



Interim Report on the 3rd quarter of 2014

Growing Assets

TAG
Immobilien AG

Group financials IFRS

in TEUR	01/01 – 09/30/2014	01/01 – 09/30/2013
A. Income statement key figures		
Rental income in total	192,899	188,016
a) Rental income from continuing operations	184,401	172,446
b) Rental income from discontinued operation	8,498	15,570
EBITDA	120,551	108,381
EBIT	159,359	123,047
EBT	85,406	52,410
Consolidated net profit/loss	63,459	38,152
FFO I in EUR m (as previously reported)	60.6	48.6
FFO I in EUR m (re-defined)	56.2	43.4
AFFO in EUR m (re-defined)	34.5	31.4
FFO II in EUR m (re-defined)	55.6	43.2
FFO I per share in EUR (as previously reported)	0.51	0.37
FFO I per share in EUR (re-defined)	0.48	0.33
AFFO per share in EUR (re-defined)	0.29	0.24
FFO II per share in EUR (re-defined)	0.47	0.33
B. Balance sheet key figures		
	09/30/2014	12/31/2013
Total assets	3,724,231	3,763,324
Equity	1,027,917	1,127,366
Equity ratio in %	27.6	30.0
Real estate volume	3,530,459	3,606,799
LTV in %	61.6	62.1
LTV in % incl. outstanding convertible bonds	64.7	65.0
NAV in EUR m (as previously reported)	1,142	1,241
NAV in EUR m (re-defined)	1,201	1,307
NAV per share in EUR (as previously reported)	9.66	9.45
NAV per share in EUR (re-defined)	10.16	9.96
Diluted NAV per share in EUR (re-defined)	9.89	9.76
NAV per share in EUR (re-defined) after deduction of standardized transaction costs	8.62	8.75
C. Employees		
	09/30/2014	12/31/2013
Number of employees	534	519
D. Other key figures		
Market cap at 30 September 2014 in TEUR		1,177,870
Share capital in EUR		131,312,199.00
WKN/ISIN		830350/DE0008303504
Number of shares (issued)		131,312,199
Number of shares (outstanding after share buy-back)		118,185,022
Free Float in %		100
Index		MDAX/EPRA

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Foreword

Dear shareholders, Ladies and gentlemen,

During the first nine months of 2014 we successfully concentrated on optimising and managing our portfolio of properties and further advanced our focus on residential real estate. We steadily improved the key parameters of vacancy reduction and rents across our entire inventory of nearly 75,000 residential units. At the same time, by making targeted investments in efficiency and senior-friendly features, we are ensuring the future viability of our inventory and offer our tenants measurable added value at competitive prices in various regions of Germany.

In the first half of 2014, we disposed of our commercial real estate portfolio and achieved our strategically desired focus on the residential segment. Since December 2013, we have managed to expand the portfolio by approximately 9,000 residential units, mostly in Saxony and Thuringia, and to quickly integrate the newly acquired inventories into our existing structures.

Back in 2009 – much earlier than many of our competitors – we began expanding our portfolio through numerous acquisitions to create value for the Company's shareholders. In the current market environment, however, topics like capital discipline and effective allocation of capital are becoming more and more important, because in some segments and regions the purchase prices for residential units and residential packages have reached a level at which the long-term management of inventories is no longer in congruence with our costs of equity. So we will now take advantage of selective sales opportunities as well. In this connection we were able to sell about 2,600 units from our inventory in the Marzahn district of Berlin a few days ago. The purchase price of EUR 170.4 m will increase our NAV per share (before prepayment penalties for financing) by about EUR 0.30. We will use the funds raised through this and

possible other sales to further strengthen our portfolio with inventories that are capable of development in the core regions where we already have a presence. This transaction also goes to show that an inventory considered problematic a few years ago can be effectively managed through our platform, and its quality improved. This is also proven by the strong development of our NAV, which as of 30 September 2014 is at EUR 10.16 per share (following redefinition), or at EUR 9.66 (according to the previous version).

At the end of 2013, we had predicted FFO I of EUR 90m for the 2014 financial year. Based on the past number of shares, this corresponded to a value of EUR 0.69 per share. According to these Q3 results we will achieve this FFO I per share by the end of the year, although the absolute amount will be lower. The main reason are the sales completed in the first half of the 2014 financial year, in particular the discontinuation of rents from the commercial portfolio. These could not be fully offset by the operational growth, which was otherwise according to plan. Also, significant portions of the new inventories couldn't be transferred – and therefore have an effect on net income – until the second half of 2014.

For the coming 2015 financial year we are forecasting an FFO I of per share (according to the previous definition) of EUR 0.71 to EUR 0.73 or of EUR 0.67 to EUR 0.69 according to our redefinition of FFO I.

As early as the 2013 financial year, we had bought back EUR 72m in convertible bonds, thereby significantly reducing the potential dilutive effect for our shareholders. By repurchasing own shares below NAV in the amount of approximately EUR 122m in September and October 2014, we have now created even more value for our shareholders. The buy-back was based on our strong liquidity position from the commercial property sales and the successful placement of another bond in the amount of EUR 125m in June 2014.

To be able to continue buying back shares quickly and flexibly in future, wherever this makes sense for the total return on our shares and provided our debt remains in a sustainably stable framework, we plan to ask the shareholders to renew the authorisation to purchase own shares at the Extraordinary Shareholders' Meeting held on 28 November 2014.

At the same time the Extraordinary Shareholders' Meeting will vote on our former CEO Rolf Elgeti moving to the TAG Supervisory Board. Mr. Elgeti resigned from the Management Board for personal reasons on 31 October 2014. Shareholders who collectively hold more than 25% of the voting rights in our company have proposed his move to the Supervisory Board and support the prompt implementation of this proposal in order to preserve continuity in the composition of the TAG boards and also to be able to continue using Mr. Elgeti's strategic expertise and experience for the Company's benefit in future.



Cosmarweg, Berlin-Staaken

We thank you for the trust and confidence you have given us on this journey to date, and especially hope for your widespread support at the Extraordinary Shareholders' Meeting in late November, to which we cordially invite you.

With best regards,

Claudia Hoyer
COO

Martin Thiel
CFO

Dr. Harboe Vaagt
CLO

Portfolio – Overview

TAG Group's property portfolio comprises approximately 74,300 units at the end of the third quarter of 2014, mostly located in good urban locations in German growth regions. It is focused on selected regional locations with development potential, stable cash flows and attractive returns, and where TAG already has investments.

At the beginning of the year, following an acquisition of approximately 3,000 units that was transferred into the inventory in December 2013 and during the first half of 2014, the residential portfolio grew by another 4,000 units in Thuringia and Saxony, which were transferred into the inventory on 1 August 2014. Our market expertise in eastern Germany was further strengthened with two further acquisitions comprising about 1,800 units in Saxony and Saxony-Anhalt in August and September 2014; however, most of these will not transition to our inventory until Q4 2014.

Portfolio as of 09 / 30 / 2014	Total (Residential and Commercial)
Units	74,318
Rentable area in sqm	4,545,045
Real estate volume in TEUR	3,530,459
Net actual rent in EUR/sqm	5.17
Vacancy in %	9.3

The TAG's in the East German real estate market

TAG's footprint in the East German property market has increased significantly in recent years. The focus of investment in the residential market in former East Germany is chiefly determined by the positive economic key data. A cornerstone of this is the emerging positive trend in demographic development, which runs counter to all past predictions. For the first time since German reunification, in 2012 as many people moved from West to East as vice versa. The population is increasing especially in university towns

and cities with good educational and employment opportunities, such as Dresden, Leipzig, Magdeburg, Jena and Rostock. This trend in population development is accompanied by positive demand for living space. Demand is rising not only in the centres, but also in the immediate surrounding regions – vacancy is falling and rent levels are rising. As investor demand grows, we are also seeing an increase in the purchase price level. For some locations, an average of 16 to 17 times the annual net rental income is now being charged – in 2010, this purchase price factor was still at 12.9 in Dresden and Leipzig, e. g.

Sales in the first nine months of 2014

TAG Group's strategy focuses on the development and management of residential real estate. 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 297m as at December 31, 2013 – to an Apollo Global Management fund. The agreement was signed in March 2014 and finalized at the end of May 2014, so the commercial units were deconsolidated in the consolidated financial statements with effect from 30 May 2014. TAG is left with only a few commercial properties in its inventory, and significant parts of them include other forms of use, such as housing and our own owner-occupied corporate headquarters in Hamburg. Together with the serviced apartments we operate, the commercial real estate volume totals roughly EUR 171 m.

At locations where the purchase or sale price of residential properties is growing much faster than rents, and in order to optimise the portfolio, we are reviewing possible sales of individual properties and will go ahead with them if the sales would improve the profitability of our overall portfolio. So, in addition to the sale in the Marzahn district of Berlin detailed in the following paragraph, another approximately 50 units, mainly in Saxony and Thuringia, approximately 40 units in the greater Berlin area, and around 10 units in the Hamburg region were sold during the reporting period.

Berlin-Marzahn sale in early November 2014

One successful example of this strategy is the sale of a 2,600-unit property in the Marzahn district of Berlin at the beginning of November. TAG had already transferred part of the portfolio into its own inventory with the acquisition of Colonia Real Estate AG in 2011. Through active asset and property management, the original vacancy of around 5% was almost completely eliminated in the last three years, while rents were significantly increased at the same time. In early November, the Berlin-Marzahn portfolio was sold for EUR 170.4m, about EUR 35m more than its current IFRS book value at 30 September 2014.

After deduction of liabilities on the properties we expect a net cash inflow of around EUR 72m from the transaction. The contract is expected to close at the end of Q4 2014. The released capital is to be reinvested in further acquisitions with higher initial returns.



Alfred-Delp-Ring, Erfurt

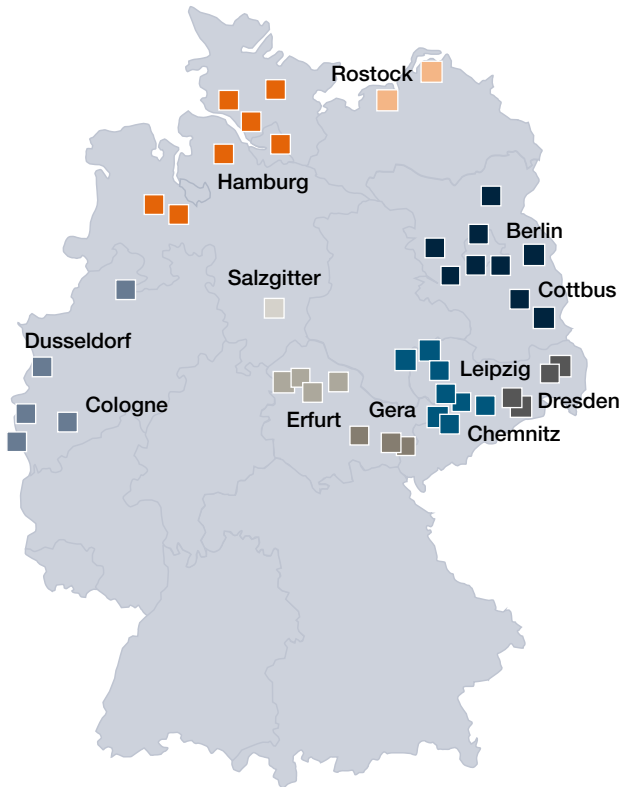
Portfolio – Regions and Locations

TAG's residential portfolio is concentrated in growth regions, which in addition to North Rhine-Westphalia essentially comprise northern Germany and former East Germany. As part of our strategy, we will continue to make future purchases only at locations where we can build on existing infrastructure, and the newly acquired inventory can be cost-effectively integrated and profitably managed.

