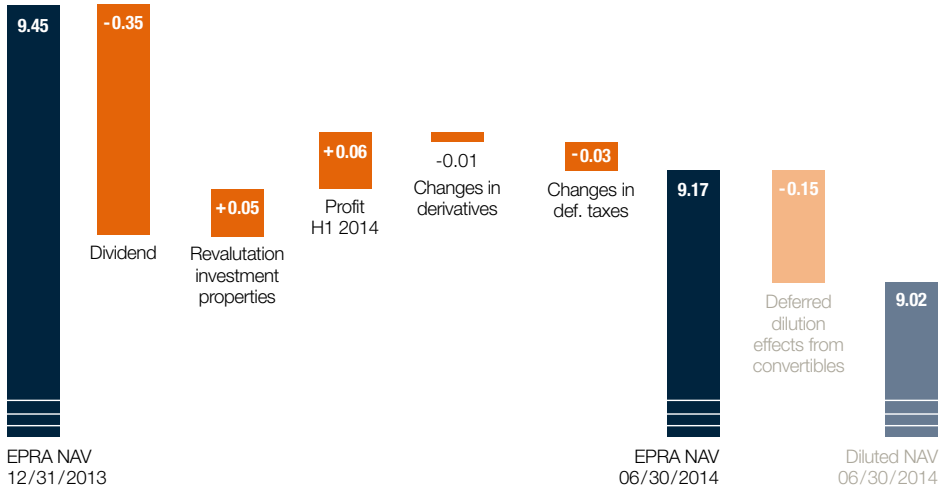
In addition to the EPRA NAV, we also report a diluted NAV that imputes the effects of exercising all conversion rights and the shares arising therefrom, as all currently outstanding TAG convertible bonds have a conversion price below TAG's current share price. At 30 Jun 2014, the dilution effect remains virtually unchanged from 31 Dec 2013 at EUR 0.15 per share. The diluted NAV per share is EUR 9.02 at 30 June 2014.





Hallesche Strasse, Eisleben

in EUR/share



## Passage on FFO at TAG Group at the end of H1 2014

Funds From Operations (FFO) is an important indicator for real estate companies, as it describes a company's operational profitability. **FFO I** is calculated from EBT of the group (also incl. the discontinued operations), adjusted for non-cash items and one off's. At the end of the second quarter 2014 FFO I, which does not include proceeds from sales, was EUR 21.0m, reflecting a significant year-on-year increase (Q2 2013 EUR 16.4 m). Compared to the first quarter of 2014, the level has remained constant (Q1 2014: EUR 20.7 m) – even with the elimination of rental income from TAG Gewerbeimmobilien GmbH as of the end of May. The integration of the remaining units from the December-acquisition and further rent increases had a positive effect.

We report another indicator known as **AFFO** (Adjusted Funds From Operations), where investments made into the portfolio holdings are deducted from FFO. At the second quarter, AFFO was EUR 14.2m, since the 'Capex' expenses incurred were at EUR 6.8 m.

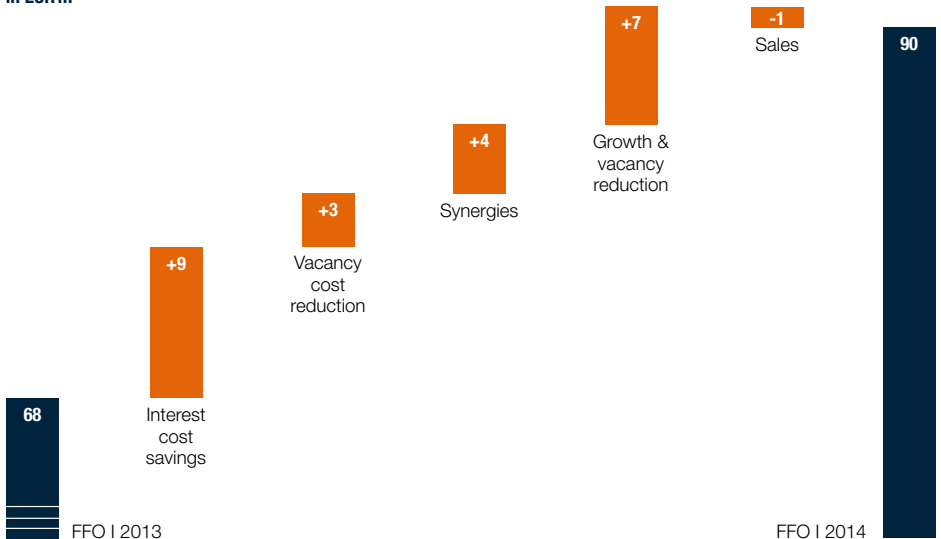
TAG's business activity also regularly includes property sales. For this reason, we also report another indicator, **FFO II**, which includes cash inflows from disposals (after the repayment of associated bank loans). At 30 June 2014, FFO II came to EUR 49.3m, showing that only very few other proceeds from sales were executed in the entire first half of 2014, with the exception of the liquidity from the sale of TAG Gewerbeimmobilien GmbH, which are not included herein.

in EUR m	H1 2013	2013 Total	Q1 2014	Q2 2014	H1 2014
<b>EBT (incl. discontinued operations)</b>	<b>25.0</b>	<b>23.1</b>	<b>9.7</b>	<b>13.8</b>	<b>23.5</b>
Adjustments					
valuation result	0.4	15.9	-2.0	-4.9	-6.9
deconsolidation commercial portfolio	-	-	-	-1.0	-1.0
depreciation	1.0	2.3	0.6	0.6	1.3
impairment losses on receivables and inventories	3.1	17.4	7.4	1.9	9.3
non-cash financial expenses/ one off's refinancing	1.6	9.2	3.5	8.1	11.6
one off's personnel-costs and project costs	-	-	1.0	2.1	3.1
sales result	0.4	0.2	0.4	0.4	0.8
<b>FFO I</b>	<b>31.5</b>	<b>68.1</b>	<b>20.7</b>	<b>21.0</b>	<b>41.7</b>
excl. CAPEX	-7.6	-20.0	-7.9	-6.8	-14.7
<b>AFFO</b>	<b>23.9</b>	<b>48.1</b>	<b>12.8</b>	<b>14.2</b>	<b>27.0</b>
FFO I plus liquidity from sales	47.6	52.9	3.6	4.0	7.6
<b>FFO II</b>	<b>79.1</b>	<b>121.0</b>	<b>24.3</b>	<b>25.0</b>	<b>49.3</b>
<b>FFO I per share in EUR</b>	<b>0.24</b>	<b>0.52</b>	<b>0.16</b>	<b>0.16</b>	<b>0.32</b>
<b>AFFO per share in EUR</b>	<b>0.18</b>	<b>0.37</b>	<b>0.10</b>	<b>0.11</b>	<b>0.21</b>
<b>FFO II per share in EUR</b>	<b>0.61</b>	<b>0.92</b>	<b>0.18</b>	<b>0.19</b>	<b>0.38</b>

## FFO forecast for 2014

We are therefore still well on our way to achieving the FFO I forecast of EUR 90 m (excluding liquidity from sales) for the year 2014, in particular because the newly acquired 4,000 units in Saxony and Thuringia will be reflected in the results from the third quarter on.

