



(a German stock corporation (Aktiengesellschaft) incorporated under the laws of the Federal Republic of Germany with its registered office in Hamburg and registered with the commercial register of the local court Hamburg under HRB 106718)

## Up to €200,000,000 • % Senior Notes due 2018

Issue Price: 100%

TAG Immobilien AG (“TAG AG”, the “Issuer” or the “Company”) will issue on or about 7 August 2013 (the “Issue Date”) up to €200,000,000 in aggregate principal amount of • % senior notes due 2018 (the “Notes”). The Notes will bear interest from and including 7 August 2013 to, but excluding, 7 August 2018 at a rate of • % per annum, payable semi-annually in arrears on 7 February and 7 August of each year, commencing on 7 February 2014. The Notes will mature on 7 August 2018. The Notes are being offered to retail and institutional investors in a public offer in the Federal Republic of Germany, the Republic of Austria and the Grand Duchy of Luxembourg.

The Notes will be senior obligations of the Issuer. The obligations under the Notes constitute unsubordinated and unsecured obligations of the Issuer ranking *pari passu* among themselves and *pari passu* with all other unsubordinated and unsecured obligations of the Issuer, unless such obligations are accorded priority under mandatory provisions of statutory law.

Upon the occurrence of certain events constituting a change of control, the Issuer may be required to make an offer to repurchase all the Notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, as set out in section 21, “Description of the Notes – Change of Control”. The Issuer may, at its option, redeem all, but not only some, of the Notes at any time at par plus accrued interest to (but excluding) the date fixed for redemption in the event of certain tax changes as set out in section 21, “Description of the Notes – Redemption for changes in taxes”.

This prospectus (the “Prospectus”) constitutes a prospectus within the meaning of Article 5 para. 3 of Directive 2003/71/EC of the European Parliament and the Council of 4 November 2003 (as amended, *inter alia*, by Directive 2010/73/EU) (the “Prospectus Directive”). This Prospectus has been approved by the *Commission de Surveillance du Secteur Financier* of the Grand Duchy of Luxembourg (the “CSSF”) in its capacity as competent authority under the Luxembourg law of 10 July 2005 on prospectuses for securities, as amended (*Loi relative aux prospectus pour valeurs mobilières telle que modifiée*, the “Luxembourg Prospectus Law”), which implements the Prospectus Directive into Luxembourg law. The CSSF assumes no responsibility with regard to the economic and financial soundness of the transaction and the quality and solvency of the Issuer in line with the provisions of article 7(7) of the Luxembourg Prospectus Law. This Prospectus will be published in electronic form on the Company’s website (<http://www.tag-ag.com/en/investor-relations/prospectus>), on the website of the Frankfurt Stock Exchange ([www.boerse-frankfurt.de](http://www.boerse-frankfurt.de)) and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

The Issuer has requested the CSSF to provide the competent authority in Germany (*Bundesanstalt für Finanzdienstleistungsaufsicht*) and in Austria (*Finanzmarktaufsicht*) with a certificate of approval attesting that this Prospectus has been prepared in accordance with the Luxembourg Prospectus Law (the “Notification”). Until such Notification is given in Germany and Austria, and at all times in other Member States of the European Economic Area (“Member States”), offers will be made only pursuant to an applicable exemption under the national legislation of the relevant Member State implementing the Prospectus Directive.

Application has been made to include the Notes in trading on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange with participation in the Prime Standard for corporate bonds segment. It is not intended to have the Notes admitted to trading in a “regulated market” pursuant to European Union Directive 2004/39 on Markets in Financial Instruments.

The Notes are issued in registered form with a denomination of €1,000 each.

The Notes have been assigned the following securities codes: ISIN XS0954227210, WKN A1TNFU.

**Investing in the Notes involves risks. Prospective investors should consider carefully the factors described in section 6, “Risk Factors”.**

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”). The Notes may not be offered or sold within the United States of America (the “United States”) or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements under the U.S. Securities Act (see section 2, *Notice to Investors*).

*Joint Book-running Managers*

Credit Suisse

Close Brothers Seydler Bank

The date of this Prospectus is 29 July 2013.

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**TABLE OF CONTENTS**

<b>1.</b>	<b>RESPONSIBILITY STATEMENT .....</b>	<b>IV</b>
<b>2.</b>	<b>NOTICE TO INVESTORS .....</b>	<b>V</b>
<b>3.</b>	<b>FORWARD-LOOKING STATEMENTS .....</b>	<b>VII</b>
<b>4.</b>	<b>SUMMARY OF THE PROSPECTUS.....</b>	<b>1</b>
<b>5.</b>	<b>SUMMARY OF THE PROSPECTUS (GERMAN TRANSLATION).....</b>	<b>21</b>
<b>6.</b>	<b>RISK FACTORS .....</b>	<b>26</b>
<b>7.</b>	<b>PRESENTATION OF COMPANY, INDUSTRY AND MARKET DATA .....</b>	<b>52</b>
<b>8.</b>	<b>USE OF PROCEEDS .....</b>	<b>55</b>
<b>9.</b>	<b>CAPITALIZATION.....</b>	<b>56</b>
<b>10.</b>	<b>SELECTED FINANCIAL INFORMATION.....</b>	<b>59</b>
<b>11.</b>	<b>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS .....</b>	<b>64</b>
<b>12.</b>	<b>INDUSTRY .....</b>	<b>107</b>
<b>13.</b>	<b>BUSINESS.....</b>	<b>118</b>
<b>14.</b>	<b>REGULATORY FRAMEWORK.....</b>	<b>137</b>
<b>15.</b>	<b>MATERIAL AGREEMENTS.....</b>	<b>146</b>
<b>16.</b>	<b>RECENT DEVELOPMENTS .....</b>	<b>155</b>
<b>17.</b>	<b>GENERAL INFORMATION ON THE COMPANY.....</b>	<b>157</b>
<b>18.</b>	<b>RELATED PARTIES TRANSACTIONS.....</b>	<b>167</b>
<b>19.</b>	<b>MAJOR SHAREHOLDERS .....</b>	<b>170</b>