In accordance with the organisational structure of our property management, the inventories are defined regionally and in each case are assigned to a Head of Property Management (HPM). Each HPM is largely responsible for their own regional budgets and cost control, as well as for planning and implementing activities to develop the inventory. This decentralised management and distribution of tasks enables quick and appropriate decisions for each regions.

Region	Units	IFRS Book value TEUR	In-place yield %	Va- cancy %	Net in- place rent EUR / sqm	Re- letting rent EUR / sqm	L-f-l rental growth (y-o-y) %	Mainte- nance EUR / sqm	Capex EUR / sqm
Berlin	13,241	683,550	6.7	4.7	5.09	5.75	2.2	3.33	5.44
Dresden	9,028	445,740	6.9	9.1	5.12	5.40	2.4	1.80	3.86
Erfurt	6,968	322,490	6.5	8.3	4.87	5.17	2.2	3.07	4.68
Gera	7,563	296,840	7.0	12.4	4.49	4.66	0.7	4.38	7.35
Hamburg	6,353	317,200	7.0	7.5	5.21	5.58	1.3	4.92	3.88
Leipzig	7,214	315,250	7.2	7.1	4.82	4.87	1.4	3.07	2.66
Rhine-Ruhr	3,685	228,510	6.6	2.6	5.42	5.74	1.2	8.66	1.70
Rostock	4,897	223,540	7.3	7.8	5.06	5.32	1.4	3.27	4.55
Salzgitter	9,173	358,630	7.6	16.6	4.83	5.07	1.1	7.55	8.40
Total residential units	68,122	3,191,750	7.0	8.6	4.98	5.31	1.7	4.21	5.05
Acquisitions	4,376	168,190	7.9	11.8	4.96	–	–	1.16	0.07
Commercial units (within residential portfolio)	1,333	–	–	17.8	7.87	–	–	–	–
Total residential portfolio	73,831	3,359,940	7.4	9.1	5.07	–	1.7	3.89	4.59
Other*	487	171,000	4.6	18.6	12.72	–	–	18.56	7.28
Grand total	74,318	3,530,940	7.2	9.3	5.17	–	1.7	4.10	4.63

* Including six commercial units and three serviced apartments.



- **Hamburg region (9%)**
 Segment: Hamburg; LIM: Hamburg
- **Rostock region (7%)**
 Segment: Hamburg; LIM: Mecklenburg-Vorpommern
- **Berlin region (20%)**
 Segment: Berlin; LIM: Berlin
- **Salzgitter region (13%)**
 Segment: Salzgitter; LIM: Salzgitter
- **Dresden region (13%)**
 Segment: Thuringia/Saxony;
 LIM: Dresden, Doebeln/Chemnitz
- **Leipzig region (11%)**
 Segment: Thuringia/Saxony; LIM: Leipzig
- **Gera region (11%)**
 Segment: Thuringia/Saxony; LIM: Gera
- **Erfurt region (10%)**
 Segment: Thuringia/Saxony; LIM: Erfurt
- **Rhine-Ruhr region (6%)**
 Segment: NRW; LIM: Dusseldorf

Vacancy and rent development

Effective asset and property management resulted in further vacancy reduction in the residential portfolio through the end of the third quarter. At year-end 2013, vacancy in the core inventory of the Group's residential portfolio – i. e. without the acquisitions during the financial year and without the commercial/retail units contained in the residential portfolio – was 8.9%. By the end of Q3 2014, it had been reduced to 8.6%. This positive trend is most clearly visible in the Salzgitter region which saw the highest vacancy reduction within the portfolio, by a total of 2% percentage points from 18.6% at the beginning of the year to 16.6% at 30 September 2014. This validates the correctness of our rental policies and measures in Salzgitter.

However, the trend has been positive across all locations of the residential portfolio. Everywhere, vacancy was reduced and rental income increased, rents for new leases were well above the previous rents (at 30 September 2014: EUR 5.31 per sqm in the permanent inventory) with average rent at EUR 4.50 per sqm and month.

No significant rent increases were imposed on existing tenants in the first nine months of 2014, 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 5.07 per sqm per month from the beginning of the year through the end of Q3 2014.

Successful renovation concept in Elmshorn

Back in 2012, after a careful review, TAG chose not to demolish a dilapidated seven-storey building in Elmshorn and instead completely renovated and comprehensively modernized it. By May this year, 42 modern 1-bedroom apartments were created, each between 30 sqm and 36 sqm and each with a balcony. 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. We began renting out the units in June, and by the end of September 2014, 100% of the residential units had been rented within a few weeks at an average price of EUR 9.04 per month. This significantly exceeds our original expectations of net actual post-renovation rent of EUR 8.50 per sqm and month.

This measure 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 quarters ahead.

Acquisition of additional portfolios in Saxony and Saxony-Anhalt

In September 2014, a portfolio in Saxony with 1,503 residential units was acquired at a purchase price of EUR 37.8m (factor 10.1). The properties are located in the university towns of Freiberg, Chemnitz and Dresden. The rentable area is approximately 85,000sqm, the current rent at around EUR 3.7m p.a. The portfolio has a vacancy rate of nearly 13%, because the structural condition of the property – mostly built in the 1970s and '80s – is only partially restored. Through specific investment and modernisation measures in the years ahead TAG can realise the value potential, which exists mainly in Chemnitz. The transfer of benefits/encumbrances took place on 31 October 2014. In addition, a portfolio in Dessau in Saxony-Anhalt with 270 fully renovated units and a rentable area of about 17,000sqm was acquired in August for a purchase price of EUR 11.3m (factor 10.7). The inventory has been continuously and optimally maintained since its refurbishment in 2000/2001, is at a high technical standard, and has no vacancy. The transfer of benefits/encumbrances for the portfolio took place on 30 September 2014.

Due to its good local infrastructure, TAG is able to manage and develop the new resources very efficiently. Both acquisitions show that despite the sales opportunities TAG has identified in the market, there is still growth potential. The purchase prices obtained, with multipliers of between 10 and 11 times the annual actual rent, promise attractive earnings and a further increase in our portfolio's operating cash flow.



Strasse Usti-nad-Labem, Chemnitz

Net Asset Value – NAV

NAV is a key international benchmark for evaluating real estate companies and is designed to show the fair value of net assets on a consistent and long-term basis.

On 30 September 2014 we adjusted and expanded the calculation of net asset value to allow for better comparability with competitors because, for one, we do not assess all of our investment properties with a standardized transaction allowance for incidental acquisition costs (usually 7–8% of the fair value), but only in those markets where, based on publically available information, the majority of transactions that take place are actually asset deals and therefore transaction costs are indeed expected at this level. We assess all other properties with our historic transaction costs for share deals (0.2% of fair value). Secondly, in the past we completely eliminated deferred tax positions from NAV, while competitors, following EPRA recommendations, only eliminate those deferred taxes attributable to the valuation of investment properties and of derivative financial instruments.

With this in mind, we are adapting our NAV calculation. The following table shows the calculation of NAV taking account of deferred taxes in accordance with EPRA recommendations:

in EUR m	09/30/2014	06/30/2014	12/31/2013
Equity (before minorities)	1,007.8	1,079.7	1,107.3
Deferred tax	126.2	116.5	120.1
Derivatives	8.0	8.0	13.8
EPRA NAV (as previously reported)	1,142.0	1,204.0	1,241.2
Deferred tax (except for investment properties and financial derivatives)	58.7	63.1	66.2
EPRA NAV (re-defined, pre -transaction costs)	1,200.7	1,267.3	1,307.4
Standardized purchasers costs	-181.6	-159.3	-159.0
EPRA NAV (post standardized purchasers costs)	1,019.1	1,108	1,148
Number of shares (outstanding)	118,185*	131,312	131,298
EPRA NAV per share in EUR (re-defined, pre -transaction costs)	10.16	9.65	9.96
EPRA NAV per share in EUR (re-defined, post -transaction costs)	8.62	8.44	8.75
EPRA NAV per share in EUR (as previously reported)	9.66	9.17	9.45
Number of shares (diluted)	144,456	144,456	145,110
EPRA NAV per share in EUR (re-defined, diluted)	9.89	9.44	9.76

* Completion of post share repurchase programme.

Taking into account the potential dilutive effects of convertible bonds, this yields a diluted NAV per share of EUR 9.89 to EUR 9.76 on 31 December 2013.

If the deferred taxes in the previous system had been incorporated into the NAV, it would have resulted in NAV per share of EUR 9.66 at 30 September 2014 (31 December 2013: EUR 9.45; 30 June 2014: EUR 9.17).

Assuming all investment properties are assessed using the above-described standardized deduction for transaction costs, this results in a NAV of EUR 8.62 as of 30 September 2014, a figure, which we will present as an alternative (indicator) from now on.

Funds from Operations – FFO

Funds From Operations (FFO) has become another important indicator for real estate companies, as it describes a company's operational profitability.

Under our definition to date, **FFO I** is calculated based on the Group's consolidated EBT, adjusted for non-cash items such as assessment results, depreciation, amortisation and non-cash interest expense and special effects that don't recur on a regular basis. FFO I is also adjusted for results from sales.

At the end of Q3 2014, FFO I was EUR 60.6m, reflecting a significant year-on-year increase (Q3 2013: EUR 48.6m). Compared to the first two quarters of 2014, the level has dipped slightly to EUR 19.0 (Q1/Q2 2014: EUR 20.7 or 21.0m). This is mainly due to the reduced rental income following the sale of the commercial portfolio, which became effective at the end of May 2014.

We want to enable a better future comparability to our competitors with regard to FFO as well, and are therefore redefining it starting with this quarterly report. So in future, FFO I will result from FFO I as reported in the past, but with the additional deduction of current income taxes and other taxes, and waiving any elimination of impairment losses on rental receivables. Defined in this way, FFO I in the first nine months of financial year 2014 was EUR 56.2m after EUR 43.4m in the same period of the previous year, and EUR 17.1m in Q3 2014 after EUR 19.2m and EUR 20.0m in the first and second quarters of 2014.