in EUR m





Max-Türpe-Strasse, Chemnitz

## The TAG share

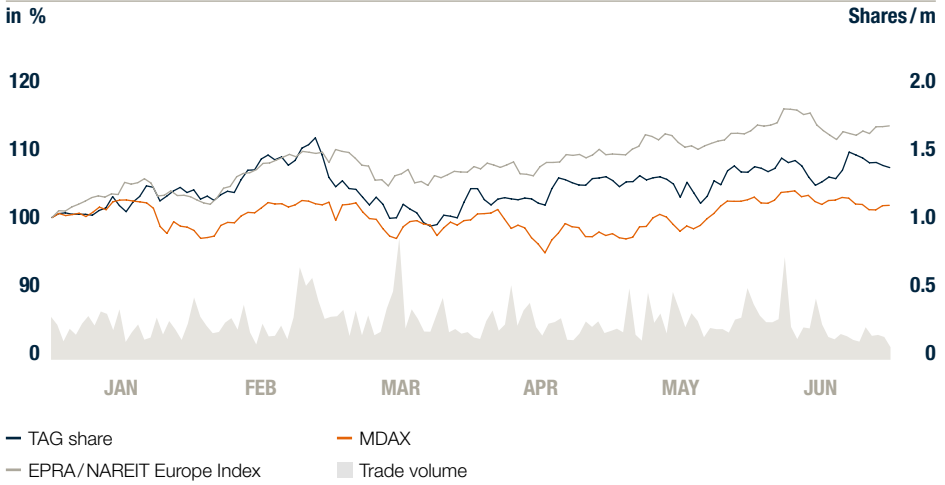
In the first half of 2014, the price of the MDAX-listed TAG share trended slightly up, and at plus 3% was above the relevant index MDAX, which increased by 2%. The TAG share started the year at EUR 8.63 and was trading at EUR 8.91 on 30 June 2014. The EPRA index, comprised of various real estate companies listed on international stock exchanges, also trended upward at +13%.

At 131,312,199, the share capital and number of shares have increased slightly due to the exercise of conversion rights in the amount of EUR 13,882/the same number of shares. Free float remains unchanged at 100%. Given the closing price of EUR 8.91 on 30 June 2014, TAG's market capitalization is EUR 1,170m.

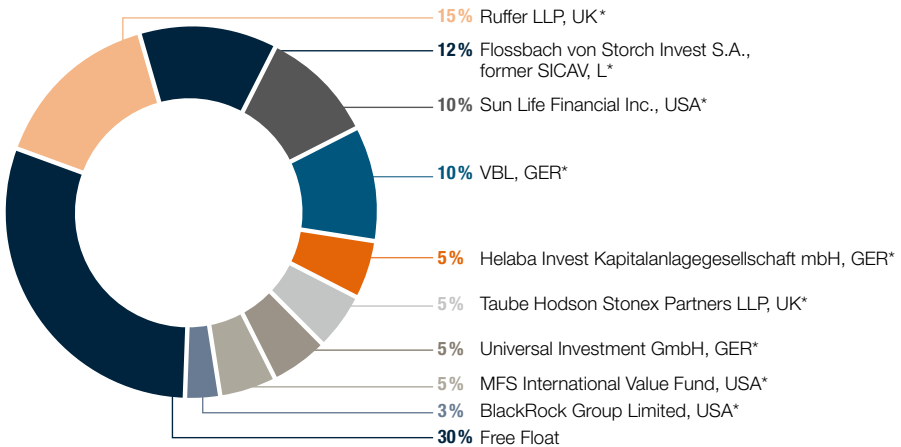
At the company's Annual General Meeting on 13 June 2014 in Hamburg, the shareholders, over 80% of whom were present, voted in favour of all agenda items by a large majority. There was a change on the Supervisory Board: The Chairman of the Supervisory Board, Dr. Lutz R. Ristow, stepped down from the Supervisory Board at the end of the Annual General Meeting on 13 June 2014 for age reasons. The Deputy Chairman, Prof. Dr. Ronald Frohne, also retired from the Supervisory Board at the end of the Annual General Meeting for personal reasons. At the Annual General Meeting, the shareholders elected Dr. Hans-Jürgen Ahlbrecht and Dr. Ingo-Hans Holz as their successors to the Supervisory Board. The new Chairman of the Supervisory Board is Lothar Lanz and the new Deputy Chairman Dr. Philipp Wagner as of 13 June 2014.

As before, national and international investors with a predominantly long-term investment strategy make up the majority of TAG shareholders.

### Share price January – June 2014



### Shareholder structure as at 30 June 2014



\* Deutsche Börsen definition including institutional investors

## Dividend

TAG lets its shareholders participate in the company's success by continually paying a dividend, and pays out a significant share of the profits as dividends. A dividend payment of EUR 0.35 per share was approved at the Annual General Meeting in June 2014. An increase in the dividend to EUR 0.50 per share is expected for the following year.

## Corporate bonds

In February 2014, the capital of a corporate bond issued in August 2013 (WKN A1TNFU) was increased by another EUR 110m to EUR 310m by way of a private placement. The bond, which matures in August 2018 and pays annual interest of 5.125%, had an original volume of EUR 200m. The new issuance was made at 103% of nominal value and an effective interest rate of 4.3% p.a.

In June 2014, TAG also issued a corporate bond (WKN A12T10) in the amount of EUR 125m, again by way of a private placement with institutional investors. The bond matures in June 2020 and has a coupon rate of 3.75% p.a.

The proceeds from the bonds will primarily be used to fund the further growth of TAG, since the current market situation offers various opportunities for doing this. By issuing the bond, the company creates further advantages for acting flexibly and at short notice.

Both bonds are included in the Open Market, Entry Standard, of the Frankfurt Stock Exchange with participation in the Prime Standard for corporate bonds.





Heeresbergstraße, Gera

# Group Management Report for the first half of the 2014 financial year

## I. The Economy

### a) State of the overall economy

The recovery of the global economy strengthened progressively in the first half of 2014 and has had a positive effect on the economy. Even the crisis in Ukraine has not appreciably impacted the investment climate. The International Monetary Fund (IMF) has specifically confirmed this recovery trend for the Eurozone, where it foresees growth of 1.2% – in the previous year, forecasts were merely for 0.2%.

The German Institute for Economic Research (DIW) is in agreement with this positive trend and forecasts a 1.8% growth in Germany's gross domestic product for the current year 2014. Germany's Bundesbank also confirms the overall positive outlook by, projecting growth of 1.9% for the German economy. Due to the crisis in Ukraine and in Iraq, the Ifo business climate index has continued to decline slightly since March 2014, and was at 109.7 points on 30 June 2014.

Although optimism regarding the business climate in Germany is slightly dampened, the current business situation for industry, retail and services is still rated 'good'. In particular, private consumption picked up again in the first half of 2014, after consumers' purchasing power had temporarily declined towards the end of last year. The rate of inflation in the Federal Republic of Germany dropped to its lowest level

since 2010. Boosted by these price developments, consumer spending will continue high. According to the Federal Statistical Office, the average year-on-year increase in the price of goods and services was just 1% in June. At the same time the unemployment rate fell to 6.5% at the end of June 2014, so all signs in Germany continue to point to growth.