<b>20.</b>	<b>DESCRIPTION OF OTHER INDEBTEDNESS.....</b>	<b>171</b>
<b>21.</b>	<b>DESCRIPTION OF THE NOTES.....</b>	<b>179</b>
<b>22.</b>	<b>SUBSCRIPTION, OFFER AND SALE.....</b>	<b>199</b>
<b>23.</b>	<b>TRANSFER RESTRICTIONS .....</b>	<b>205</b>
<b>24.</b>	<b>BOOK-ENTRY, FORM AND DELIVERY .....</b>	<b>206</b>
<b>25.</b>	<b>TAXATION .....</b>	<b>210</b>
<b>26.</b>	<b>LEGAL MATTERS .....</b>	<b>217</b>
<b>27.</b>	<b>ENFORCEABILITY OF JUDGMENTS .....</b>	<b>218</b>
<b>28.</b>	<b>GENERAL INFORMATION / DOCUMENTS INCORPORATED BY REFERENCE .....</b>	<b>219</b>
<b>29.</b>	<b>GLOSSARY .....</b>	<b>221</b>
<b>30.</b>	<b>VALUATION REPORTS .....</b>	<b>W-1</b>

## 1. RESPONSIBILITY STATEMENT

TAG Immobilien AG, Hamburg (“**TAG AG**”, the “**Issuer**” or the “**Company**”, or together with its subsidiaries “**TAG**” or the “**Group**”) assumes responsibility for the information contained in this Prospectus and hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect the import of such information.

The Company further confirms that (i) this Prospectus contains all information with respect to the Company as well as to the Company’s subsidiaries and affiliates taken as a whole, and to the Notes, which is material in the context of the issue and offer of the Notes, including all information which, according to the particular nature of the Issuer and of the Notes is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Company and TAG and of the rights attached to the Notes; (ii) the statements contained in this Prospectus relating to the Company, TAG and the Notes are in every material particular true and accurate and not misleading; (iii) there are no other facts in relation to the Company, TAG and the Notes the omission of which would, in the context of the issue and offer of the Notes, make any statement in the Prospectus misleading in any material respect; and (iv) reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

## 2. NOTICE TO INVESTORS

No person is authorised to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company or Credit Suisse Securities (Europe) Limited, 1 Cabot Square, London E14 4QJ, United Kingdom (“**Credit Suisse**”) and Close Brothers Seydler Bank AG, Schillerstrasse 27-29, D 60313 Frankfurt am Main, Germany (“**CBSB**”) (Credit Suisse and CBSB together the “**Initial Purchasers**”). Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or any of its affiliates since the date of this Prospectus, or that the information herein is correct at any time since its date.

The Initial Purchasers have not independently verified the information contained in this Prospectus or any other document incorporated herein by reference. No person mentioned in this Prospectus, except for the Issuer, is responsible for the information contained in this Prospectus or any other document incorporated herein by reference, and accordingly, and to the extent permitted by the laws of any relevant jurisdiction, none of these persons accepts any responsibility for the accuracy or completeness of the information contained in any of these documents.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Company. This Prospectus does not constitute an offer of Notes or an invitation by or on behalf of the Company or the Initial Purchasers to purchase any Notes. Neither this Prospectus nor any other information supplied in connection with the Notes should be considered as a recommendation by the Company or the Initial Purchasers to a recipient hereof and thereof that such recipient should purchase any Notes.

This Prospectus does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The offer, sale and delivery of the Notes and the distribution of this Prospectus in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus comes are required by the Company and the Initial Purchasers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”) or the securities laws of any state or other jurisdiction of the United States and are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws. The Notes are not being offered in the United States or to, or for the account or benefit of, U.S. persons.

The language of the Prospectus is English. Any part of this Prospectus in the German language constitutes a translation. In case there is any discrepancy between the English text and the German text, the English text stands approved for the purposes of approval under the Luxembourg Prospective Law.

In this Prospectus all references to “€”, “EUR” or “Euro” are to the currency introduced at the start of the third stage of the European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended.

The Prospectus and the documents incorporated by reference therein can be found on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and on the website of the Company (<http://www.tag-ag.com/en/investor-relations/prospectus>) and are obtainable in printed form free of charge at the address of the Paying Agent Deutsche Bank Aktiengesellschaft, Große Gallusstraße 10-14, 60311 Frankfurt am Main,

Germany. The Prospectus can also be downloaded from the website of the Frankfurt Stock Exchange ([www.boerse-frankfurt.de](http://www.boerse-frankfurt.de)).

### 3. FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical or current facts and events. This applies, in particular, to statements in this Prospectus containing information on future earning capacity, future expectations, strategic projects, and plans related to TAG's business, about growth and profitability in the future, about the future development of competition, and about general economic conditions affecting TAG in the future. Statements containing words such as "plans", "intends", "anticipates", and "is expected" and similar wording indicate such forward-looking statements. Any such forward-looking statements reflect only the Company's belief at the present time and are therefore subject to risks and uncertainties.

Forward-looking statements are based on current estimates and assumptions made according to the best of the Company's knowledge. Although they are reasonable at the current time in the Company's view, they could turn out to be inaccurate. The occurrence or non-occurrence of an uncertain event could cause the actual results, including TAG's assets, its financial condition and operating results, to differ materially from, or turn out to be less favourable than, the results expressly or implicitly assumed or described in such statements. TAG's business is subject to a number of risks and uncertainties that also could cause a forward-looking statement, estimate or projection to become inaccurate (see section 6, "*Risk Factors*").

Accordingly, prospective investors are strongly advised to read the sections of this Prospectus entitled: "*Summary of the Prospectus*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Business*", and "*Recent Developments*". Those chapters contain more detailed descriptions of factors that might have an influence on TAG's business and the market in which TAG operates.

In light of the risks, uncertainties and assumptions, it is also possible that the future events mentioned in this Prospectus may not occur or may develop differently, which could prevent TAG from achieving its financial and strategic objectives. Therefore, neither the Company, its Management Board nor the Initial Purchasers can guarantee the future correctness of the opinions expressed in this Prospectus or the actual occurrence of the predicted developments. Neither the Company nor the Initial Purchasers intend to supplement or update forward-looking statements beyond their statutory obligation to do so or to adapt this Prospectus to future events or developments.

#### 4. SUMMARY OF THE PROSPECTUS

*Summaries are made up of disclosure requirements known as “Elements”. These elements are numbered in Sections A – E (A.1 – E.7). This summary contains all elements required to be included in a summary for this type of securities and issuer. Because some elements are not required to be addressed, there may be gaps in the numbering sequence of the elements. Even though an element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the element. In this case, a short description of the element is included in the summary with the mention of “not applicable”.*

##### Section A – Introduction and warnings

**A.1 Warning.** This summary (the “**Summary**”) should be read as an introduction to this prospectus (the “**Prospectus**”). Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.