Wolfenbutter Strasse, Halberstadt

We report another indicator known as **AFFO** (Adjusted Funds From Operations), which is based on FFO I, but deducting capitalised investments in the portfolio holdings („Capex“) on the balance sheet. At 30 September 2014, AFFO came to EUR 38.9m or (based on the redefined FFO I) EUR 34.5m.

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 any associated bank loans). At 30 September 2014, FFO II was EUR 70.0m after EUR 100.7m in the same period of the previous year. The redefined FFO II is now based on the fixed FFO I and no longer takes into account the liquidity inflow, but rather the balance sheet profit from property sales. Calculated in this way, FFO II for the first nine months of financial year 2014 amounted to EUR 55.6m after EUR 43.2m in the same period last year.

FFO-Calculation

in EUR m	9M 2014	9M 2013	2013 Total	Q3 2014	Q3 2013
Net income	63.5	38.2	27.0	49.3	11.8
Taxes	19.4	0.4	-3.9	10.1	1.8
Net financial result	83.0	76.2	104.5	24.5	25.4
EBIT	165.9	114.8	127.6	83.9	39.0
Net financial result (cash)	-70.3	-72.7	-97.7	-23.0	-23.4
Taxes (cash)	0.8	-0.8	-1.1	-0.3	0.1
Net profit from investments/associates	0.2	0.2	0.7	0.1	0.1
Adjustments					
Valuation result	-51.5	-3.8	15.9	-44.6	-4.2
Revaluation of real estate inventory	-0.8	0.0	0.0	-0.8	0.0
Deconsolidation commercial portfolio	-1.0	-	-	0.0	0.0
Depreciation	1.9	1.6	2.2	0.6	0.6
Impairment losses on receivables and inventories	11.1	8.3	17.4	1.8	5.2
Non-cash financial expenses/ one off's refinancing	0.3	0.0	1.8	0.3	0.0
One off's personnel-costs and project costs	4.1	-	-	1.0	0.0
Results from sales	0.6	0.2	0.2	-0.3	0.2
Impairment losses on rent receivables	-5.2	-4.4	-5.3	-1.6	-1.6
FFO I (re-defined)	56.2	43.4	61.7	17.1	15.6
FFO I (as previously reported)	60.6	48.6	68.1	19.0	17.1
CAPEX	-21.7	-12.0	-20.0	-7.0	-4.4
AFFO	34.5	31.4	41.7	10.1	11.2
FFO I incl. results from sales	-0.6	-0.2	-0.2	0.3	0.2
FFO II	55.6	43.2	61.5	17.4	15.8
Number of shares (outstanding) in thousand	118,185	130,765	131,298	118,185	130,765
FFO I per share in EUR (re-defined)	0.48	0.33	0.47	0.14	0.12
FFO I per share in EUR (as previously reported)	0.51	0.37	0.52	0.16	0.13
AFFO per share in EUR	0.29	0.24	0.32	0.09	0.09
Diluted number of shares (in thousand)	132,523	145,856	145,110	132,523	145,856
FFO I per share in EUR (re-defined) diluted	0.46	0.35	0.49	0.14	0.12
AFFO per share in EUR (diluted)	0.30	0.27	0.35	0.09	0.09

FFO forecast for 2014 and 2015

At the end of 2013, we had predicted FFO I of EUR 90m for the 2014 financial year. Based on the past number of shares, this corresponded to a value of EUR 0.69 per share. According to these Q3 results we will achieve this FFO I per share by the end of the year, although the absolute amount will be lower. We are forecasting a value of around EUR 81 m. The main reason are the sales completed in the first half of the 2014 financial year, in particular the discontinuation of rents from the commercial portfolio. These could not be fully offset by the operational growth, which was otherwise according to plan. Also, significant portions of the new inventories couldn't be transferred – and therefore have an effect on net income – until the second half of 2014.

For the financial year 2014 we are forecasting FFO I per share, according to our past definition, of EUR 0.69. In accordance with our new definition of FFO I, i. e. deducting actual income tax and other taxes and waiving any elimination of impairment losses on rental receivables, this results in projected FFO I per share of EUR 0.64 for financial year 2014.

The TAG share, changes in TAG's bodies and bonds

In the first three quarters of 2014, the price of the MDAX-listed TAG share trended slightly upward, and at plus 4 % was above the relevant index MDAX, which lost 4 percentage points since the beginning of the year. The TAG share started the year at EUR 8.63 and was trading at EUR 8.97 on 30 September 2014. The EPRA index, comprised of various real estate companies listed on international stock exchanges, also was on a steep upward trend at +14 %. The price of TAG shares is currently listed at EUR 9.33 on 31 October 2014.

The share capital and number of shares have increased slightly since year-end 2013 due to the exercise of conversion rights, by EUR 13,882 and the same number of shares to 131,312,199. Free float remains unchanged at 100 %. At the closing price of EUR 8.97 on 30 September 2014, TAG's market capitalisation is to this effective date EUR 1,178m. As before, national and international investors with a predominantly long-term investment strategy make up the majority of TAG shareholders.

Share buy-back in October 2014

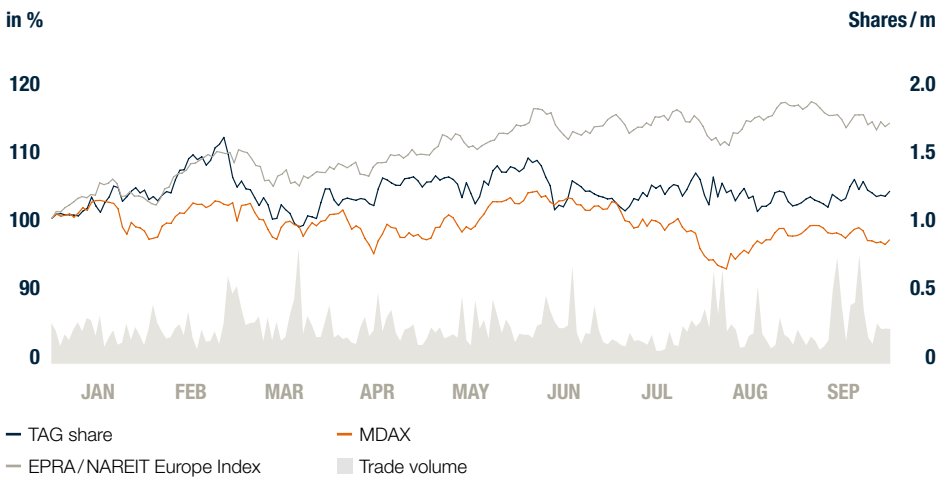
On 11 September 2014, the Supervisory Board and Management Board of TAG resolved to extend to all TAG shareholders a public offer to buy back up to 10 % of the share capital within a price range of EUR 8.35 to EUR 9.35 per share. By the deadline on 14 October 2014, TAG had been offered around 14 % of the shares for repurchase – this corresponds to 18,086,551 shares. The final purchase price

was determined based on the total number of shares offered and shareholders' offer prices by way of a modified „Dutch auction“ and came to EUR 9.30 per share. After exclusion of fractional shares, a total of 13,127,178 shares were repurchased.

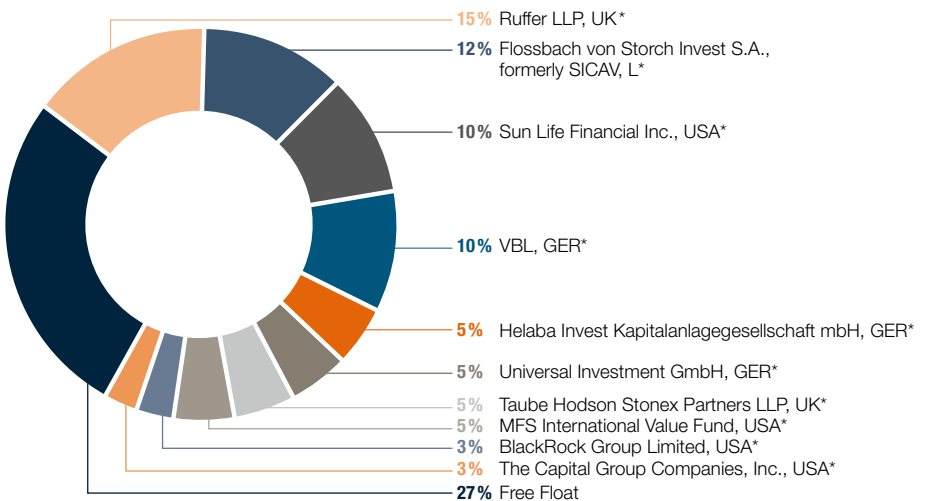
As the shares were repurchased below the NAV, the total return on the shares has increased, thereby creating shareholder value. Due to the purchase, TAG now owns nearly 10% of the share capital. However, it is possible that the current inventory of own shares could be reduced during the new authorisation period, e.g. by retiring own shares. If the Management Board and Supervisory Board resolve such a retirement or any other use of own shares, there will once again be scope for purchasing own shares. Therefore, a resolution on a renewed authorisation to acquire own shares will be brought about at the Extraordinary Shareholders' Meeting on 28 November 2014.

The shares purchased under the buy-back could also be used, as an alternative to retiring them, to service conversion rights or as a non-cash currency for acquisitions. This puts the company in a position to flexibly use own shares and conserve liquidity going forward.

Share price January – September 2014



Shareholder structure as of 30 September 2014



* Deutsche Börsen definition including institutional investors.

Rolf Elgeti expected to move to the Supervisory Board

On 11 September 2014, Mr Elgeti announced he would be stepping down from the Management Board and asked the Supervisory Board of the Company to release him from his contract early on 31 October 2014, combined with the offer to stand for election to the TAG Supervisory Board. As the transformation of TAG into a stable and efficient real estate company can largely be considered complete, and the task profile for the management has changed, the Supervisory Board complied with this request. From 1 November 2014, Mr Elgeti's duties will be divided up equally among the Management Board members Claudia Hoyer (COO), Martin Thiel (CFO) and Dr. Harboe Vaagt (CLO). The post of Chief Executive Officer (CEO) will not be re-filled.

The election of a Supervisory Board member who was a member of the Management Board of the Company in the last two years requires a proposal by shareholders holding more than 25 % of the voting rights of the Company. Shareholders who collectively hold more than 25 % of the voting rights in our company have already proposed Mr Elgeti's election to the Supervisory Board and support the prompt implementation of this proposal in order to preserve continuity in the composition of the TAG boards and also to be able to continue using Mr. Elgeti's strategic expertise and experience in the capital market and the real estate sector for the Company's benefit.

Shareholders will also vote on this move to the Supervisory Board at the Extraordinary Shareholders' Meeting on 28 November 2014 in Hamburg. If he is elected, it is expected that Mr Elgeti will take over as chairman of the Supervisory Board.