## **b) State of the German real estate market**

### The residential real estate market

Given the enormous demand by international capital for investment options and the attractive interest rate conditions, German residential portfolios are still a high-demand asset class. The transaction volume in German residential real estate portfolios was approximately EUR 6.8 billion during the first half of 2014, roughly 18% above the previous year's figure. Although the number of portfolios traded (82) remained slightly under the number sold in 2013 (93), the number of traded units increased by nearly half to approx. 132,500. This development is mainly due to huge transactions in the first quarter of 2014, which, for example, involved a change in ownership for 30,000 units from the Vitus Group and the Dewag portfolio with 11,500 units. Industry professionals project total turnover of over EUR 10 billion for the year.

Due to a clear rise in prices and a simultaneous lack of supply in 'A-grade cities', transactions increasingly concentrate on 'B-grade' locations. This trend, which emerged last year continues: smaller locations outside the metropolitan centres are becoming more attractive. Due to significant rent hikes, people are increasingly moving to cities beyond the prime locations (e.g. Cologne, Munich, Hamburg, Berlin). The top-turnover sites now include Kiel, Bremen, Mönchengladbach, and Lübeck. On the seller side, mainly private equity firms took advantage of the positive market environment; in more than half of the transactions, their buyers were listed property companies. More than two-thirds were buyers from Germany. The seller side was dominated by German protagonists (33%), closely followed by US investors (32%).

The development of the German real estate market in the first half of 2014 shows that German real estate, particularly residential real estate, is still very much in demand, fuelled in particular by its attractive risk premiums compared to other tangible assets, and persistent fears of a rise in the inflation rate.

#### The commercial real estate market

The market for commercial real estate in Germany was also dynamic in the first six months of 2014. With the commercial transaction volume at nearly EUR 17 billion by the end of June 2014, commercial revenues also showed a year-on-year increase by 29%. At EUR 8.2 billion, nearly half of the investments were made in the 'Big 7' locations: Munich, Frankfurt, Hamburg, Berlin, Dusseldorf, Cologne and Stuttgart. Investors focused on office buildings, which accounted for 40% of the turnover. The transaction volume for the full year 2014 is still expected to be between EUR 35 and 40 billion, that is, up by as much as 30% over the previous year.

In view of price increases in the core segment, prime objects in A-grade locations are becoming a bit less popular. Investors are looking for objects with higher yields and are deliberately accepting a higher risk in the process. Most real estate packages were purchased by foreign investors, confirming this class of investors' increasing willingness to take risks in their quest for alternative investment options.

### **c) Business performance**

Acquisition of another residential property portfolio with approx. 4,000 units

TAG took advantage of opportunities in the German residential real estate market and at the beginning of February 2014 bought another real estate portfolio consisting of 3,985 residential units. The portfolio is focused in Thuringia, with its university towns of Jena, Erfurt and Weimar (approx. 3,000 units), Saxony and Saxony-Anhalt. The property package can be further developed, efficiently

managed and easily integrated by TAG's existing administrative structures in the eastern German housing market. The takeover of the portfolio has already been taken over by 1 August 2014.

### Sale of the majority stake in TAG Gewerbeimmobilien GmbH and associated discontinuation of the commercial real estate business

Because commercial real estate is no longer the focus of its corporate strategy, TAG had accelerated its programme to sell off the commercial real estate portfolio in fiscal 2013, and had already sold a total of eight properties. Under an agreement dated 28 March 2014, the TAG has now sold 80 % of its shares in TAG Gewerbeimmobilien GmbH – corresponding to another 21 properties – to an Apollo Global Management fund. The contract closed on 30 May 2014. Until this date, TAG Gewerbeimmobilien GmbH was included in the consolidated financial statements. As part of the sale, TAG is disposing of all the major components of its commercial portfolio. The Group is only retaining individual objects where a significant portion is devoted to other uses, such as housing, and the Group's own corporate headquarters in Hamburg. TAG will retain a 20 % shareholding in TAG Gewerbeimmobilien GmbH. Please refer to the remarks in the explanatory notes for details on the effects on the balance sheet.

### Dividend payout

At TAG's Annual General Meeting on June 13, 2014, a dividend of EUR 0.35 per share was adopted for the 2013 financial year, which was subsequently disbursed to shareholders.

## **d) Results of operations, financial position and net asset position of the TAG Group**

### Results of operations

As a result of the deconsolidation of TAG Gewerbeimmobilien GmbH, the provisions of IFRS 5 for „discontinued operations“ were applied, as they were for the last report on the quarter ended 31 March 2014. Accordingly, all income and expenses attributable to the discontinued operation, including capital gains from its sale, were included under “Earnings after tax of the discontinued operation” in the consolidated income statement. The previous year’s figures in the consolidated income statement and also in the segment reporting have been adapted to this new presentation.

The Group increased its first-half rental income from continued operations by 6 % year-on-year, to EUR 122.0m. During the second quarter of 2014, TAG generated rental income of EUR 61.9 m, after EUR 57.1 m in the second quarter of 2013. The main reasons for the increase in rental income were the newly acquired inventories from the acquisition in December 2013 and the ongoing operational growth in rents.

The rental profit, i. e. rental income net of expenses for property management, amounted to EUR 100.4 m during the first six months (previous year: EUR 90.9m), and EUR 50.6 m in Q2 2014 (previous year: EUR 45.7 m). This corresponds to a margin of 82 % at 30 June 2014 after 79 % for H1 2013.

The Group generated total revenues of EUR 7.9m (previous year EUR 104.8m) from property sales from continued operations during the reporting period. Most of these sales involved individual residential properties that are not part of the Group’s core inventory. The previous year’s sales revenues mainly comprised a package sale of residential property in Berlin.

Other operating income amounted to EUR 4.3m (previous year EUR 3.5m), of which EUR 2.5m were generated during the second quarter of 2014.

The valuation results for the first quarter amounted to EUR 6,9m (previous year: EUR -0.1 m), all of which was attributable to additional takeovers from the residential portfolio acquired at the end of fiscal 2013.

Additional expenses in the amount of EUR 16.5m (previous year: EUR 14.8m) were incurred in the personnel department. For the most part this was due to one-time payments because of a changeover on the company's Board in the first quarter of 2014, and increased personnel expenditure in connection with the rollout of a new ERP program

Other operating expenses also increased to EUR 10.9 m, after EUR 8.8m in H1 2013 – mainly because of additional expenses incurred, on the one hand, as a result of launching our new ERP program on 1 January 2014. On the other hand, there was also increased expenditure on consulting in connection with the first-time implementation of a central procurement department within the Group.

Of the increased impairment losses on inventories and receivables of EUR 8.9m (previous year: EUR 2.7m), EUR 5.7 are due to a now value adjustment to the receivables from the sale of shares to Polares Real Estate Management GmbH that was completed at 31 March 2014.

Net interest income, the result of offsetting interest income against interest expenses, increased from EUR -46.8m in the first half of 2013 to EUR -49.2m at 30 June 2014. This is, however, due for the most part to higher valuation losses on derivatives even in continued operations totalling EUR 3.8m in the six-month period ended 30 June 2014. The average interest rate on our bank loans was down to just 3.6% at 30 June 2014, after 4.1% at 30 June 2013, and average maturity on our bank loans is 10 years (30 June 2013: 8 years).

Overall, TAG generated first-half EBT of EUR 26.0m (previous year: EUR 21.7m), and total net income of EUR 14.2m (previous year: EUR 26.4m) from continuing operations. For the second quarter of 2014, EBT from continuing operations was EUR 17.9m (previous year: EUR 10.5m) and total net income was EUR 6.3m (previous year EUR 12.3m).