**A.2 Consent.** Not applicable. Consent regarding the use of the Prospectus for a subsequent resale or placement of the Notes has not been granted. The Notes are being publicly offered in Germany, the Republic of Austria and the Grand Duchy of Luxembourg only by TAG Immobilien AG as issuer via the subscription system provided by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) in the XETRA-trading system.

##### Section B – Issuer

**B.1 Legal and commercial name.** The legal name of the issuer is TAG Immobilien AG (“**TAG AG**”, the “**Issuer**” or the “**Company**” or together with its subsidiaries “**TAG**” or the “**Group**”). The Company frequently uses the name “TAG” as a commercial name in its documentation and advertising brochures.

**B.2 Domicile, legal form, legislation, country of incorporation.** The Company is a German stock corporation with registered seat in Hamburg, Germany, incorporated in Germany and governed by German law.

**B.4b Description of any known trends affecting the Company and the industries in which it operates** **Cyclical development of the real estate market and development of the market in individual regions**

TAG generates its revenues almost entirely from the rental of and sale of domestic residential and commercial real estate. It also provides property management services. Minor revenues were also generated from the rental of rail infrastructure for the operation of a railway line in Tegernsee Valley until being sold effective in

February 2013. TAG is therefore primarily dependent on the cyclical development of the real estate market. Any rise or fall in market demand for the properties offered by TAG has a direct effect on the amount of its revenues. In the commercial real estate segment in particular, cyclical effects can result in substantial fluctuations in the revenues achievable from rentals and sales. In contrast, the Company is of the view that revenues of the residential real estate business segment are less exposed to fluctuations caused by cyclical factors.

**Cost-efficient management of the real estate portfolio using economies of scale and utilising value enhancement potential through modernisation and conversion work**

TAG's results of operations are further affected by its ability to manage the Group's real estate portfolio cost-efficiently through the use of economies of scale. The Company has also set itself the objective of keeping the ongoing administrative costs of the Group as low as possible following the acquisition of additional properties or companies. The existing structures, for example, the Group's own property management operations and existing locations can be used for this purpose. TAG can also reduce costs when acquiring companies, for example, by not taking over the existing organisational structures (administrative personnel, business premises, etc.) of the acquired companies. TAG also aims to utilise existing potential in the acquired real estate portfolios. The methods of achieving this include reducing vacancies as well as carrying out intended modernisation and rebuilding measures with the aim of achieving an immediate enhancement of the value of the properties. Therefore, the extent to which TAG is successful in acquiring real estate with value enhancement potential and carrying out modernisation and conversion work effectively has a significant effect on its results of operations.

**Reduction of vacancies**

A further significant factor affecting the profit or loss from real estate rental is the extent to which vacancies exist in the property portfolio. In the financial years 2010 to 2012 in particular as well as in the three-month period ended 31 March 2013, TAG succeeded to a large extent in reducing vacancies within the Group's real estate holdings. This is reflected in the decrease of the vacancy rate across the portfolio.

**Remeasurement of investment properties at fair value**

The real estate portfolio held for the long term (investment properties) immediately reflects positive as well as negative changes in the relevant property market and the individual properties as a result of the valuation required to be carried out annually (reported in the income statement as "fair-value remeasurement of investment properties"). In the same context, gains have arisen in the past as a result of the initial valuation at fair value at the balance sheet date of recently acquired properties. The recognition of investment properties at their fair value can therefore have positive as well as negative effects on TAG's financial statements. However, gains and losses from valuation do not represent transactions affecting cash funds. Actual inflows and outflows of cash only occur if the investment properties are sold at a later date. As a result of this method, the volatility of the consolidated profit or loss is substantially higher than in the case of financial statements under German GAAP (HGB), in which the gain is generally recognised at the date of disposal and losses are recognized if expert opinions indicate the need for impairment. Furthermore, material losses from the remeasurement of investment properties could lead to a decrease in TAG's key figure loan-to-value ("LTV") and potentially jeopardize

financial covenants in TAG's loan agreements.