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 and paid out at the Annual General Meeting in June 2014. An increase in the dividend to EUR 0.50 per share is desired for the year 2014, which corresponds to a payout ratio of around 75 % on FFO I. To keep establishing TAG shares as an attractive dividend stock going forward, we are planning a dividend payout of EUR 0.55 per share for fiscal 2015.

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.

In February 2014, this bond was increased by EUR 119m. 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..

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

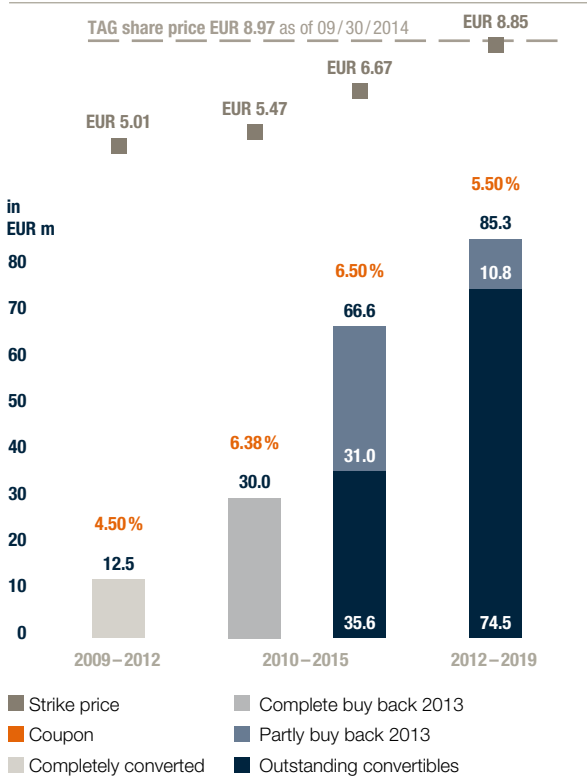
Bond terms at a glance

WKN A1TNFU	WKN A12T10
Volume: EUR 310m	Volume: EUR 125m
Division into shares: EUR 1,000.00 per share	Division into shares: EUR 1,000.00 per share
Nominal value per bond: EUR 1,000.00	Nominal value per bond: EUR 1,000.00
Maturity: 08/07/2018	Term: 06/25/2020
Interest rate (effective): 5.125% (200m)/4.3% (110m)	Interest rate: 3.75%
Issue price: at par (200m)/zu 103% (110m)	Issue price: at par

Overview of TAG convertible bonds still outstanding

WKN A1E 89W7	WKN A1PGZM3
Issued volume: EUR 66.6m	Issued volume: EUR 85.3m
Outstanding volume: EUR 35.6m	Outstanding volume: EUR 74.5m
Division to shares: EUR 9,000,000 per share	Number of shares: 853
Nominal value per bond: EUR 7.40	Nominal value per bond: EUR 100,000.00
Maturity: 12/10/2015	Maturity: 06/28/2019
Interest rate: 6.5%	Interest rate: 5.5%
Conversion price: EUR 6.6677	Conversion price: EUR 8.1923

Convertible Bonds issued by TAG since 2009



Group Management Report for the third quarter of the 2014 financial year

I. The Economy

a) State of the overall economy

After the economy had picked up again during the first half of 2014, the mood worsened significantly in the third quarter of 2014. Numerous crises in places like Ukraine and the Middle East created a sense of uncertainty and many experts have significantly revised their growth forecasts downwards.

The International Monetary Fund (IMF) has even issued a warning about the threat of a global economic crisis, singling out the euro zone in particular, so there is a risk of the economic recovery stagnating. The IMF's growth forecast for the euro zone is 0.8% this year and 1.3% next year, a significant downward correction. It also expects a poorer development for Germany than previously thought and predicts growth of just 1.4% for this year instead of the 1.9% previously forecast.

The German Institute for Economic Research (DIW) has confirmed this negative trend and has lowered its forecast for GDP growth in Germany from 1.8% to 1.5% for the year 2014. The Ifo business climate index has fallen for the sixth consecutive year, from 104.7 to 103.2 points, which puts it at its lowest level in nearly two years.

Consumer prices also continue to increase at a very slow pace: According to the Federal Statistical Office, in Germany they were just 0.8% higher in September 2014 than in September 2013. The last time a lower rate was recorded was in February 2010, when inflation was calculated to be 0.5%. This low inflation rate is mainly due to the development in energy prices (-2.2%). Meanwhile, prices for services

increased by an above-average 1.5%, mainly due to increases in net rents (+1.4%), which accounts for about a fifth of household consumer spending. Unemployment at the end of the third quarter was 6.5%, exactly on par with that of Q2 2014. Overall, the German private sector is expecting to see a prolonged phase of weak growth and is rather sceptical about future prospects.

b) State of the German real estate market

The residential real estate market

German residential portfolios are still a high-demand asset class. The transaction volume in German residential portfolios was around EUR 2.09 billion in the third quarter of 2014, slightly up year-on-year (Q3 2013: EUR 1.85 billion). Turnover from January to September 2014 totalled approximately EUR 9.07 billion, which reflects a year-on-year increase of nearly 4%. The transaction volume for the full year 2014 is expected to amount to some EUR 11 billion. The number of portfolios traded (141) decreased by 8%, with 26 packages comprising 1,000 or more units (previous year: 29).

The number of units traded, however, increased by nearly 33% to 176,940. This development is mainly due to three major transactions in the first quarter of 2014, which included a change in ownership for 30,000 Vitus Group units and 11,500 units in the DEWAG portfolio. The two largest transactions by far in the third quarter were the sale of nearly 15,000 apartments by Berlinovo to Westgrund AG, and Deutsche Annington Immobilien SE's acquisition of the Franconia package.

A significantly higher price level coupled with a lack of supply in „A“ cities is causing transaction activity to increasingly concentrate on „B“ locations – except in the case of Berlin where 22,000 units were traded (making it the highest-turnover city in Germany). Especially in very expensive cities such as Hamburg (approximately 1,000 units, #27 in the ranking) or Munich (approximately 460 units, #38), hardly any residential packages were traded.

Due to the higher price levels, the German housing market offers investors with higher yield requirements/expectations fewer and fewer opportunities for investment. Instead, they are using the current market environment to exit the segment. Private equity funds constitute the largest group of sellers, with a volume of just under EUR 1.8 billion – this type of investor was nearly non-existent on the buyer side (approximately EUR 120m). This field is dominated by real estate companies/REITs, which invested nearly EUR 5 billion in German residential portfolios.

Developments in the German real estate market during the first nine months of 2014 show that German residential properties are still in demand. However, the focus is increasingly on B locations outside the metropolitan areas. Their share of the overall market will increase significantly in future.

c) Business performance

Real estate purchases

In the first nine months of financial year 2014, TAG transferred several new portfolios into the Group or contractually acquired them.

The first portfolio, which had already been contractually acquired in December 2013, comprises around 3,000 units in former East Germany and, after initial transfers to the inventory were made with effect from 31 December 2013, the portfolio was completely transferred during the first half of 2014. This resulted in the accrual of EUR 17.6m in the investment properties segment. In the consolidated income statement, the first-time assessment of these properties at fair value resulted in a gain of EUR 6.4m with effect from 30 June 2014.

The acquisition of a second portfolio of approximately 4,000 units in Saxony and Thuringia was registered in February this year, but the vast majority of the transfer took place with effect from 1 August 2014. This resulted in the accrual of EUR 143.3m under investment properties, for the most part in the third quarter of 2014, and in a valuation gain of EUR 16.8m in the consolidated income statement.

In August 2014, a portfolio of approximately 270 units was acquired in Dessau, which was transferred on 30 September 2014. In the investment property sector this resulted in the accrual of EUR 12.9m and a valuation gain of EUR 0.3m in the consolidated income statement.

Finally, a fourth portfolio of residential property comprising approximately 1,500 units in Freiberg, Chemnitz and Dresden was acquired for a purchase price of EUR 37.8m in September 2014. The transfer of this portfolio took place on 31 October 2014, i. e. after the balance sheet date.

All portfolios are located at locations or in regions where TAG is already present, enabling effective management. The purchase prices equalling multipliers of between 9 and 11 times the annual rent also promise attractive earnings and a further increase in the cash flows of the portfolio.

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 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 payment

At the TAG 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.

Share buy-back

On 11 September 2014, TAG resolved to make a cash offer to repurchase up to 13,129,831 of own shares. The repurchase offer was carried out as a public tender offer by way of a „modified Dutch auction“ with a price range between EUR 8.35 and EUR 9.35. The acceptance period ran from 15 September 2014 to 14 October 2014.

The final price was determined as EUR 9.30 per share on the basis on the total number of shares offered and the offer prices of the shareholders. A total of 13,127,178 par value shares were repurchased.

Although the share buy-back legally only became effective after 30 September 2014, the payment obligation from this buy-back was already recognised as a (future) short-term equity capital-reducing liability of TEUR 122,083 at the balance sheet date.

Issue and increase of a bond

In June 2014, TAG issued another bond with a volume of EUR 125m. The interest rate is 3.75 % p. a. for a term of six years. In February 2014, the capital of a corporate bond issued in August was increased by another EUR 110m to EUR 310m. The bond, which pays annual interest of 5.125%, had an original volume of EUR 200m. This issuance was made at 103 % of nominal value, yielding an effective interest rate of 4.3 % p. a.

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 operation” were applied, as they were for the reports on the previous quarters in 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.

In the first nine months of 2014, the Group increased its rental income from continued operations by 7% year-on-year, from EUR 172.4m to EUR 184.4m. In Q3 2014, TAG generated rental income of EUR 62.4m after EUR 57.4m in the third quarter of 2013. The main reasons for the increase in rental income were the newly acquired portfolio and the ongoing operational growth in rents. If the rental income from discontinued operation, i. e. from the divested commercial portfolio, is included, rental income at 30 September 2014 is EUR 192.9m after EUR 188,0m in the previous year.

The rental profit, i. e. rental income net of expenses for property management, amounted to EUR 151.3m (previous year: EUR 136.9m), and EUR 50.8m in Q3 2014 (previous year: EUR 46.0m). This corresponds to a margin of 82,0% for the first nine months of 2014 after 79.4% in the corresponding period last year.

The Group generated revenues of EUR 14.5m (previous year EUR 107.7m) from property sales in its continued operations segment 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 higher sales revenues included a package sale of residential property in Berlin.

Other operating income amounted to EUR 8.0m (previous year EUR 5.6m), of which EUR 3.7m were generated during the third quarter of 2014. Most of the income reported here results from the reversal of accruals, the elimination of liabilities from previous years, increased valuations of real estate inventories, and gains from securities sales.

The valuation result for the first nine months of fiscal 2014 was EUR 51.5 m (previous year EUR 24.0 m), of which EUR 23.5 m (previous year EUR 0.3 m) was due to newly acquired investment properties, and EUR 27.9 m (previous year EUR 24.3 m) resulted from the annual revaluation of the portfolio by CBRE GmbH as independent experts.