The discontinued operations generated a net loss of EUR 3.3m (previous year EUR 2.6m), which, apart from EUR 6.1m in impairment losses on derivatives which were recycled within equity to profit and loss from the hedge accounting also includes the capital gains of EUR 1.0m (previous year EUR 0.0m) from the sale of TAG Gewerbeimmobilien GmbH.

Meanwhile FFO I – which shows our operating profitability and is calculated from the EBT (of the whole Group, i. e. including discontinued operations) without results from sales, valuation results, depreciation and impairment charges and non-cash interest expense, and without special effects – for the first half of 2014 rose to EUR 41.7m after EUR 31.5m in the same period of the previous year. Compared to the first quarter of 2014, when FFO I came to EUR 20.7m, FFO I for Q2 reached EUR 21.0m despite the deconsolidation of TAG Gewerbeimmobilien GmbH at 30 May 2014.

### Assets and financial position

The balance sheet total at 30 June 2014 was EUR 3,686.0m after EUR 3,763.3m at 31 December 2013. This change mainly resulted from the deconsolidation of TAG Gewerbeimmobilien GmbH, which at 30 May 2014 had a real estate volume of EUR 293.9m. Meanwhile, the issue of a new EUR 125.0m bond in June 2014 increased the balance sheet total.



The deconsolidation of TAG Gewerbeimmobilien GmbH reduced the Group's overall real estate volume by EUR 293.9m. Meanwhile, properties with a total volume of EUR 22.0m were purchased in the first half of 2014 and, as in the past, capitalisable modernization measures were made to the existing real estate portfolio. At June 30, 2014, the book value of the entire real estate inventory was EUR 3,347.5 m (previous year EUR 3,606.8 m), of which EUR 3,293.4 m (previous year EUR 3,544.1 m) are investment properties.

The equity ratio at the closing date was unchanged vs. 31 December 2013, at approximately 30%. The Net Asset Value (NAV) per share at 30 June 2014 was EUR 9.17, after EUR 9.45 at 31 December 2013, which is attributable to the dividend of EUR 0.35 per share paid out in June 2014. As at 31 December 2013, the NAV is calculated according to EPRA recommendations, i. e. based on the equity attributable to non-controlling interests, net of assets and liabilities from deferred taxes and derivative financial instruments.

In June 2014, TAG issued another bond in the amount of EUR 125.0m. The interest rate is 3.75% per annum for a term of six years. The proceeds from the bond issue serve primarily to finance TAG's further growth. Due to the increase in our corporate bond by a further EUR 110.0m already carried out in February 2014, the book value of the bonds rose to EUR 435.1m compared to EUR 197.0m as at 31 December 2013.

Liabilities to banks at the reporting date amounted to EUR 1,855.7 m (previous year: EUR 2,126.6m). The deconsolidation of TAG Gewerbeimmobilien GmbH on 30 May 2014 reduced the Group's liabilities to banks by EUR 166.1 m.

The loan to value ratio, calculated as the ratio of liabilities to banks and from corporate bonds, minus existing cash in relation to the total property assets – without including the liabilities from convertible bonds – was 61.5% at 30 June 2014 (December 31, 2013: 62.1%). The sale of TAG Gewerbeimmobilien GmbH and the new bond issue in June 2014 pushed the Group's cash and cash equivalents to EUR 237.7 m, versus EUR 85.3 at 31 December 2013.

## **e) HR report (employees) and personnel changes on the Boards**

At 30 June 2014, the TAG group had 535 employees. At 31 December 2013, it employed 519 people.

Based on the Supervisory Board resolution of 26 February 2014 Mr Martin Thiel was appointed as the new Chief Financial Officer (CFO) of TAG Immobilien AG with effect from 1 April 2014. Mr Georg Griesemann stepped down from the company's Management Board on March 31, 2014. The Chairman of the Supervisory Board, Dr Lutz R. Ristow, retired from the Supervisory Board for age reasons at the end of the regular Annual General Meeting (AGM) on 13 June 2014. His deputy, Prof. Dr Ronald Frohne, also resigned his mandate at the end of the AGM for personal reasons. The AGM elected Dr Hans-Jürgen Ahlbrecht and Dr Hans-Ingo Holz as their successors on the Supervisory Board. Mr Lothar Lanz is the new Chairman of the Supervisory Board since June 13, 2014; its new Deputy Chairman is Dr Philipp Wagner.

## **f) Other financial and non-financial performance indicators**

In addition to the above-described financial indicators Funds from Operations (FFO), Net Asset Value (NAV) and loan-to-value (LTV) ratio, TAG especially and continually monitors the vacancy rate and the rental income generated.

Vacancy, without the Group's held-for-sale inventory, was 8.7 % in the residential portfolio at 30 June 2014, after 8.8 % at 31 December 2013. While inventory newly taken over through acquisitions exacerbated vacancy, at the Salzgitter site in particular vacancy was further reduced. The vacancy rate here was reduced from 18.6 % at 31 December 2013 to 17.3 % at 30 June 2014. At the reporting date, average rent per square metre across the entire residential real estate portfolio, was EUR 5.06 after EUR 5.04 at the beginning of the fiscal year, despite the expiration of a master rental contract and the newly incorporated units.

## II. Material events after the reporting date

After the reporting date the real estate portfolio acquired in February 2014, consisting of approx. 4,000 units, was taken over by the group. Beside that, there were no significant events requiring disclosure after the end of the interim reporting period.

## III. Outlook, opportunities and risks

Through its activities, TAG is exposed to various operational and economic opportunities and risks. Please refer to the detailed disclosure in the „Opportunities and Risk Report“ section of the Group Management Report for the 2013 fiscal year. Since 1 January 2014, no significant developments have occurred or become apparent that would lead to a different assessment.

With effect from August 1, 2014 we added about 4,000 units from the portfolio acquired in February this year into our inventory, so that the rental income and results are included in the consolidated income statement from that date. With this in mind, we continue to expect FFO I of EUR 90m for fiscal year 2014. Our dividend policy of distributing approx. 75 % of these FFO to our shareholders still applies so that, having paid a dividend of EUR 0.35 per share in fiscal 2014, we expect the dividend for the 2015 fiscal year to increase to EUR 0.50 per share.