#### **Accounting treatment of business combinations and profits from first-time consolidation**

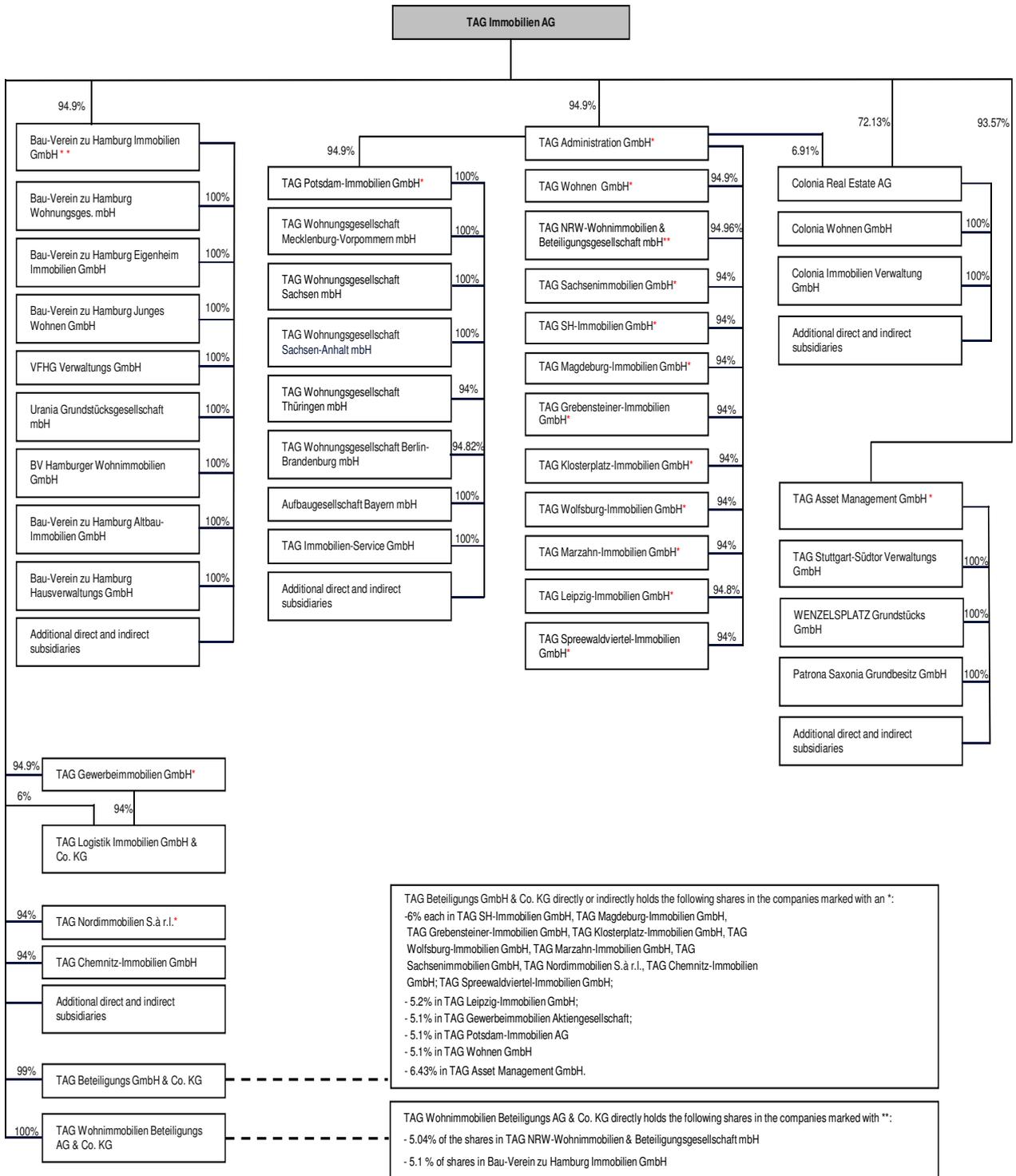
The accounting treatment of business combinations in accordance with IFRS 3 can give rise to significant amounts of income and expenses. When a new subsidiary is acquired, the fair value of the consideration payable by TAG (cost) is set against the fair value of the net assets of the subsidiary acquired attributable to TAG (balance of the assets and liabilities measured at fair value). A positive difference is reported as goodwill. In contrast, a negative difference is recorded as income in the income statement in the year of the acquisition. Business combinations affected the results of TAG in financial year 2010 with profits of €8.4 million, in financial year 2011 with profits of €56.8 million and in financial year 2012 with profits of €148.2 million. In the first quarter of 2013 no business combination occurred.

#### **Financing costs**

In order to finance the acquisition, construction and development of properties and for the purpose of acquiring companies, TAG also raises debt capital, sometimes in substantial amounts. The terms for the debt financing negotiated with the financing banks when the loans are entered into and which are largely dependent on general developments in the interest rate market are a significant factor for the Company's earnings performance. The interest expenses can be reduced and therefore the Company's earnings can be improved by entering into favourable financing agreements (loans and interest rate swaps). Conversely, unfavourable financing terms can have a negative effect on profit or loss.

#### **B.5 Description of the Group and the Company's position within the Group.**

TAG Immobilien AG predominantly functions as the parent company of a diversified real estate group and operates alongside its sub-holding companies in the individual business segments. The following diagram provides a simplified view of the corporate structure of TAG as at the date of this Prospectus:



- B.9 Profit forecast or estimations.** Not applicable. No profit forecast or estimate is being presented by the Company.
- B.10 Description of the nature of qualifications in the audit report on the historical financial information.** Not applicable. The audit reports on the historical financial information included in this Prospectus by reference have been issued without qualifications.
- B.12 Selected historical key financial information**

### Key figures from the consolidated income statements

Key figures from the consolidated income statements of the audited consolidated financial statements and the unaudited consolidated interim financial statements are presented below:

	1 Jan. 2013 - 31 Mar. 2013 (unaudited)		1 Jan. 2012 - 31 Mar. 2012 (unaudited)		2012 (audited)		2011 (audited)		2010 (audited)	
	€ million	% of revenues	€ million	% of revenues	€ million	% of revenues	€ million	% of revenues	€ million	% of revenues
Total revenues	164.9	100	57.0	100	252.8	100	178.3	100	82.9	100
of which rental revenues	63.2	38	34.4	60	192.5	76	115.3	65	51.8	62
of revenues from sales <sup>1</sup>	101.1	61	21.0	37	52.9	21	54.5	30	29.4	36
of which property management	0.6	0	1.6	3	7.5	3	8.5	5	1.7	2
Cost of purchased services and sales	-114.6	-69	-30.6	-54	-105.4	-42	-91.5	-51	-42.4	-51
of which rental expenses	-13.9	-8	-8.3	-15	-48.0	-19	-36.3	-20	-11.6	-14
of which sale expenses <sup>2</sup>	-100.7	-61	-21.0	-37	-53.1	-21	-46.7	-26	-29.6	-36
of which property management expenses	0.0	0	-1.3	-2	-4.3	-2	-8.5	-5	-1.2	-1
Net rental income	49.2	30	26.1	46	144.5	57	79.0	44	40.2	48
Other operating income	2.2	1	83.9	147	170.7	67	66.8	37	15.7	19
Net gains/losses from the remeasurement of investment properties	-0.1	0	6.8	12	29.4	12	28.9	16	16.8	20
Gross profit	52.4	32	117.1	205	347.5	137	182.5	102	73.0	88
Personnel expenses	-7.3	-4	-3.2	-6	-23.1	-9	-12.7	-7	-8.8	-10
Other operating expenses	-4.4	-3	-4.6	-8	-20.1	-8	-20.5	-11	-15.9	-19
EBITDA (before revaluation, unaudited) <sup>3</sup>	40.8	25	102.4	180	275.0	109	120.3	67	31.4	38
Income from investments in associated companies and equity-accounted investments (unaudited) <sup>3</sup>	0.0	0	0.0	0	0.2	0	0.3	0	6.5	8
EBIT	39.0	24	107.6	189	289.1	114	144.6	81	46.9	57
Net interest result	-25.7	-16	-14.2	-25	-86.8	-34	-61.6	-34	-31.2	-38
EBT	13.3	8	93.4	164	202.6	80	83.3	47	22.2	27
Consolidated net profit after non-controlling interests	14.0	8	88.3	155	179.1	71	66.9	38	18.5	22
FFO (unaudited) <sup>3</sup>	15.1	9	5.6	10	39.6	16	-4.7	-3	-5.8	-7
EBIT (adjusted, unaudited) <sup>3</sup>	41.3	25	19.3	34	121.3	48	56.3	32	23.2	28