During the reporting period, there were additional personnel expenses of EUR 24.5 m (previous year: EUR 22.4 m). This is partly due to the increase in the number of employees as part of the Company's growth, but mostly due to special effects because of a changeover in the company's Management Board during the first quarter of 2014, and the creation of a dedicated ERP project team.

Other operating expenses increased to EUR 15.4 m after EUR 13.5 m in the same period of the previous year – mainly due to additional expenses incurred as a result of launching our new ERP program on 1 January 2014, and increased expenditure on consulting in connection with the first-time implementation of a central procurement/purchasing department.

Of the increased impairment losses on inventories and receivables of EUR 10.7 m (previous year: EUR 8.0 m), EUR 5.7 m are due to a full value adjustment to the receivables from the sale of shares to Polares Real Estate Management GmbH, which was already booked in the first quarter of 2014.

Interest income, i.e. the net result of interest income minus interest expenses, increased from EUR -70.8 m in the first nine months of 2013 to EUR -74.2 m at 30 September 2014. This is due for the most part to higher valuation losses on derivatives in continued operations totalling EUR 3.7 m.

The average interest rate on our bank loans was 3.58 % at 30 September 2014, after 3.7 % at 31 December 2013, and their average maturity is now 9.8 years (31 December 2013: 9.4 years). Our total borrowing costs, i.e. taking into account the interest rates on corporate and convertible bonds, amounted to 3.88 % at 30 September 2014 after 4.0 % at 31 December 2013.

Overall, TAG generated EBT of EUR 85.4 m in the first nine months (previous year: EUR 52.4 m), and total net income of EUR 66.8 m (previous year: EUR 49.1 m) from continuing operations. For the third quarter of 2014, EBT from continuing operations was EUR 59.4 m (previous year EUR 30.7 m) and total net income was EUR 49.3 m (previous year EUR 25.4 m).

The discontinued operation generated a net loss of EUR -3.3m (previous year EUR -11.0m), which apart from EUR 6.1m in impairment losses on derivatives that were recycled within equity to profit and loss from the hedge accounting provision also includes the capital gains of EUR 1.0m from the sale of TAG Gewerbeimmobilien GmbH.

FFO I – which shows our operating profitability and is calculated from the EBT (of the whole Group, i. e. including discontinued operation) without results from sales, valuation results, depreciation and impairment charges, and non-cash interest expense, and without regularly recurring special effects – for the first nine months of 2014 rose to EUR 60.6m after EUR 48.6m in the same period of the previous year. Relative to the third quarter of 2014, FFO I fell to EUR 19.0m after EUR 20.7m and EUR 21.0m in the first two quarters. The main reason for this was the completion of the sale of the commercial real estate portfolio at the end of the first half of the year.

After the redefinition we carried out with effect from September 30, 2014, in future FFO I will result from FFO I as reported in the past, but with the additional deduction of current income taxes and other taxes, and waiving any elimination of impairment losses on rental receivables. Defined in this way, FFO I in the first nine months of fiscal 2014 was EUR 56.2m after EUR 43.4m in the same period of the previous year, and EUR 17.1m in Q3 2014 after EUR 19.2m and EUR 20.0m in the first and second quarters of 2014. By redefining the indicator, we adapt our reporting to that of our competitors in order to facilitate comparability.

Assets and financial position

The balance sheet total at 30 September 2014 was EUR 3,724.2m after EUR 3,763.3m at 31 December 2013. The reduction of the balance sheet total from the deconsolidation of TAG Gewerbe Immobilien GmbH on 30 May 2014 is set off against compensating effects from the aforementioned purchases of residential property portfolios, as well as the increase in value of the existing portfolio. At 30 September 2014, the book value of the entire real estate inventory was 3,530.5m (previous year EUR 3,606.8m), of which EUR 3,493.7m (previous year EUR 3,544.1m) are investment properties.

The equity ratio at the closing date was 27.6% after 30.0% at 31 December 2013. The main reason for the decline was the EUR 122.1 m in future liability from the share buy-back, which had to be shown as a reduction in equity at 30 September 2014 even though it didn't become legally effective until after the effective date.

On 30 September 2014, we also adjusted and expanded the calculation of net asset value. In the past, we were regularly approached about the lack of comparability with competitors, because, for one, we do not assess all of our investment properties with a standardized transaction allowance for incidental acquisition costs (usually 7–8% of the fair value), but only in those markets where, based on publically available information, the majority of transactions that take place are actually asset deals and therefore transaction costs are indeed expected at this level. We assess all other properties with our historic transaction costs for share deals (0.2% of fair value). Secondly, in the past we completely eliminated deferred tax positions from NAV, while competitors, following EPRA recommendations, only eliminate those deferred taxes attributable to the valuation of investment properties and of derivative financial instruments.

With this in mind, we are adapting our NAV calculation. The following table shows the calculation of NAV taking account of deferred taxes in accordance with EPRA recommendations:

	09/30/2014 TEUR	12/31/2013 TEUR
Equity (before non-controlling shareholders' equity)	1,007,802	1,107,306
Deferred taxes on income-yielding properties	189,023	192,216
Fair values of derivative financial instruments	7,950	13,801
Deferred taxes on derivative financial instruments	-4,075	-5,919
Net Asset Value	1,200,700	1,307,404
Number of relevant shares (after share buy-back)	118,185,022	131,298,317
NAV per share in EUR	10.16	9.96

Taking into account the potential dilutive effects of convertible bonds, this yields a diluted NAV per share of EUR 9.89 to EUR 9.76 on 31 December 2013.

If the deferred taxes in the previous system had been incorporated into the NAV, it would have resulted in NAV per share of EUR 9.66 at 30 September 2014 (31 December 2013: EUR 9.45; 30 June 2014: EUR 9.17).

Assuming all investment properties are assessed using the above-described standardized deduction for transaction costs, this results in the following NAV, which we will present as an alternative from now on:

	09/30/2014 TEUR	12/31/2013 TEUR
Starting basis: Net Asset Value in accordance with EPRA recommendations	1,200,700	1,307,404
Complete deduction of standardized transaction costs	-181,600	-159,000
Net Asset Value after deduction of standardized transaction costs	1,019,100	1,148,404
Number of relevant shares (after share buy-back)	118,185,022	131,298,317
NAV per share after deduction of standardized transaction costs in EUR	8.62	8.75

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. 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 435.0m compared to EUR 197.0m as at 31 December 2013.

Liabilities to banks at the reporting date amounted to EUR 1,837.6m (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 (LTV) 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 61.6 % at 30 September 2014 (31 December 2013: 62.1 %) and with inclusion of convertible bonds 64.7 % (31 December 2013: 65.0 %).

As of 30 September 2014, the Group has cash and cash equivalents of EUR 102.8m (31 December 2013: EUR 85.3m). In addition, at the reporting date bank loans to finance previously acquired portfolios where the purchase price had already been paid out of own funds, were available in the amount of approximately EUR 120m as well as other credit lines of EUR 26.1 m. In order to reduce interest expenses these were not yet drawn before Q4 2014, so that total available liquidity was around EUR 250m.

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

At 30 September 2014, the TAG group had 534 employees. At 31 December 2013, it employed 519 people.

On 11 September 2014, Rolf Elgeti, CEO of TAG, asked the Board for early release from his management contract on 31 October 2014. The Supervisory Board has granted this request.

His duties will be divided up equally among the Management Board members Claudia Hoyer (COO), Martin Thiel (CFO) and Dr. Harboe Vaagt (CLO). Mr Elgeti is standing for election to the TAG Supervisory Board at the Extraordinary Shareholders' Meeting on 28 November 2014, in order to provide personnel continuity on the Company's boards. The Company feels that it would be able to continue to benefit from Mr Elgeti's strategic expertise and experience in the capital market and real estate sector. If he is elected, it is planned that Mr Elgeti will take over as chairman of the Supervisory Board.

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 in the „permanent inventory“ of our residential portfolio, i. e. without the real estate acquired in the last few months and without commercial units, amounted to 8.6% at 30 September 2014 after 8.9% at 31 December 2013 (including the units taken over with effect from 30 December 2013). At the Salzgitter site in particular, vacancy was further reduced from 18.6% at 31 December 2013 to 16.6% at 30 September 2014. At the reporting date, the vacancy rate for the entire portfolio was 9.3% after 9.5% at 31 December 2013.

Average rent per square metre across the entire residential real estate portfolio was EUR 5.07 at the reporting date (31 December 2013: EUR 5.04). New lettings at 30 September average EUR 5.31 (31 December 2013: EUR 5.15). In the overall portfolio, due to the sale of TAG Gewerbe Immobilien GmbH and the associated reduced number of commercial units, average rent per square metre fell from EUR 5.24 at the beginning of the financial year to EUR 5.17 at 30 September 2014.

II. Material events after the reporting date

In an agreement signed on 4 November 2014, TAG sold a portfolio consisting of approximately 2,600 residential units in the Marzahn district of Berlin. The purchase price was EUR 170.4 m and is around EUR 35 m above the IFRS book value as of 30 September 2014. After deduction of the liabilities on the properties, we expect a net cash inflow of around EUR 72 m from the transaction. The transaction is expected to close and the purchase price be paid before the end of Q4 2014.

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.

At the end of 2013, we had predicted FFO I of EUR 90 m for the 2014 financial year. Based on the past number of shares, this corresponded to a value of EUR 0.69 per share. According to these Q3 results we will achieve this FFO I per share by the end of the year, although the absolute amount of our FFO I will be lower. Based on our past definition, we are predicting a value of approximately EUR 81 m. The main reason for the decline in FFO I are the sales concluded in the first half of the 2014 financial year. These could not be fully compensated by our operational growth, which is otherwise running to plan. Besides, some new inventories only became effective during or at the end of the second half of 2014.

Our strategy for shareholders focuses on the total return on individual shares. A growth in absolute numbers is no longer a priority for TAG, in contrast to previous years. We began to buy much earlier than many of our competitors, thereby creating significant value for our shareholders. Since the successful integration of our 2012 acquisitions, i.e. the former DKB Immobilien AG and TLG Wohnen GmbH, we have now reached a size at around 75,000 units that allows us to effectively manage our inventory. Further growth no longer leads to economies of scale to the extent it did in the past. We can therefore focus much more on optimising the portfolio and effectively increasing our cash flows.

As early as the 2013 financial year, we had bought back EUR 72m in convertible bonds, thereby significantly reducing the potential dilutive effect for our shareholders. By repurchasing own shares below NAV in the amount of approximately EUR 122m in September and October 2014, we have now created even more value for our shareholders. Our strong liquidity position made this share buy-back possible. For instance, in the first half of the year we already took in a EUR 76m cash payment from the sale of our commercial portfolio. Other significant inflows in the order of approximately EUR 72m as outlined in "Material events after the reporting date" are imminent from the sale of the portfolio in the Marzahn district of Berlin.