Hamburg, 6 August 2014



**Rolf Elgeti**  
CEO



**Martin Thiel**  
CFO



**Claudia Hoyer**  
COO



**Dr. Harboe Vaagt**  
CLO

## Consolidated balance sheet

<b>Assets in TEUR</b>	<b>06 / 30 / 2014</b>	<b>12 / 31 / 2013</b>
<b>Non-current assets</b>		
Investment properties	3,293,410	3,544,075
Intangible assets	5,474	5,142
Property, plant and equipment	13,029	13,028
Investments in associates	135	119
Other financial assets	47,509	18,178
Deferred taxes	0	613
	<b>3,359,557</b>	<b>3,581,155</b>
<b>Current assets</b>		
Land with unfinished and finished buildings	42,965	46,874
Other inventories	361	618
Trade receivables	13,281	16,221
Income tax receivables	1,767	3,293
Derivative financial instruments	4,796	8,884
Other current assets	24,295	14,984
Cash and cash equivalents	237,727	85,326
	<b>325,192</b>	<b>176,200</b>
<b>Non-current assets available-for-sale</b>	<b>1,299</b>	<b>5,969</b>
	<b>3,686,048</b>	<b>3,763,324</b>

<b>Equity and liabilities in TEUR</b>	<b>06 / 30 / 2014</b>	<b>12 / 31 / 2013</b>
<b>Equity</b>		
Subscribed capital	131,312	131,298
Share premium	705,403	705,898
Other reserves	-6,170	-10,930
Unappropriated surplus	249,185	281,040
Attributable to the equity-holders of the parent company	1,079,730	1,107,306
Attributable to non-controlling interests	20,723	20,060
	<b>1,100,453</b>	<b>1,127,366</b>
<b>Non-current liabilities</b>		
Bank borrowings	1,754,682	1,947,049
Liabilities from corporate bonds	435,068	197,006
Liabilities from convertible bonds	106,945	106,125
Derivative financial instruments	7,300	13,519
Retirement benefit provisions	5,518	5,618
Other non-current liabilities	358	293
Deferred taxes	116,466	120,710
	<b>2,426,337</b>	<b>2,390,320</b>
<b>Current liabilities</b>		
Other provisions	20,072	24,214
Income tax liabilities	4,131	9,423
Bank borrowings	101,040	179,534
Trade payables	7,386	11,385
Derivative financial instruments	5,530	9,166
Liabilities from corporate bonds	6,331	4,100
Liabilities from convertible bonds	1,303	190
Other current liabilities	13,465	7,626
	<b>159,258</b>	<b>245,638</b>
	<b>3,686,048</b>	<b>3,763,324</b>

## Consolidated income statement

in TEUR	01/01 – 06/30/2014	01/01 – 06/30/2013 (adjusted)	04/01 – 06/30/2014	04/01 – 06/30/2013 (adjusted)
<b>Total revenues</b>	<b>131,623</b>	<b>221,375</b>	<b>68,208</b>	<b>61,770</b>
Rental revenues	121,988	115,051	61,905	57,137
Rental expenses	-21,541	-24,138	-11,292	-11,417
Net rental income	100,447	90,913	50,613	45,720
Revenues from the sale of inventory real estate	4,359	4,927	3,365	1,866
Expenses on the sale of inventory real estate	-4,195	-4,155	-3,378	-1,812
Net revenues from sale of inventory real estate	164	772	-13	54
Revenues from the sale of investment properties	3,549	99,917	1,599	1,857
Expenses on the sale of investment properties	-3,939	-100,754	-1,877	-2,446
Net revenues from sale of investment properties	-390	-837	-278	-589
Revenues from property management	1,727	1,480	1,339	910
Expenses for the provision of property management	-519	-8	-517	-3
Net income from the provisions of property management	1,208	1,472	822	907
Other operating income	4,279	3,524	2,488	1,649
Fair-value remeasurement of investment properties	0	-96	10	0
Net fair value gains and losses from measurement of newly acquired investment properties	6,875	0	4,851	0
Total net gains from the remeasurement of investment properties	6,875	-96	4,861	0
<b>Gross profit</b>	<b>112,583</b>	<b>95,748</b>	<b>58,493</b>	<b>47,741</b>
Personnel expenses	-16,487	-14,799	-8,455	-7,560
Depreciation / amortisation	-1,260	-1,035	-643	-562
Impairment losses on receivables and inventories	-8,883	-2,720	-1,491	-1,587
Other operating expenses	-10,929	-8,762	-5,947	-4,631
<b>EBIT</b>	<b>75,024</b>	<b>68,432</b>	<b>41,957</b>	<b>33,401</b>
Net profit from investments	135	135	55	67
Share of profit from associates	16	-3	10	-4
Loss absorption	0	-7	0	0
Interest income	1,757	5,770	815	3,422
Borrowing costs	-50,908	-52,597	-24,973	-26,407
<b>EBT</b>	<b>26,024</b>	<b>21,730</b>	<b>17,864</b>	<b>10,479</b>
Income taxes	-8,391	1,912	-7,265	456
Other taxes	-155	91	-145	100
<b>Consolidated net profit from continuing operations</b>	<b>17,478</b>	<b>23,733</b>	<b>10,454</b>	<b>11,035</b>

in TEUR	01/01– 06/30/2014	01/01– 06/30/2013 (adjusted)	04/01– 06/30/2014	04/01– 06/30/2013 (adjusted)
Post tax result of discontinued operation	-3,301	2,649	-4,204	1,217
<b>Consolidated net profit</b>	<b>14,177</b>	<b>26,382</b>	<b>6,250</b>	<b>12,252</b>
of which attributable to non-controlling interests	78	453	670	355
of which attributable to the Parent Company's shareholders	14,099	25,929	5,580	11,897
<b>Earnings per share (in EUR)</b>				
Basic loss per share	0.11	0.20	0.05	0.09
Diluted loss per share	0.11	0.20	0.05	0.09

## Consolidated statement of comprehensive income

in TEUR	01/01– 06/30/2014	01/01– 06/30/2013 (adjusted)	04/01– 06/30/2014	04/01– 06/30/2013 (adjusted)
<b>Net loss as shown in the income statement</b>	<b>14.177</b>	<b>26,382</b>	<b>6.250</b>	<b>12,252</b>
Net result from hedge accounting	8.196	7.026	8.983	2,428
Deferred taxes	-2.850	-1.676	-2.976	-582
Other comprehensive income after taxes	5.346	5.350	6.007	1,846
<b>Total comprehensive income</b>	<b>19,523</b>	<b>31.732</b>	<b>12.257</b>	<b>14,908</b>
of which attributable to non-controlling interests	658	827	1.250	523
of which attributable to the Parent Company's shareholders	18.865	30,905	11.007	13,575

## Consolidated cashflow statement

in TEUR	01/01 – 06/30/2014	01/01 – 06/30/2013
<b>Consolidated net profit (continuing and discontinued operations)</b>	<b>14,177</b>	<b>26,382</b>
Net interest income/expense recognised in income statement	58,233	50,916
Actual income taxes recognised in income statement	-1,319	1,000
Depreciation and amortisation	1,260	1,025
Share of profit of associates	-16	3
Total net fair value gains and losses on investment properties	-6,875	379
Losses from the disposal of investment properties	390	1,137
Losses from the disposal of property, plant and equipment	0	2
Gains from the disposal of discontinued operations	-1,004	0
Impairments on inventories and receivables	9,263	3,098
Changes in deferred income taxes	10,427	53
Changes in provisions	-4,119	-3,616
Interest received	838	962
Interest paid	-46,139	-51,703
Income tax refunds received	797	263
Income tax paid	-842	-507
Changes to receivables and other assets	2,102	3,995
Changes to payables and other liabilities	-3,341	-9,733
<b>Cashflow from operating activities</b>	<b>33,832</b>	<b>23,656</b>
Payments received from the disposal of investment properties	5,254	104,717
Payments received from the disposal of fully consolidated companies	-38,351	-8,175
Payments received from the disposal of discontinued operations	70,282	0
Payments received from the disposal of investment properties	0	8
Payments made for investments in intangible assets and property, plant and equipment	-1,593	-3,226
Payments received from the disposal of other non-current assets held for sale	0	5,932
<b>Cashflow from investing activities</b>	<b>35,592</b>	<b>99,256</b>
Costs of raising capital	0	-353
Payments received from the issue of bonds	238,300	0
Costs in connection with the issue of bonds	-238	0
Dividend	-45,954	-32,685
Payments received from bank borrowings	9,096	157,391
Payments made for repaying bank borrowings	-113,879	-242,124
Payments made for business combinations without change of status	-577	-256
<b>Cashflow from financing activities</b>	<b>86,748</b>	<b>-118,027</b>
Net change in cash and cash equivalents	156,172	4,885
Cash and cash equivalents at the beginning of the period	79,008	31,712
<b>Cash and cash equivalents at the end of the period</b>	<b>235,180</b>	<b>36,597</b>