<sup>1</sup>Total revenues from the sale of real estate inventory and investment properties

<sup>2</sup>Total expenses from the sale of real estate inventory and investment properties

<sup>3</sup>Derived from the Company's ongoing accounting records

### Key figures from the consolidated balance sheets

The following summary shows key items from the consolidated balance sheets of the audited consolidated financial statements and of the unaudited consolidated interim financial statements:

	31 Mar. 2013 (unaudited)		31 Dec. 2012 (audited)		31 Dec. 2011 (audited)		31 Dec. 2010 (audited)	
	€ million	%	€ million	%	€ million	%	€ million	%
Investment properties	3,456.4	93	3,455.7	91	1,890.0	92	837.2	70
Property, plant and equipment	10.6	0	10.7	0	12.0	1	12.0	1
Land with unfinished and finished buildings (real estate inventory held for sale)	87.4	2	89.6	2	37.4	2	114.0	10
Trade receivables	16.6	0	20.1	1	13.2	1	6.7	1
Non-current available for sale assets	8.3	0	111.6	3	38.3	2	16.2	1
Equity (before non-controlling interests)	1,153.4	31	1,136.2	30	547.4	27	356.5	30
Non-current liabilities to banks	1,672.3	45	1,804.8	48	1,016.8	50	523.5	44
Current liabilities to banks	441.8	12	411.3	11	172.6	8	110.5	9
Trade payables	17.4	0	13.8	0	16.4	1	7.8	1
Liabilities in connection with the non-current available for sale assets	0.0	0	1.6	0	0.0	0	13.7	1
Total real estate volume (unaudited) <sup>1</sup>	3,560.0	96	3,663.1	96	1,968.6	96	978.0	82
Total liabilities to banks (unaudited) <sup>1</sup>	2,114.1	57	2,216.1	58	1,189.4	58	634.0	53
Total assets	3,697.3	100	3,800.0	100	2,047.7	100	1,190.5	100
Net asset value per share (NAV; unaudited) according to calculation method used as from 31 Dec. 2011 <sup>1</sup>	€10.00	-	€9.96	-	€8.72	-	€6.67	-
Net asset value per share (NAV; unaudited) according to calculation method used until 31 Dec. 2010 <sup>1</sup>	€8.82	-	€8.69	-	€7.32	-	€6.09	-
Loan-to-value ratio (LTV; unaudited) <sup>1</sup>	57,6%	-	58,9%	-	58,5%	-	52,9%	-

<sup>1</sup> Derived from the Company's ongoing accounting records

### Key figures from the consolidated cash flow statement

The following summary shows key items from the consolidated cash flow statements of the audited consolidated financial statements and of the unaudited consolidated interim financial statements:

	1 Jan. 2013 - 31 Mar. 2013 (unaudited)	1 Jan. 2012 – 31 Mar. 2012 (unaudited)	2012 (audited)	2011 (audited)	2010 (audited)
	€ million	€ million	€ million	€ million	€ million
Cash flow from operating activities	10.7	18.5	17.5	-7.3	-17.0
Cash flow from investing activities	96.8	-107.9	-353.4	-39.3	-75.7
Cash flow from financing activities	-82.6	124.4	346.0	-53.6	215.1
Cash and cash equivalents at the end of the period	56.6	56.6	31.7	21.6	121.8

**No material adverse change in the prospects of the issuer / no significant changes in the financial or trading position subsequent to the period covered by the historical financial information.**

There has been no material adverse change in the prospects of the Company and TAG since 31 December 2012.

There has been no significant change in the financial or trading position of the Company which is material in the context of the issue and sale of the Notes since 31 March 2013.

**B.13 Recent events particular to the Company which are to a material extent relevant to the evaluation of the Company's solvency**

Not applicable; there have been no recent events relevant to a material extent to the evaluation of the Company's solvency.

**B.14 Disclosure pursuant to element B.5 and Dependency on other entities within the Group**

See section 4, "Summary - Issuer – B.5"

The Company is a holding company and as such dependent on its operating subsidiaries.

**B.15 Principal activities of the Company**

The following are TAG's most important business segments:

- **Residential real estate** – i.e. the acquisition, management and to a lesser extent development of residential properties. As of 31 March 2013, TAG held approximately 67,280 residential units with a total floor area of some 4,112,000 m<sup>2</sup>. These residential units are primarily located in the following regions: Thuringia/Saxony (44% of the total floor area), Hamburg region (17%), Berlin region (20%), Salzgitter region (14%) and North Rhine-

Westphalia (5%). The focus on specific regions allows TAG to centralise administration and management of large segments of the portfolio in a small number of offices. Since the concentration of administration in a few offices creates economies of scale, the existing offices' ability to manage a potential property is an important criterion in every decision concerning the acquisition of additional properties and real estate portfolios. This business segment also oversees the selective sale of residential properties for the purpose of generating profit and optimising the portfolio in addition to the acquisition, development and management of residential real estate.

- **Commercial real estate** – i.e. the acquisition, management and development of commercial properties. TAG's commercial real estate portfolio comprises 30 of its own commercial properties most of which are held by TAG Gewerbe and for which administration and management services are obtained from a third party. These have a total rental space measuring some 347,000 m<sup>2</sup> (as of 31 March 2013) and mainly comprise office buildings in the Berlin region (16% of the total floor area), Hamburg region (14%), North Rhine-Westphalia (27%), in the Munich metropolitan area (41%) and in Thuringia/Saxony (2%). In addition, TAG also holds numerous other, mostly small-scale commercial spaces located e.g. in mixed-use residential and commercial buildings. These are administered and managed along with the corresponding residential spaces. This business segment also oversees the sale of commercial real estate for the purpose of reducing the investments in commercial real estate, generating profits and optimising the portfolio.