On the other hand, we have shown discipline in acquisitions in the last few months. Although we have purchased nearly 9,000 units since December last year, we were not prepared to pay the asking prices in some major bidding processes. Of course, we will continue to grow in the future, but we believe that in the current market environment, topics like capital discipline and effective allocation of capital are becoming more and more important.

Our priority is not to achieve growth in absolute terms at all costs, but to also start selectively seizing sales opportunities in the interests of our shareholders and the Company. In our view, in some segments and regions the market has reached a level at which the long-term management of inventories is no longer in congruence with our costs of equity. The purchase price achieved in the sale of our portfolio in the Marzahn district of Berlin, at a book profit (before prepayment penalties for financing) of around EUR 35m, will increase our NAV per share – which as of 30 September 2014 is at EUR 10.16 per share and has developed extremely positively – by about EUR 0.30. This alone goes to show that an inventory considered problematic a few years ago can be effectively managed through our platform, and its quality improved. We will use the funds raised through this and possible other sales to further strengthen our portfolio with inventories that are capable of development in the core regions where we already have a presence.

We will also ask the shareholders, at the Extraordinary Shareholders' Meeting on 28 November 2014, to renew the authorisation to purchase own shares. Even if we are not pursuing any concrete plans for the immediate future, we want to be able to continue buying back shares quickly and flexibly in future, wherever this makes sense for the total return on our shares and provided our debt remains in a sustainably stable framework.

On this basis, and already taking into account the sale of our portfolio in the Marzahn district of Berlin, we are forecasting FFO I per share, according to our past definition, of EUR 0.71 to EUR 0.73 for the 2015 financial year. In accordance with our new definition of FFO I, i.e. deducting current income tax and other taxes and waiving any elimination of impairment losses on rental receivables, this results in FFO I per share of between EUR 0.67 and EUR 0.69 for the 2015 financial year.

We will continue to remain true to our dividend policy of distributing 75% of FFO I to our shareholders and keep establishing TAG as a dividend-paying stock. For the 2014 financial year, we are planning to pay out an unchanged dividend of EUR 0.50 per share. For the following year 2015, based on the current state of planning, this would result in a dividend per share of EUR 0.55.

Hamburg, 6 November 2014

Claudia Hoyer
COO

Martin Thiel
CFO

Dr. Harboe Vaagt
CLO

Consolidated balance sheet

Assets in TEUR	09/30/2014	12/31/2013
Non-current assets		
Investment properties	3,493,733	3,544,075
Intangible assets	5,386	5,142
Property, plant and equipment	13,238	13,028
Investments in associates	149	119
Other financial assets	47,861	18,178
Deferred taxes	0	613
	3,560,367	3,581,155
Current assets		
Land with unfinished and finished buildings	25,285	46,874
Other inventories	361	618
Trade receivables	13,248	16,221
Income tax receivables	2,778	3,293
Derivative financial instruments	4,252	8,884
Other current assets	13,486	14,984
Cash and cash equivalents	102,775	85,326
	162,185	176,200
Non-current assets held-for-sale	1,679	5,969
	3,724,231	3,763,324

Equity and liabilities in TEUR	09 / 30 / 2014	12 / 31 / 2013
Equity		
Subscribed capital	118,185	131,298
Share premium	596,447	705,898
Other reserves	-5,903	-10,930
Unappropriated surplus	299,073	281,040
Attributable to the equity-holders of the parent company	1,007,802	1,107,306
Attributable to non-controlling interests	20,115	20,060
	1,027,917	1,127,366
Non-current liabilities		
Bank borrowings	1,755,425	1,947,049
Liabilities from corporate bonds	434,980	197,006
Liabilities from convertible bonds	104,041	106,125
Derivative financial instruments	6,587	13,519
Retirement benefit provisions	5,438	5,618
Other non-current liabilities	392	293
Deferred taxes	126,284	120,710
	2,433,147	2,390,320
Current liabilities		
Other provisions	16,287	24,214
Income tax liabilities	4,101	9,423
Bank borrowings	82,145	179,534
Trade payables	9,834	11,385
Derivative financial instruments	5,615	9,166
Liabilities from corporate bonds	3,529	4,100
Liabilities from convertible bonds	6,317	190
Other current liabilities	135,339	7,626
	263,167	245,638
	3,724,231	3,763,324

Consolidated income statement

in TEUR	01/01 – 09/30/2014	01/01 – 09/30/2013 (adjusted)	07/01 – 09/30/2014	07/01 – 09/30/2013 (adjusted)
Total revenues	200,436	282,100	68,813	60,725
Rental revenues	184,401	172,446	62,413	57,395
Rental expenses	-33,150	-35,581	-11,609	-11,443
Net rental income	151,251	136,865	50,804	45,952
Revenues from the sale of inventory real estate	7,786	7,594	3,427	2,667
Expenses on the sale of inventory real estate	-7,015	-6,640	-2,820	-2,485
Net revenues from sale of inventory real estate	771	954	607	182
Revenues from the sale of investment properties	6,711	100,106	3,162	189
Expenses on the sale of investment properties	-7,460	-101,057	-3,505	-303
Net revenues from sale of investment properties	-749	-951	-343	-114
Revenues from property management	1,538	1,954	-189	474
Expenses for the provision of property management	-360	-133	159	-125
Net income from the provisions of property management	1,178	1,821	-30	349
Other operating income	8,000	5,601	3,721	2,077
Fair-value remeasurement of investment properties	27,935	23,962	27,935	24,058
Net fair value gains and losses from measurement of newly acquired investment properties	23,530	288	16,655	288
Total net gains from the remeasurement of investment properties	51,465	24,250	44,590	24,346
Gross profit	211,916	168,540	99,349	72,792
Personnel expenses	-24,504	-22,427	-8,017	-7,628
Depreciation / amortisation	-1,941	-1,614	-681	-579
Impairment losses on receivables and inventories	-10,716	-7,970	-1,833	-5,250
Other operating expenses	-15,396	-13,482	-4,483	-4,720
EBIT	159,359	123,047	84,335	54,615
Net profit from investments	203	204	68	69
Share of profit from associates	30	-1	14	2
Loss absorption	0	-7	0	0
Interest income	2,864	8,715	1,107	2,945
Borrowing costs/interest expenses	-77,050	-79,548	-26,142	-26,951
EBT	85,406	52,410	59,382	30,680
Income taxes	-18,479	-3,354	-10,088	-5,266
Other taxes	-167	62	-12	-29
Consolidated net profit from continuing operations	66,760	49,118	49,282	25,385

in TEUR	01/01– 09/30/2014	01/01– 09/30/2013 (adjusted)	07/01– 09/30/2014	07/01– 09/30/2013 (adjusted)
Post tax result of discontinued operation	-3,301	-10,966	0	-13,615
Consolidated net profit	63,459	38,152	49,282	11,770
attributable to non-controlling interests	-530	2,976	-609	2,523
attributable to the equity holders of the parent company	63,989	35,176	49,891	9,247
Earnings per share (in EUR)				
Basic loss per share	0.49	0.27	0.38	0.07
Diluted loss per share	0.48	0.27	0.37	0.07

Consolidated statement of comprehensive income

in TEUR	01/01– 09/30/2014	01/01– 09/30/2013	07/01– 09/30/2014	07/01– 09/30/2013
Net loss as shown in the income statement	63,459	38,152	49,282	11,770
Unrealised gains and losses from hedge accounting	8,542	11,912	346	4,886
Deferred taxes	-2,933	-2,922	-83	-1,246
Other comprehensive income after taxes	5,609	8,990	263	3,640
Total comprehensive income	69,068	47,142	49,545	15,410
attributable to non-controlling interests	50	3,518	-608	2,691
attributable to the equity holders of the parent company	69,018	43,624	50,153	12,719

Consolidated cashflow statement

in TEUR	01/01 – 09/30/2014	01/01 – 09/30/2013
Consolidated net profit (continuing and discontinued operation)	63,459	38,152
Net interest income/expense through profit and loss	83,268	76,752
Current income taxes through profit and loss	-966	816
Depreciation and amortisation	1,941	1,604
Share of profit of associates	-30	1
Remeasurement on investment properties	-51,465	-3,838
Losses from the disposal of investment properties	749	1,068
Losses from the disposal of property, plant and equipment	0	3
Gains from the disposal of discontinued operation	-1,003	0
Impairments on inventories and receivables	11,096	8,351
Changes in deferred income taxes	20,245	-1,168
Changes in provisions	-7,984	-7,202
Interest received	1,375	1,437
Interest paid	-72,003	-74,538
Income tax refunds received	1,005	184
Income tax paid	-1,045	-544
Changes to receivables and other assets	14,889	66,321
Changes to payables and other liabilities	-2,220	-65,784
Cashflow from operating activities	61,311	41,615
Payments received from the disposal of investment properties	4,625	110,006
Payments made for investments in investment properties	-184,033	-20,922
Payments received from the disposal of discontinued operation	70,282	0
Payments received from the disposal of property, plant and equipment	0	8
Payments made for investments in intangible assets and property, plant and equipment	3,791	5,932
Payments received from other financial assets	741	0
Payments received from the disposal of non-current assets held-for-sale	-2,395	-4,355
Cashflow from investing activities	-106,989	90,669
Costs related to the issue of shares	0	-353
Payments received from the issue of bonds	238,300	200,000
Costs in connection with the issue of bonds	-326	-3,034
Payments made for repurchase of convertible bonds	0	-100,786
Dividend	-45,954	-32,685
Payments received from bank borrowings	11,485	449,366
Payments made for repaying bank borrowings	-134,420	-586,309
Payments made for additional shares without change of status	-577	-256
Cashflow from financing activities	68,508	-74,057
Net change in cash and cash equivalents	22,830	58,227
Cash and cash equivalents at the beginning of the period	79,008	31,712
Cash and cash equivalents at the end of the period	101,838	89,939

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				
Amount on 01/01/2014	131,298	705,898	527	-11,546	89	281,040	1,107,306	20,060	1,127,366
Consolidated net profit	0	0	0	0	0	63,989	63,989	-530	63,459
Other comprehensive income	0	0	0	5,029	0	0	5,029	580	5,609
Total comprehensive income	0	0	0	5,029	0	63,989	69,018	50	69,068
Acquisition of own shares	-13,127	-108,956	0	0	0	0	-122,083	0	-122,083
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	-45,956	-45,956	0	-45,956
Currency translation	0	0	0	0	-2	0	-2	0	-2
Amount on 09/30/2014	118,185	596,447	527	-6,517	87	299,073	1,007,802	20,115	1,027,917