## Statement of changes in consolidated equity

in TEUR	Attributable to the parent's shareholders							Non-controlling interests	Total equity
	Subscribed capital	Share premium	Other reserves			In-appropriated surplus	Total		
			Retained earnings	Hedge accounting reserve	Currency translation				
<b>Amount on 01/01/2014</b>	<b>131,298</b>	<b>705,898</b>	<b>527</b>	<b>-11,546</b>	<b>89</b>	<b>281,040</b>	<b>1,107,306</b>	<b>20,060</b>	<b>1,127,366</b>
Consolidated net profit	0	0	0	0	0	14,099	14,099	78	14,177
Other comprehensive income	0	0	0	4,766	0	0	4,766	580	5,346
Total comprehensive income	0	0	0	4,766	0	14,099	18,865	658	19,523
Increase/decrease in shares without any change of status	0	-577	0	0	0	0	-577	5	-572
Conversion of bonds	14	82	0	0	0	0	96	0	96
Dividend	0	0	0	0	0	-45,954	-45,954	0	-45,954
Currency translation	0	0	0	0	-6	0	-6	0	-6
<b>Amount on 06/30/2014</b>	<b>131,312</b>	<b>705,403</b>	<b>527</b>	<b>-6,780</b>	<b>83</b>	<b>249,184</b>	<b>1,079,730</b>	<b>20,723</b>	<b>1,100,453</b>
<b>Amount on 01/01/2013</b>	<b>130,738</b>	<b>739,971</b>	<b>527</b>	<b>-20,833</b>	<b>96</b>	<b>285,678</b>	<b>1,136,177</b>	<b>20,279</b>	<b>1,156,456</b>
Consolidated net profit	0	0	0	0	0	25,929	25,929	453	26,382
Other comprehensive income	0	0	0	4,976	0	0	4,976	374	5,350
Total comprehensive income	0	0	0	4,976	0	25,929	30,905	827	31,732
Increase/decrease in shares without any change of status	0	-127	0	0	0	0	-127	-128	-255
Cost of issuing equity (after income taxes)	0	-239	0	0	0	0	-239	0	-239
Dividend	0	0	0	0	0	-32,685	-32,685	0	-32,685
Currency translation	0	0	0	0	-11	0	-11	0	-11
<b>Amount on 06/30/2013</b>	<b>130,738</b>	<b>739,605</b>	<b>527</b>	<b>-15,857</b>	<b>85</b>	<b>278,922</b>	<b>1,134,021</b>	<b>20,978</b>	<b>1,154,999</b>

## Consolidated segment report

For the period from 1 January to 30 June 2014

in TEUR	Residential real estate				
	Hamburg	Berlin	NRW	Salzgitter	Thuringia/ Saxony
<b>Rental income</b>	<b>19,777</b>	<b>24,108</b>	<b>8,316</b>	<b>15,403</b>	<b>50,862</b>
Previous year	19,188	23,250	8,130	13,690	46,940
■ of which external rental income	19,777	24,074	8,316	15,403	50,809
Previous year	19,188	23,222	8,130	13,690	46,891
■ of which internal rental income	0	34	0	0	53
Previous year	0	28	0	0	49
<b>Rental expenses</b>					
Previous year					
<b>Asset sales</b>					
Previous year					
<b>Net income from services</b>					
Previous year					
Remeasurement					
Previous year					
Investment properties					
Previous year					
Non-allocated other operating income					
Previous year					
■ of which consolidation gains					
Previous year					
<b>Gross profit</b>					
Previous year					
■ Miscellaneous nonallocated expenses					
Previous year					
<b>EBT</b>					
Previous year					
<b>Segment assets</b>	<b>538,493</b>	<b>672,248</b>	<b>229,125</b>	<b>362,510</b>	<b>1,378,259</b>
Previous year	532,639	665,542	224,734	359,544	1,360,859
Non-allocated assets					
Previous year					
<b>Total assets</b>					
Previous year					

Total residential	Other activities	Consolidation	Continuing operations	Discontinued operations	TAG Group
118,466	3,901	-379	121,988	8,498	130,486
111,198	4,186	-333	115,051	10,505	125,556
118,379	3,609	0	121,988	8,498	130,486
111,121	3,930	0	115,051	10,505	125,556
87	292	-379	0	0	0
77	256	-333	0	0	0
			-21,541	-1,643	-23,184
			-24,138	-2,011	-26,149
			-226	-622	-848
			-65	-356	-421
			1,208	0	1,208
			1,472	0	1,472
			6,875	0	6,875
			-96	-283	-379
			0	0	0
			0	0	0
			4,279	1,016	5,296
			3,524	41	3,565
			156	0	156
			0	0	0
			112,583	7,249	119,833
			95,748	7,896	103,644
			-86,560	-9,767	-96,327
			-74,018	-4,605	-78,623
			26,024	-2,518	23,506
			21,730	3,291	25,021
3,180,635	166,867	0	3,347,502	0	3,347,502
3,143,318	166,859	0	3,310,177	296,622	3,606,799
					338,546
					156,525
					3,686,048
					3,763,324

# Notes on the abridged consolidated interim financial statements for the quarter ending 30 June 2014

## General information

These abridged consolidated interim financial statements have been prepared by TAG Immobilien AG (hereinafter referred to as the “Company” or “TAG”) in accordance with the provisions contained in Section 37w of the German Securities Trading Act pertaining to interim financial reporting. The period under review comprises the first six months of 2014. The comparison figures refer to 31 December 2013 with respect to the consolidated balance sheet and otherwise to the first six months of 2013. In addition, the consolidated income statement and the consolidated statement of comprehensive income contain figures pertaining to the second quarter of 2014 together with the corresponding comparison figures for the same period of the previous year.

The interim financial report for the first half of the year has been prepared on a consolidated basis in accordance with the International Financial Reporting Standards (IFRS) in the version endorsed by the EU concerning interim reporting (IAS 34 – Interim Reporting) subject to mandatory application as of the reporting date. In addition, allowance has been made for the provisions contained in German Accounting Standard No. 16 (DRS 16 – Interim Reporting). The figures reported in the interim financial statements are mostly denominated in TEUR (thousands of euros). This may result in rounding differences between the individual parts of the financial statements.

The new standards to be applied for the first time in the period under review (IFRS 10, IFRS 11 and IFRS 12 containing new guidance on consolidation accounting and IFRIC 21 with new guidance on the recognition of public levies) did not have any material effect on the consolidated interim financial statements; the same thing applies to the revisions taking effect from 1 January 2014 to IAS 27 and IAS 28 (as a consequence of the new guidance contained in IFRS 10–12), IFRS 32 and IAS 39 (changes to individual guidance on the presentation, recognition and measurement of financial instruments) and IAS 36 (changes to individual guidance on impairments of non-financial assets).