TAG's primary objective is to increase the value of the Company by sustainably expanding and increasing the value of its residential real estate portfolio. To that end, TAG continues to explore promising opportunities to expand its residential real estate portfolio. The Company intends to increase TAG's profitability by combining property management resources and creating greater economies of scale. Pursuant to the growth strategy, TAG acquired the majority of the shares in Colonia Real Estate AG ("**Colonia**") at the beginning of 2011, and thereby more than tripled its residential real estate portfolio by adding approximately 18,900 residential units. In addition, it grew its portfolio further in 2011, acquiring approximately 4,300 residential units by way of various smaller transactions. In 2012, TAG continued its expansion strategy by acquiring TAG Potsdam with a portfolio of approximately 26,900 real estate properties, 25,000 of which were residential units, and TAG Wohnen with a portfolio of approximately 11,350 residential and 140 commercial units.

In contrast, expanding the commercial real estate portfolio held principally by TAG Gewerbe is not currently a main priority. TAG is more likely to reduce its commercial real estate portfolio through selected sales, for example by the sale and purchase agreement regarding the commercial property Königstorgraben in Nuremberg, which was concluded in April 2013. In May 2012, TAG Gewerbe lost its pre-REIT-Status retroactively to 31 December 2011.

**B.16 Direct and indirect control of the Company**

Not applicable. To the extent known to the Company, it is neither directly nor indirectly controlled by any other person.

The table below lists TAG AG's principal shareholders which, to the best of the Company's knowledge, held more than 3% of TAG AG's share capital as at the date of this Prospectus. The information in the table regarding the respective number of shares is based on notifications received by the Company under the German Securi-

ties Trading Act (Wertpapierhandelsgesetz, “WpHG”) and other sources of Company information. The information in the table regarding the percentage of voting rights is recalculated based on the 130,738,169 shares issued by the Company as at the date of this Prospectus.

The table also identifies shareholders who are related parties of the Company. Where applicable, the name of the party to whom the shares must be attributed appears in brackets behind the shareholder’s name. (Rounding differences may occur where voting rights are expressed as percentages.)

	Number of shares	% of voting rights
<b>Principal shareholders</b>		
Ruffer LLP	19,605,027	15.00%
Flossbach von Storch SICAV	15,277,210	11.69%
Sun Life Financial, Inc.	13,091,874	10.01%
Taube Hodson Stonex Partners LLP	6,960,665	5.32%
Ameriprise	6,443,427	4.93%
Capita Financial Managers Limited	6,248,934	4.78%
DWS Investment GmbH	5,165,451	3.95%
Total shares held by principal shareholders	72,792,588	55.68%
<b>Shares held in free float</b>	57,945,581	44.32%
<b>Total shares</b>	130,738,169	100%
<b>Shares held by related parties</b>		
Rolf Elgeti (member of the Management Board)	153,000	0.12%
Dr. Harboe Vaagt (member of the Management Board)	2,585	< 0.01%
Georg Griesemann (member of the Management Board)	1,290	< 0.01%
Claudia Hoyer (member of the Management Board)	6,000	< 0.01%
Dr. Lutz R. Ristow (1,400,814 shares held in his own name, plus 479,000 shares held jointly by Dr. Ristow and his wife, Rita Ristow) (member of the Supervisory Board)	1,879,814	1.44%
Prof. Dr. Roland Frohne (member of the Supervisory Board)	309,677	0.24%

**B.17 Rating of the Company**

Not applicable. The Company has not received a credit rating.

**Section C – Securities**

**C.1 Description of the type and the class of securities offered including security identification number.**

The offered securities are fixed interest bearing notes (the “Notes”).

Security codes: ISIN XS0954227210, WKN A1TNFU;

Symbol: TEGA.

**C.2 Currency of the**

The Notes are issued in Euro.

securities issued.

- C.5 A description of any restrictions on the free transferability of the securities.** Not applicable. The Notes are freely transferable.
- C.8 Rights attached to the securities, including ranking and limitations to those rights.**
- Rights attached to the securities**
- The Notes will bear interest from and including 7 August 2013 to, but excluding, 7 August 2018 at a rate of ●% per annum, payable semi-annually in arrears on 7 February and 7 August, in each year, commencing on 7 February 2014.
- Ranking**
- The obligations under the Notes constitute unsubordinated and unsecured obligations of the Company ranking *pari passu* among themselves and *pari passu* with all other unsubordinated and unsecured obligations of the Company, unless such obligations are accorded priority under mandatory provisions of statutory law.
- Negative Pledge**
- In the “Description of the Notes” the Company agrees not to provide any security interest for any capital market indebtedness capable of being listed, quoted or traded on any stock exchange or in any securities market, without at the same time or prior thereto securing the Notes equally and ratably therewith.
- Restrictive Covenants**
- The indenture governing the issue of the Notes provides for certain covenants which restrict the Company’s ability to incur additional indebtedness by requiring certain loan-to-value and interest coverage ratios to be met.
- Early Redemption for Taxation Reasons**
- Early redemption of the Notes for reasons of taxation will be permitted, if as a result of any change in, or amendment to, the laws, treaties or regulations (including any amendment to, or change in, an official interpretation or application of such laws or regulations) of the Company’s or paying agent’s jurisdiction or any political subdivision thereof or therein affecting taxation or the obligation to pay duties of any kind, the Company will become obligated to pay additional amounts on the Notes, all as more fully set out in the “Description of the Notes”.
- Events of Default**
- The indenture governing the issue of the Notes provides for a series of Events of Default, that in the case of certain insolvency event would cause the Notes to become immediately due and payable, and in all other cases give the Trustee or the Holders of at least 25% of the aggregate principal amount of the Notes outstanding the right to declare the Notes due and payable, as more fully set out in the “Description of the Notes”.
- Cross-acceleration**
- A further event of default under the Notes arises if there is an acceleration of other indebtedness of the Company aggregating €50 million or more, as more fully set out in the “Description of the Notes”.

### **Change of Control**

The Company is required to offer Holders the ability to sell their Notes back to the Company at their principal amount, plus 1%, plus accrued interest upon the occurrence of a Change of Control as more fully set out in the “Description of the Notes”.