Amount on 01/01/2013	130,738	739,971	527	-20,833	96	285,678	1,136,177	20,279	1,156,456
Consolidated net profit	0	0	0	0	0	35,176	35,176	2,976	38,152
Other comprehensive income	0	0	0	8,448	0	0	8,448	542	8,990
Total comprehensive income	0	0	0	8,448	0	35,176	43,624	3,518	47,142
Increase/decrease in shares without any change of status	0	-128	0	0	0	0	-128	-128	-256
Repurchase of convertible bonds	0	-33,753	0	0	0	0	-33,753	0	-33,753
Conversion of bonds	27	159	0	0	0	0	186	0	186
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	-23	0	-23	0	-23
Amount on 09/30/2013	130,765	706,010	527	-12,385	73	288,169	1,113,159	23,669	1,136,828

Consolidated segment report

For the period from 1 January to 30 September 2014

in TEUR	Residential real estate				
	Hamburg	Berlin	NRW	Salzgitter	Thuringia / Saxony
Rental income	29,718	36,232	12,513	22,282	78,259
Previous year	28,843	34,718	12,199	20,664	70,299
■ of which external rental income	29,718	36,181	12,513	22,282	78,187
Previous year	28,843	34,667	12,199	20,664	70,227
■ of which internal rental income	0	51	0	0	72
Previous year	0	51	0	0	72
Rental expenses					
Previous year					
Asset sales					
Previous year					
Net income from services					
Previous year					
Remeasurement					
Previous year					
Investment properties					
Previous year					
Non-allocated other operating income					
Previous year					
Gross profit					
Previous year					
Miscellaneous non-allocated expenses					
Previous year					
EBT					
Previous year					
Segment assets	540,082	691,084	232,782	358,629	1,536,571
Previous year	532,639	665,542	224,734	359,544	1,360,859
Non-allocated assets					
Previous year					
Total assets					
Previous year					

Total residential	Other activities	Consolidation	Continuing operations	Discontinued operations	TAG Group
179,004	5,956	-559	184,401	8,498	192,899
166,723	6,217	-494	172,446	15,570	188,016
178,881	5,520	0	184,401	8,498	192,899
166,600	5,846	0	172,446	15,570	188,016
123	436	-559	0	0	0
123	371	-494	0	0	0
			-33,150	-1,643	-34,793
			-35,581	-2,104	-37,685
			22	-622	-601
			2	-413	-411
			1,178	0	1,178
			1,821	0	1,821
			27,935	0	27,935
			23,962	-20,412	3,550
			23,530	0	23,530
			288	0	288
			8,000	1,017	9,017
			5,601	84	5,685
			211,916	7,250	219,165
			168,540	-7,275	161,264
			-126,511	-9,767	-136,278
			-116,130	-6,566	-122,696
			85,405	-2,517	82,888
			52,410	-13,841	38,568
3,359,148	171,311	0	3,530,459	0	3,530,459
3,143,318	166,859	0	3,310,177	296,622	3,606,799
					193,772
					156,525
					3,724,231
					3,763,324

Selected notes on the condensed consolidated interim financial statements for the period ending 30 September 2014

General information

These condensed interim consolidated financial statements of TAG Immobilien AG (hereinafter referred to as the "Company" or "TAG") have been prepared in accordance with the provisions contained in Section 37x (3) of the German Securities Trading Act pertaining to interim financial reporting. The period under review comprises the first nine months of 2014. The comparison figures refer to 31 December 2013 with respect to the consolidated balance sheet and otherwise to the first nine months of 2013. In addition, the consolidated income statement and the consolidated statement of comprehensive income contain figures pertaining to the third quarter of 2014 together with the corresponding comparison figures for the same period of the previous year.

The interim financial report has been prepared on a consolidated basis in accordance with the International Financial Reporting Standards (IFRS) in the version endorsed for application in 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 fundamentally 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.

Contrary to previous practice, deferred borrowing costs (e.g. cost of raising loans) are no longer reported as other operating expense but as interest expense in the consolidated income statement as of 30 September 2014; the comparison figures for the previous year have been duly restated. This change does not have any impact on profit and loss but now more accurately reflects the economic nature of these ancillary costs. As a result, other operating expenses for the previous year have dropped by TEUR 313 from TEUR 13,795 to EUR 13,482. At the same time, interest expense has risen by TEUR 313 from TEUR 79,235 to TEUR 79,548.

Consolidated companies

The consolidation group as of 30 September 2014 includes the parent company TAG and all companies which it controls. 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 in TAG's 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, which is presented in the following section.

Material transactions during the period under review

Deconsolidation of TAG Gewerbeimmobilien GmbH and resultant discontinuing 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 1.00 following deconsolidation. Deconsolidation resulted in the disposal of the following net assets:

	05 / 30 / 2014 TEUR
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
Net assets and liabilities sold	114,182

The gain of TEUR 1,004 on the sale is derived by comparing the net assets disposed of with the cash purchase price (net of costs to sell) of TEUR 75,032 plus the present value of the deferred purchase price of TEUR 35,027 and the tax advantages for the discontinued operation of TEUR 5,125 allocated in the light of economic aspects.

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, which is subject to interest of 1.5% p. a., was recognized at the present value of the expected future cash flows arising from the gradual sale of the real estate assets of TAG Gewerbeimmobilien GmbH. The calculation is based on a discount rate of 3.16%. The future cash flows were estimated on the basis of a 5-year forecast. Accordingly, a material discretionary decision concerning the valuation of the deferred purchase price was required for this purpose.

As a result of this sale, TAG has disposed of all material elements of its commercial real estate portfolio. The Group has only retained single assets which are also related to 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 quarters in 2014, the guidance contained in IFRS 5 on discontinued operation is being applied as a result of the deconsolidation. In the consolidated income statement, all income and expenses accruing from the discontinued operation, 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 operation 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 operation reported within the consolidated income statement which is fully attributable to the parent company’s equityholders breaks down as follows:

	01/01–09/30/2014 TEUR	01/01–09/30/2013 TEUR
Revenues	10,348	25,927
Expenses	-13,869	-39,768
EBT	-3,521	-13,841
Income taxes and other taxes	-784	2,875
Current net profit/loss from discontinued operation	-4,305	-10,966
Proceeds from sale	1,004	0
Earnings after tax from discontinued operation (total)	-3,301	-10,966
Earnings per share from discontinued operation		
Basic (in EUR)	-0.03	-0.08
Diluted (in EUR)	-0.03	-0.08

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

	05/30/2014 TEUR
Cash purchase price	76,035
Selling costs	-1,003
Cash and cash equivalents transferred	-4,750
Net cash inflow	70,282

The following cash flows are allocated to the discontinued operation:

	01/01 – 09/30/2014 TEUR	01/01 – 09/30/2013 TEUR
Cashflow from operating activities	3,591	8,107
Cashflow from investing activities	1,705	9,900
Cashflow from financing activities	-1,328	-15,505
Total cashflow from discontinued operations	3,968	2,502

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.

Repurchase of share capital

On 11 September 2014, TAG passed a resolution approving a cash offer for the repurchase of up to 13,129,831 of its own shares. The repurchase offer was executed as a public bid in the form of a “modified Dutch auction” with a price range of EUR 8.35 to EUR 9.35. The acceptance period was between 15 September 2014 and 14 October 2014.

The final price was fixed at EUR 9.30 per share on the basis of the total number of shares offered and the prices submitted by the shareholders. A total of 13,127,178 shares were bought back.

Although the share buy-back did not take legal effect until after 30 September 2014, the payment obligation under this transaction led to a reduction in equity by TEUR 122,083 as a (future) other current liability.

Issue of and increase in bond

In June 2014, TAG issued a further bond of EUR 125 m 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. In February 2014, the bond which had originally been issued in August 2013 with a volume of EUR 200m and a coupon of 5.125 % was increased by a further EUR 110m to EUR 310m. This increase was issued at 103 % of the nominal, resulting in an effective coupon of 4.3 %.

Changes in the composition of the Management and Supervisory Board

On 11 September 2014, Rolf Elgeti, CEO of TAG, asked the Supervisory Board to release him from his service contract effective 31 October 2014. The Supervisory Board accepted this request. His duties will be assumed by the other members of the Management Board Claudia Hoyer, Martin Thiel and Dr. Harboe Vaagt.

At an extraordinary shareholder meeting taking place on 28 November 2014, Mr. Elgeti will be standing for election to the Supervisory Board. If he is elected to the Supervisory Board, it is planned for him to be named Chairman of the Supervisory Board.

Disclosures on individual items of the consolidated balance sheet and income statement

Investment properties

The fair value of all of the Group's real estate assets is measured effective 30 September of each year by CBRE GmbH as an independent expert. As of 30 September 2014, this annual valuation yielded fair value remeasurement gains of TEUR 27,935 (previous year TEUR 23,962). In addition, positive effects of TEUR 23,530 (previous year TEUR 288) arose from the first-time measurement of the aforementioned newly acquired investment properties.

The fair value of the real estate is calculated using the discounted cash flow method in line with the International Valuation Standards. For this purpose, the expected future cash flow surpluses for each period are discounted using a market-oriented discount rate for the property in question as of the measurement date. Whereas the cash inflows are normally comprised of net rentals, the cash outflows chiefly include the management costs borne by the owner. The assumptions underlying the measurement of the fair value of the real estate were made by the independent valuer on the basis of his professional experience and are therefore subject to uncertainty. The gross present value calculated on this basis is converted to a net present value by deducting the costs incurred by a potential buyer in an fair market transaction. The amount of a potential buyer's deductible transaction costs depends on the market of relevance for the asset in question. In the case of real estate portfolios, it is necessary to draw a distinction between asset sales involving the direct sale of investment properties and share deals, which entail the sale of shares in companies holding real estate portfolios. Whereas asset deals are regularly subject to realty transfer tax as well as broker and notary fees, share deals can be structured in such a way as to avoid realty transfer tax.

The relevant market was deemed to be constituted by the submarkets of the German states. On the basis of information provided by the relevant valuer committees on asset deals on the one hand and freely available information on share deals on the other, it was not possible to unambiguously identify any main market for the eastern German states with the exception of Berlin or for Lower Saxony. Accordingly, the market for share deals was assumed to be the most appropriate one for measuring the fair value of real estate holdings in these German states. The deductible market-specific transaction costs of a potential buyer under a share deal were assumed to equal 0.2%. No other discounts or premiums were taken into account in determining the fair value for share deals. With respect to real estate holdings in the other German states, i.e. western German states with the exception of Lower Saxony and Berlin, the market for asset deals was assumed to be the main market in the absence of any evidence to the contrary. The average deductible transaction costs for these stand at an average of 7.2%.

The definition of the relevant sub-markets is unchanged over the previous year. If the market for asset deals were deemed to be the main market for all German states, the fair value of the residential real estate would be roughly EUR 182m (previous year roughly EUR 159m) lower. If no main market were identifiable for all the German states, meaning that the market for share deals would be deemed to be the most appropriate market for measuring fair value, the fair value of the residential real estate would rise by around EUR 75m (previous year around EUR 67m).