The recognition and measurement principles as well as the notes and explanations on the interim consolidated financial statements are based on the recognition and measurement principles applied to the consolidated financial statements for the year ending 31 December 2013. For more details concerning the recognition and measurement principles applied, please refer to the consolidated financial statements for the year ending 31 December 2013 prepared in accordance with IFRS, which pursuant to IAS 34 form the material basis for these interim financial statements.

## Consolidation group

The consolidation group as of 30 June 2014 includes the parent company TAG and all companies which are controlled by TAG. Under IFRS 10, the Group is deemed to control an investee if it has power over it, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Group's returns. The investee's assets and liabilities are consolidated for the duration of such control. The new control concept introduced by IFRS 10 applies to all investees and defines control on the basis of de facto circumstances. It does not result in any changes for TAG in earnings over the previous guidance provided by IAS 27.

If shares in subsidiaries are considered to be of subordinate significance from the Group's perspective, they are recognised as available-for-sale financial assets in accordance with IAS 39. There was a material change in the companies consolidated in the period under review as a result of the deconsolidation of TAG Gewerbeimmobilien GmbH and its wholly owned subsidiary TAG Logistik Immobilien GmbH & Co. KG.

## Material transactions during the period under review

### Purchase of real estate

In the course of the first half of 2014 the Group assumed real estate assets from a portfolio which had been acquired at the end of the previous year. This resulted in additions of TEUR 17,602 to investment properties. Total gains of TEUR 6,396 were recorded in the consolidated income statement as a result of the first-time recognition of this real estate at its fair value as of 30 June 2014.

## Deconsolidation of TAG Gewerbeimmobilien GmbH and resultant abandonment of commercial real estate business

In a contract dated 28 March 2014, TAG sold 80% of its shares in TAG Gewerbeimmobilien GmbH to a fund initiated by Apollo Global Management. The contract was closed on 30 May 2014, at which time the transfer of the shares took legal effect and control was lost. TAG Gewerbeimmobilien GmbH was deconsolidated on that date. As of that date, the remaining 20% share is recognised using the equity method of accounting, meaning that the company is now reported as an associate. The fair value of this investment was recognised at EUR 1 following deconsolidation. Deconsolidation resulted in the following derecognised net assets:

	<b>05 / 30 / 2014 TEUR</b>
Investment properties	293,917
Other assets	2,512
Cash and cash equivalents	4,750
Debts to credit institutions	166,078
Derivatives	6,750
Deferred taxes	8,933
Other liabilities	5,236
<b>Net assets and liabilities sold</b>	<b>114,181</b>

The proceeds from sale of TEUR 1,004 result from the comparison with the cash purchase price (not of selling costs) of TEUR 75,032, the book value of the deferred purchase price of TEUR 35,027 and the tax benefits allocated to the discontinuing business from an economic point of view of TEUR 5,125.

The cash purchase price stated covers both the sale of 80% of the shares and the shareholder loan, which was also sold and was valued at TEUR 78,028 as of May 30, 2014. The deferred purchase price was recognized at the present value of the expected future cashflows. The calculation is based on a discount rate of 3.16%. The future cashflows were estimated on the basis of a 5-year forecast. Accordingly, a material discretionary decision was required for this purpose.

As a result of this sale, TAG has disposed of all main elements of its commercial real estate portfolio. The Group will only be retaining sporadic assets which are mostly used in conjunction with other types of use, e.g. residential and the self-used corporate headquarters in Hamburg.

These residual activities fall short of the IFRS 8 materiality thresholds for the definition of a separate segment as they account for less than 10 % of assets, rental income and consolidated earnings. Accordingly, they are included within “other activities” in the consolidated segment report together with other activities of subordinate importance such as the remaining service business.

As in the previous quarter ending 31 March 2014, the guidance contained in IFRS 5 on discontinued operations is being applied as a result of the deconsolidation. In the consolidated income statement, all income and expenses accruing from the discontinued operations, including gains from the sale, are netted and presented within “post-tax profit or loss of the discontinued operation”. The income, expenses and assets of the discontinued operations are also shown separately in the consolidated segment report. The previous-year figures in the consolidated income statement and in the consolidated segment report are restated accordingly.

The post-tax profit or loss from the discontinued operations reported within the consolidated income statement which is fully attributable to the parent company’s equityholders breaks down as follows:

	01 / 01 – 06 / 30 / 2014 TEUR	01 / 01 – 06 / 30 / 2013 TEUR
Revenues	10,348	15,631
Expenses	-13,869	-12,340
<b>EBT</b>	<b>-3,521</b>	<b>3,291</b>
Income taxes and other taxes	-784	-642
Current net profit/loss from discontinued operations	-4,305	2,649
Proceeds from sale	1,004	0
<b>Earnings after tax from discontinued operations (total)</b>	<b>-3,301</b>	<b>2,649</b>
<b>Earnings per share from discontinued operations</b>		
Basic (in EUR)	-0.03	0.02
Diluted (in EUR)	-0.03	0.02

The net cash inflow from the sale of the discontinued operations breaks down as follows:

Cash purchase price	76,035
Selling costs	-1,003
Cash and cash equivalents transferred	-4,750
<b>Net cash inflow</b>	<b>70,282</b>

The following cashflows are allocated to the discontinued operations:

	<b>01 / 01 – 06 / 30 / 2014 TEUR</b>	<b>01 / 01 – 06 / 30 / 2013 TEUR</b>
Cashflow from operating activities	3,591	3,566
Cashflow from investing activities	1,705	4,732
Cashflow from financing activities	-1,328	-6,135
<b>Total cashflow from discontinued operations</b>	<b>3,968</b>	<b>2,163</b>

## Dividend

At the Annual General Meeting held on 13 June 2014, a resolution was passed approving a dividend of EUR 0.35 per share for 2013; the dividend was paid out to the shareholders after the meeting.

## Bond issue

On 25 June 2014, TAG issued a further bond of EUR 125m with a coupon of 3.75 % and a term of six years. The proceeds from the issue are primarily being used to finance TAG's continued growth.



## Changes in the composition of the Management and Supervisory Board

In a resolution passed by the Supervisory Board on 26 February 2014, Martin Thiel was appointed Chief Financial Officer (CFO) of TAG Immobilien AG effective 1 April 2014. Georg Griesemann left the Company's Management Board on 31 March 2014.

The Chairman of the Supervisory Board, Dr. Lutz R. Ristow, stepped down from the Supervisory Board at the end of the Annual General Meeting on 13 June 2014 for age reasons. The Deputy Chairman, Prof. Dr. Ronald Frohne, also retired from the Supervisory Board at the end of the Annual General Meeting for personal reasons. At the Annual General Meeting, the shareholders elected Dr. Hans-Jürgen Ahlbrecht and Dr. Ingo-Hans Holz as their successors to the Supervisory Board. The new Chairman of the Supervisory Board is Lothar Lanz and the new Deputy Chairman Dr. Philipp Wagner as of 13 June 2014.