### **Governing law**

The indenture governing the issue of the Notes and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

- |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>C.9</b>  | <b>A description of the rights attached to the securities, including ranking and limitation of those rights (C.8) / the nominal interest rate / the date from which interest becomes payable and the due dates for interest / where the rate is not fixed, description of the underlying on which it is based / maturity date and arrangements for the amortisation of the loan, including the repayment procedures / an indication of yield / name of representative of debt security holders</b> | <p>See section 4, “Summary - Securities - C.8”</p> <p>The Notes will bear interest on their nominal amount with a minimum rate of 3% per annum payable semi-annually in arrears.</p> <p>Unless previously redeemed in whole or in part or purchased and cancelled, each Note shall be redeemed at par on 7 August 2018.</p> <p>The minimum yield of the issue is 3%.</p> <p>The holders of the Notes will be represented by a trustee, which is Deutsche Trustee Company Limited (the “<b>Trustee</b>”).</p> |
| <b>C.10</b> | <b>C9 / Derivative component in the interest payment.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                          | <p>See section 4, “Summary - Securities - C.9”</p> <p>Not applicable. The Notes have no derivative component when paying interest, which could influence the value of the Notes by having an impact on the value of the underlying instrument or several underlying instruments.</p>                                                                                                                                                                                                                         |
| <b>C.11</b> | <b>Admission to trading.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>Application has been made to include the Notes in trading on the Open Market, Entry Standard (<i>Freiverkehr</i>), of the Frankfurt Stock Exchange with participation in the Prime Standard for corporate bonds segment. It is not intended to have the Notes admitted to trading in a “regulated market” pursuant to European Union Directive 2004/39 on Markets in Financial Instruments.</p>                                                                                                           |

## Section D - Risks

### D.2 Key information on the key risks that are specific to the issuer

#### Market-related risks

- The German real estate market depends on the macroeconomic development and on the demand for real estate.
- TAG is exposed to macroeconomic risks caused by the sovereign debt crisis in Europe.
- TAG is exposed to intense competition. There is a risk that it might not be able to compete successfully, or that it might not be able to distinguish itself adequately from its competitors.

#### Company-specific risks

- TAG's success depends on its ability to acquire, integrate and market further participations in real estate companies and further real estate holdings on appropriate terms, and on its ability to sell these at attractive prices in the course of a selective reduction of existing holdings.
- TAG might be unable to successfully integrate and manage the residential and commercial real estate packages it has acquired in the past and will acquire in the future, and in particular to adjust and expand corporate structures as is necessary for this purpose.
- TAG must rely on raising debt capital on reasonable terms. Because of its extensive leverage, TAG could be unable to meet its obligations or to finance new acquisitions. Moreover, a further intensification of the crisis in the international financial markets could significantly impede TAG's debt financing, and result in liquidity problems.
- Future capital increases or other financing transactions through the capital markets, like the issuance of notes or convertible bonds, might be difficult due to a hostile capital market environment or due to a reduced attractiveness of the Company as issuer of securities.
- Distress sales or forced disposals of real estate collateral would cause TAG material financial detriment.
- The valuation reports contained in this Prospectus might not properly represent the value of TAG's real estate holdings. This could result in revaluation losses.
- Substantial vacancy rates or a loss or reduction of rental income could result in losses of income and additional expenses. The legal and economic environment in the rental market could make rent increases unenforceable.
- In commercial real estate, TAG is dependent on a single major tenant who rents approximately 33% of the commercial space that TAG lets out.
- TAG still uses a small group of outside managers to manage its properties, and is therefore dependent on third parties' provision of services.
- In acquiring and managing real estate properties, TAG is subject to various contractual, regulatory and statutory restrictions that limit its economic freedom of action.
- TAG could suffer material losses from damage that is not covered by

insurance, or that exceeds the insurance cover.

- TAG's business is limited to certain regions within Germany. This concentration results in a dependence on regional market developments, and in expansion risks.
- In acquiring real estate or real estate portfolios, there is a risk that TAG might not accurately appraise the properties' value, and might pay an excessive price. When TAG acquires a participation in real estate companies, there is the risk that TAG might overestimate the value of the acquired participation.
- The transaction costs expended for future acquisition of real estate, real estate portfolios or real estate companies could prove to be useless if the transaction is not completed.
- There is a risk that TAG could be exposed to warranty claims resulting from the sale of properties, and that there may be no corresponding claims for recourse, or that claims for recourse cannot be asserted successfully.
- Action could be taken against TAG AG for liabilities of its subsidiaries and affiliates under declarations of liability or under domination and profit and loss transfer agreements.
- Action could be taken against TAG for legacy pollution, environmental pollution or hazardous construction materials.
- TAG uses IT systems extensively in its business operations. Impairments of these IT systems could result in disturbances and interruptions of business.
- TAG's future success depends on its executives and other qualified employees.
- TAG subsidiary Colonia could be exposed to a revival of claims from insolvency creditors of the former Küppersbusch Aktiengesellschaft, from which Colonia originated.
- TAG subsidiary Colonia could incur additional costs from claims arising from the follow-up distribution for certain assets of the former Küppersbusch Aktiengesellschaft.

#### **Financial reporting, legal and tax risks**

- Impairment losses on the participations in the subsidiaries reported in the annual financial statements of TAG AG and claims against those companies could have material adverse consequences for the net results shown in the annual financial statements of TAG AG.
- A persistent negative business performance of the real estate market could cause losses of value and extraordinary impairment losses on TAG's properties.
- TAG is dependent on the general legal and regulatory environment for residential and commercial properties in Germany, which has a significant influence on its profitability.
- The Company's internal organisational structures, particularly its risk management and compliance system, must be developed further. If this is unsuccessful, there would be the risk that it would not be possible to identify

or avoid impending violations of the law or impending economic losses in a timely manner.