Cash and cash equivalents

The Group had cash and cash equivalents of TEUR 102,775 (previous year TEUR 85,326) as of 30 September 2014. In addition, bank facilities of EUR 120m were available as of the reporting date, in addition to a bank facility of EUR 26.1 m, to finance portfolio purchases the prices of which had previously been paid using the Group's own funds but which will not be drawn on until the fourth quarter of 2014 in order to reduce interest expense.

Deferred income tax liabilities

The following table breaks down the deferred income tax liabilities:

	09/30/2014 TEUR	12/31/2013 TEUR
Tax losses	63,343	70,722
Derivative financial instruments	4,075	5,919
Remeasurement of investment properties	-189,023	-192,216
Others	-4,679	-4,522
Subtotal	-126,284	-120,097
of which non-netted amount reported as deferred income tax assets	0	-613
Deferred income tax liabilities	-126,284	-120,710

Rental expenses

Rental expenses break down as follows:

	01/01 – 09/30/2014 TEUR	01/01 – 09/30/2013 TEUR
Maintenance expenses	-17,862	-18,132
Non-recoverable expenses	-7,563	-9,090
Operating expenses of vacant real estate	-7,725	-8,359
	-33,150	-35,581

Other operating income

The main elements of other operating income break down as follows:

	01/01 – 09/30/2014 TEUR	01/01 – 09/30/2013 TEUR
Income from the reversal of provisions	3,236	1,606
Off-period income (e.g. time-barred liabilities)	1,679	1,163
Gains from remeasurement of properties held as inventory	843	0
Others (e.g. gains from the sale of securities)	2,242	2,832
	8,000	5,601

Impairments on inventories and receivables

This item, which also includes discontinued operation, breaks down as follows:

	01/01 – 09/30/2014 TEUR	01/01 – 09/30/2014 TEUR
Impairments of rental receivables	5,239	4,697
Impairments of other receivables	5,831	0
Impairments of properties held as inventory	26	3,654
Total	11,096	8,351
of which impairments attributable to discontinued operation	-380	-381
Impairments attributable to continuing operations	10,716	7,970

Net interest income / expense

The following table breaks down net interest income / expense and also includes discontinued operation:

	01 / 01 – 09 / 30 / 2014 TEUR	01 / 01 – 09 / 30 / 2013 TEUR
Interest income	1,765	2,451
Interest expenses	-71,772	-75,195
Gains/losses from remeasurement of derivative financial instruments	-9,819	3,782
Other non-cash income and expenses	-3,180	-7,252
Refinancing costs and other non-recurring payments	-262	-539
Total	-83,268	-76,753
of which net interest income/expense attributable to discontinued operation	9,082	5,920
Net interest income/expense attributable to continuing operations	-74,186	-70,833

Income taxes

The table below analyses income taxes including those arising in connection with discontinued operation:

	01 / 01 – 09 / 30 / 2014 TEUR	01 / 01 – 09 / 30 / 2013 TEUR
Actual income taxes for current year	-480	5
Actual income taxes for previous years	1,446	-821
Deferred income taxes	-20,203	366
Total	-19,237	-450
of which income taxes attributable to discontinued operation	758	-2,904
income taxes attributable to continuing operations	-18,479	-3,354

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	09/30/2014 TEUR	12/31/2013 TEUR
Assets			
Investment properties	Level 3	3,496,733	3,544,075
Derivatives with no hedging relationship	Level 2	4,240	8,794
Derivatives with a hedging relationship	Level 2	12	97
Equity and liabilities			
Derivatives with no hedging relationship	Level 2	969	1,063
Derivatives with a hedging relationship	Level 2	11,233	21,623

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

30 September 2014	Carrying amount TEUR	IAS 39 Category*	Fair value TEUR	Fair value hierarchy
Assets				
Other financial assets				
Investments	5,646	AfS	n/a	n/a
Other financial assets	42,215	LaR	42,215	Level 2
Trade receivables	13,248	LaR	13,248	Level 2
Other current assets	13,486	LaR	13,486	Level 2
Cash and cash equivalents	102,775	LaR	102,775	Level 2
Equity and liabilities				
Bank borrowings	1,837,570	AmC	1,863,413	Level 2
Liabilities from convertible bonds	110,358	AmC	119,372	Level 2
Liabilities from corporate bonds	438,509	AmC	461,700	Level 2
Other non-current liabilities	392	AmC	392	Level 2
Trade payables	9,834	AmC	9,834	Level 2
Other current liabilities	135,339	AmC	135,339	Level 2
31 December 2013				
Assets				
Other financial assets				
Investments	5,734	AfS	n/a	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
Equity and 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

* AfS: Available for sale Financial Assets; LaR: Loans and Receivables; AmC: Amortised Cost

The fair value of assets and liabilities is determined by using inputs 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: The prices listed in active markets for identical assets or liabilities (unchanged)

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 cash flow method), the inputs for which are derived from active markets. The investment properties were remeasured by external valuers as of 30 September 2014. 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 cash flows 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, other current liabilities and liabilities in connection with non-current available-for-sale assets (if coming within the scope of IFRS 7). The fair value of non-current bank borrowings and other non-current liabilities is calculated using the discounted cash flow method. The discount rate is based on an appropriate market interest rate.

There were no material changes in the Group's financial risks (interest, default, liquidity and finance risk) in the period under review compared with 31 December 2013.

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

In a contract dated 4 November 2014, TAG sold a portfolio comprising around 2,600 residential units in Berlin-Marzahn for a price of EUR 170.4 m, i. e. roughly EUR 35 m in excess of the IFRS carrying amount as of 30 September 2014. After deducting the bank borrowings for which the properties are encumbered, TAG expects a net cash inflow of around EUR 72 m. This transaction is expected to be closed and recognised on the balance sheet and the purchase price paid to be during the fourth quarter of 2014.

Other disclosures

Following the sale of the majority interest in TAG Gewerbeimmobilien GmbH, which has since been renamed "Texas 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 against Texas Gewerbeimmobilien GmbH for loans of TEUR 54,748, in consideration of which it will be receiving a fee of 0.5% of the outstanding amount from 1 January 2015. If the contingent liabilities are utilised, TAG will be able to recover the corresponding amount from the buyers.

Other than this, there have been no material changes 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 September 2014, the TAG Group had 534 employees, compared with 519 on 31 December 2013.

Basis of reporting

The preparation of the condensed 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 condensed 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 November 2014

Claudia Hoyer
COO

Martin Thiel
CFO

Dr. Harboe Vaagt
CLO

TAG Financial Calendar

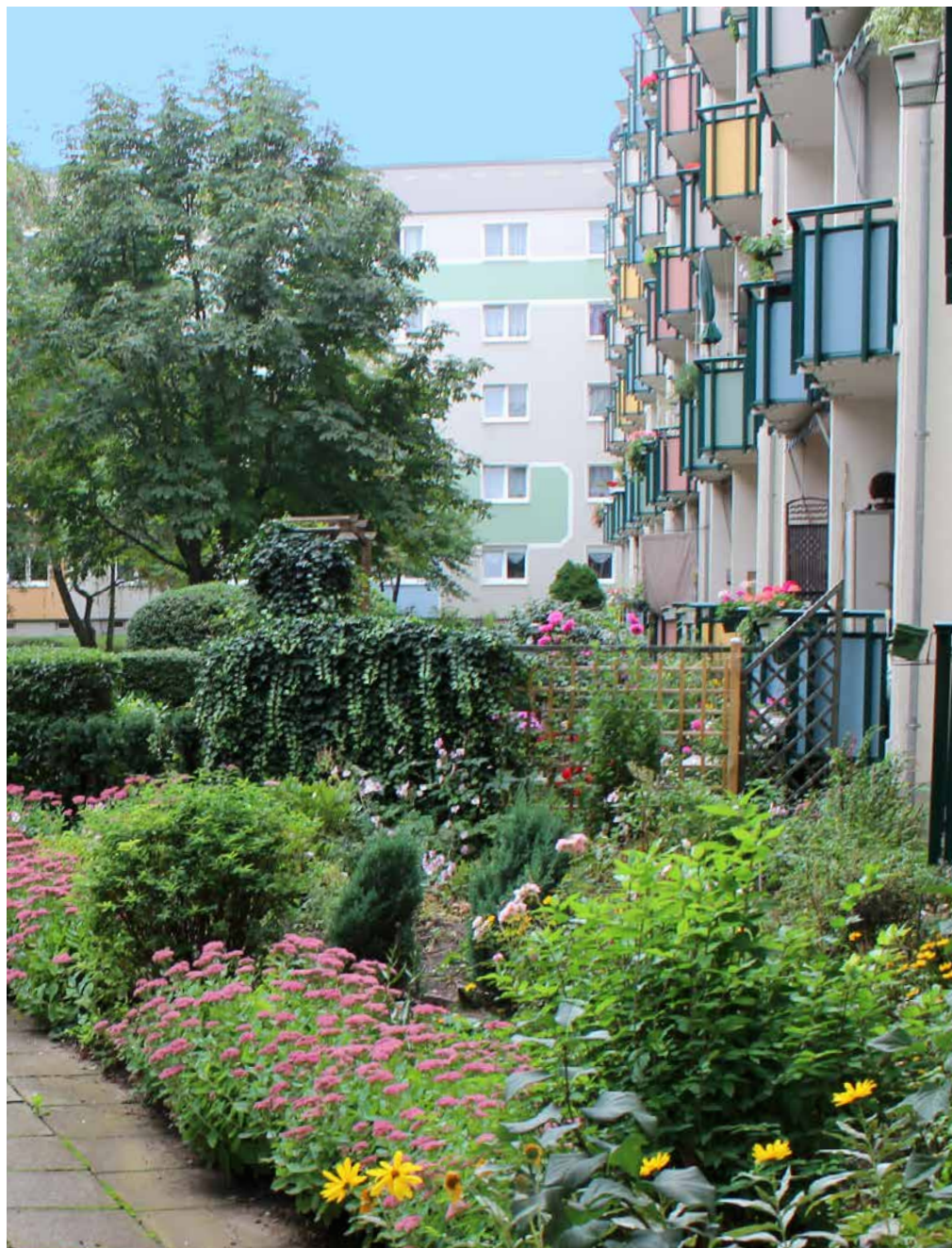
06 November 2014	Publication of the Interim Report on Q3 2014
28 November 2014	Extraordinary Shareholders' Meeting – Hamburg
26 March 2015	Publication of consolidated financial statements / Annual Report 2014
07 May 2015	Publication of the Interim Report on Q1 2014
19 June 2015	Annual General Meeting – Hamburg
06 August 2015	Publication of the Interim Report on Q2 2015
05 November 2015	Publication of the Interim Report on Q3 2015

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The English version of the interim report on Q3 2014 is a translation of the German version of the interim report. The German version of this interim report is legally binding.



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