## Disclosures on fair values and financial instruments

The fair values of the assets and liabilities recorded in the consolidated balance sheet break down as follows:

	Fair value hierarchy	06/30/2014 TEUR	12/31/2013 TEUR
Assets			
Investment properties	Level 3	3,293,410	3,544,075
Derivatives with no hedging relationship	Level 2	4,784	8,794
Derivatives with a hedging relationship	Level 2	12	97
Equity and liabilities			
Derivatives with no hedging relationship	Level 2	1,023	1,063
Derivatives with a hedging relationship	Level 2	11,807	21,623

In addition, the following financial instruments are measured at amortised cost in the consolidated financial statements:

<b>30 June 2014</b>	<b>Carrying amount TEUR</b>	<b>IAS 39 Category*</b>	<b>Fair value TEUR</b>	<b>Fair value hierarchy</b>
Assets				
Other financial assets				
Other long-term equity investments	5,734	AmC	n/a	
Other financial assets	41,775	LaR	41,775	Level 2
Trade receivables	13,281	LaR	13,281	Level 2
Other current assets	24,295	LaR	24,295	Level 2
Cash and cash equivalents	237,727	LaR	237,727	Level 2
Liabilities				
Bank borrowings	1,855,722	AmC	1,872,769	Level 2
Liabilities from convertible bonds	108,248	AmC	119,986	Level 2
Liabilities from corporate bonds	441,399	AmC	459,655	Level 2
Other non-current liabilities	358	AmC	358	Level 2
Trade payables	7,386	AmC	7,386	Level 2
Other current liabilities	13,465	AmC	13,465	Level 2
<b>31 December 2013</b>				
Assets				
Other financial assets				
Other long-term equity investments	5,734	AmC	n/a	
Other financial assets	12,444	LaR	12,444	Level 2
Trade receivables	16,221	LaR	16,221	Level 2
Other current assets	14,498	LaR	14,498	Level 2
Cash and cash equivalents	85,326	LaR	85,326	Level 2
Liabilities				
Bank borrowings	2,126,583	AmC	2,068,515	Level 2
Liabilities from convertible bonds	106,315	AmC	115,014	Level 2
Liabilities from corporate bonds	201,106	AmC	206,000	Level 2
Other non-current liabilities	293	AmC	293	Level 2
Trade payables	11,385	AmC	11,385	Level 2
Other current liabilities	11,726	AmC	11,726	Level 2

\* LaR: Loans and Receivables; AmC: Amortised Cost

The fair value of assets and liabilities is determined by using input factors which are as market-oriented as possible. The measurement hierarchy divides the input factors into three levels depending on the availability of data:

Level 1: Prices quoted in active markets for identical assets or liabilities (such as share prices)

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices)

Level 3: Valuation techniques for which any significant input is not based on observable market data

If input factors for different hierarchical levels are applied, the fair value is calculated on the basis of the lower hierarchical level. There were no transfers between the individual hierarchical levels in the period under review.

Derivative financial instruments are measured using established methods (e.g. discounted cashflow method), the input parameters for which are derived from active markets.

The investment properties were not remeasured by external valuers as of June 30, 2014. Accordingly, the fair values as of December 31, 2013 were retained. However, a triggering-event analysis was performed on individual investment properties, e.g. in the event of any material changes in rents, vacancies and market conditions, to identify any need for adjustments. No adjustments were found to be necessary.

The investments are recognised at historical cost less any impairments as it is not possible to reliably determine their fair values. These are non-listed investments for which there is no active market. These investments are predominantly subsidiaries engaged in the real estate sector with only minor business activities. At the moment, there is no specific intention for these investments to be sold.

The fair value of the other financial assets corresponds to the present value of the expected cashflows in the light of their duration and risk-adjusted market interest rates. Non-current bank borrowings and other non-current liabilities are measured accordingly. Trade receivables, other current assets and cash and cash equivalents have short settlement periods. Accordingly, their carrying amount as of the balance sheet date comes close to their fair value. This also applies to current bank borrowings, trade payables and other current liabilities.

There were no material change in the Group's financial risks (interest risk, credit risk as well as the liquidity and funding risk) in the period under review compared with 31 December 2013.

## **Material events after the end of the period covered by this interim report**

After the reporting date the real estate portfolio acquired in February 2014, consisting of approx. 4,000 units, was taken over by the group. Beside that, there were no material events after the end of the period covered by this interim report.

## **Other disclosures**

Following the sale of the majority interest in TAG Gewerbeimmobilien GmbH, which has since been renamed "Texxas Gewerbeimmobilien GmbH" and has moved its registered offices from Hamburg to Eschborn, this company is now recognised as an associate due to the remaining 20% share still held. This means that business relations with this company must be disclosed as transactions with related persons. As of 30 June 2014, TAG still held contingent liabilities for loans of TEUR 54,748 in consideration of which it receives a fee of 0.5% of the outstanding amount from 1 January 2015 on. In the event of any utilization of the contingent liabilities, there is a right of recourse to the buyers in a matching amount. Other than this, there has been no material change in the Group's contingent liabilities since 31 December 2013. Similarly, there were no material changes in the business relations with related parties in the period under review.

On 30 June 2014, the TAG Group had 535 employees, compared with 519 on 31 December 2013.

## Basis of reporting

The preparation of the abridged consolidated interim financial statements pursuant to IFRS 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, the abridged consolidated interim financial 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 the Company can neither control, influence nor precisely estimate. This concerns, for example, future market and economic conditions, other market participants' behaviour, 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.

Hamburg, 6 August 2014



**Rolf Elgeti**  
CEO



**Martin Thiel**  
CFO



**Claudia Hoyer**  
COO



**Dr. Harboe Vaagt**  
CLO

## Review report of the independent auditor

### To TAG Immobilien AG

We have reviewed the condensed interim consolidated financial statements of the TAG Immobilien AG – comprising consolidated balance sheet, consolidated income statement, consolidated cashflow statement, consolidated statement of comprehensive income, consolidated cashflow statement, statement of changes in consolidated equity, consolidated segment report and notes on the abridged consolidated interim financial statement as of June 30, 2014 – together with the interim group management report of the TAG Immobilien AG, Hamburg, for the period from January 1, 2014 to June 30, 2014 that are part of the semi annual financial report according to § 37 w WpHG („Wertpapierhandelsgesetz“: „German Securities Trading Act“). The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Hamburg, 6 August 2014

**KPMG AG**

**Wirtschaftsprüfungsgesellschaft**

**Madsen**

**German Public Auditor**

**Drotleff**

**German Public Auditor**

## Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Hamburg, 6 August 2014

The Management Board



## TAG Financial Calendar

07 August 2014	Publication of the Interim Report on Q2 2014
06 November 2014	Publication of the Interim Report on Q3 2014





Planckstrasse, Hamburg

## Contact

TAG Immobilien AG  
Steckelhörn 5  
20457 Hamburg  
Telephone + 49 40 380 32-0  
Telefax + 49 40 380 32-388  
info@tag-ag.com  
www.tag-ag.com

Dominique Mann  
Head of Investor & Public Relations  
Telephone + 49 40 380 32-300  
Telefax + 49 40 380 32-388  
ir@tag-ag.com

The English version of the interim report on Q2 2014 is a translation of the German version of the interim report. The German version of this interim report is legally binding.





# TAG

---

## Immobilien AG

Steckelhörn 5

20457 Hamburg

Telefon +49 40 380 32-0

Telefax +49 40 380 32-388

[info@tag-ag.com](mailto:info@tag-ag.com)

[www.tag-ag.com](http://www.tag-ag.com)