- If TAG does not meet the legal requirements to receive subsidies, public providers of funds could demand the refund of funding already granted.
- TAG is a party to numerous legal disputes, the outcome of which is uncertain.
- TAG could be exposed to claims for restitution under the Act on Unsettled Property Questions (Vermögensgesetz) and claims under the Act Settling Legal Relationships regarding Real Estate (Sachenrechtsbereinigungsgesetz).
- A violation of purpose limitation covenants at the time of the resale of properties could result in liability risks. Existing purpose limitation covenants could diminish the value of the affected properties.
- Action could be brought against TAG for damages because of inaccurate real estate sales prospectuses.
- TAG's tax loss carry-forwards could be jeopardised by past or future capital measures or share purchases.
- The Company is exposed to tax risks, for example if tax audits result in a need for follow-up payments, if acquisition structures for real estate companies prove to be detrimental under the real estate transfer tax regime, or if changes occur because of tax legislation.
- TAG could be unable, or able only to a limited extent, to deduct its interest expenses for tax purposes.
- There is a risk that tenants could claim that the decorative repairs clauses in leases are invalid, and might not perform the decorative repairs on rental properties as transferred to them under the leases.
- There is a risk that TAG tenants of commercial units could terminate their leases early, citing the formal requirements of German tenancy law.
- TAG has acted as a property developer in the past, and in establishing the property development agreements used general terms and conditions which, among other provisions, included binding time periods for the acceptance of purchase offers, as well as the retroactive acknowledgement of prior acceptances of the joint property as legally binding. There is a risk that these general terms and conditions, or others used by TAG in property development work, could be deemed invalid by courts.
- TAG Wohnen might be facing claims from creditors of TLG Immobilien GmbH which exceed the indemnity provided by the Federal Republic of Germany in the share purchase agreement for the acquisition of all shares in TAG Wohnen.

**D.3 Key information on the key risks that are specific to the securities. Risks related to the Notes**

- The Notes may not be a suitable investment for all investors.
- The Company may not be able to generate sufficient cash flows to meet its debt service obligations.

- Other lenders of TAG have access to collateral of TAG. As a result, the Holders will have only limited or no access to assets of TAG in the event of the Company's insolvency.
- The Company is, to a considerable degree, a holding company with limited assets to generate revenue, and will depend on payments from its subsidiaries to provide it with funds to meet its obligations under the Notes.
- Holders of the Notes may be unable to enforce judgments obtained in the U.S. courts against the Company.
- The Company may incur additional debt and there is no limitation regarding the amount of the Company's indebtedness or the issuance of further notes.
- A liquid market for the Notes may not develop, or if it does develop, it may not continue.
- The stock exchange price of the Notes may be volatile and may develop unfavourably.
- The market value of the Notes could decrease if the creditworthiness of TAG worsens.
- Although the occurrence of specific change of control events will permit Holders to require redemption or repurchase of the Notes, the Company may not be able to redeem or repurchase such Notes.
- If the Euro represents a foreign currency to a Holder, such Holder is exposed to the risk of changes in currency exchange rates.
- As the Notes are fixed rate notes, Holders are exposed to the risk that the price of such notes falls as a result of changes in the market interest rate.
- The transfer of the Notes will be restricted, which may adversely affect the value of the Notes.
- The Notes will be held in book-entry form and therefore the investor must rely on the procedures of the relevant clearing system to exercise any rights and remedies.

## Section E – Offer

### E.2b Reasons for the offer and use of proceeds

The Company intends to use the net proceeds of €196 million from the sale of the Notes primarily for the improvement of the debt financing structure and the repayment of financial indebtedness, in particular for the repurchase of convertible bonds previously issued by the Company, the interest rate of which exceeds the interest rate of the Notes. Besides this, the Company intends to use the net proceeds for the financing of further growth of the Company and further general corporate purposes.

### E.3 Terms and conditions of the offer.

#### Offer of the Notes

The Company offers up to €200,000,000 aggregate principal amount of ●% Senior Notes due on 7 August 2018 (the “Offer”), the issue of which is intended to take place on or about 7 August 2013 (the “Issue Date”).

The Notes will be offered to institutional investors and retail investors in compliance with the public offer restrictions in the Member States of the European

Economic Area. A public offer will be made in Luxembourg following the approval of the Prospectus by the CSSF and a public offer may be made in Germany and Austria following the notification of the approval of the Prospectus by the CSSF to the competent authorities in Germany (*Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin*) and Austria (*Finanzmarktaufsicht, FMA*) according to Article 18 of the Prospectus Directive.

The Offer consists of

- an offer to the public in Germany, Austria and Luxembourg through the subscription functionality (the “**Subscription Functionality**”) that is provided by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) in the XETRA-trading system or a substitute trading system for the collection and settlement of subscription offers, conducted solely by the Company (the “**Public Offer**”); and
- a private placement to qualified investors in Germany, Austria and Luxembourg and certain other countries other than the United States, Canada, Australia and Japan (the “**Private Placement**”) by the Initial Purchasers (as defined in section 2, “*Notice to Investors*”) in compliance with applicable private placement exemptions.

The Public Offer will be solely conducted by the Company. The Initial Purchasers will not participate in the Public Offer.

There are no predetermined tranches of Notes for each of the Public Offer and the Private Placement.

There is no minimum or maximum amount of Notes to be purchased. Investors may place offers to purchase Notes in any amount being an integral multiple of €1,000.

Subscription rights for the Notes do not exist and will not be issued. Therefore, there are no procedures for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.

The offer period for the Private Placement will commence on 29 July 2013 and will end on 2 August 2013 (the “**Private Placement Offer Period**”). The offer period for the Public Offer will commence on 30 July 2013 and will end on 2 August 2013 (the “**Public Offer Period**”) and together with the Private Placement Period, the “**Offer Period**”). The Offer Period is subject to any shortening or extension of the Offer Period.

An “**Over-Subscription**” occurs if the total amount of (i) subscription offers transmitted in the Public Offer to CBSB as order book manager for the Public Offer, and (ii) the subscription offers received by the Initial Purchasers in the Private Placement exceeds the maximum aggregate principal amount of Notes offered. In case of an Over-Subscription, the Offer Period may end before the aforementioned date, on the respective trading day of such Over-Subscription.

#### **Range Notice and Pricing Notice**

The Notes will bear interest on their nominal amount with a minimum rate of 3% per annum payable semi-annually in arrears.

The interest rate and the yield of the issue (the “**Interest Details**”) will be determined by the Company and the Initial Purchasers by way of a book building,

which will be performed in the course of the Public Offer. The book building will take into consideration to what extent and with which proposal regarding the interest and the yield investors submit orders to purchase the Notes in the Private Placement and in the Public Offer. The book building will be performed in two steps:

- In a first step, an indicative interest range (the “**Interest Range**”) will be determined. Upon determination, the Interest Range will be set out in a notice (the “**Range Notice**”) which will be published on the Company’s website (<http://www.tag-ag.com/en/investor-relations/prospectus>) on the last day of the Offer Period the latest.
- In a second step, the Interest Details will be determined. Upon determination, the Interest Details and the aggregate principal amount of Notes to be issued will be set out in a notice (the “**Pricing Notice**”) which will be filed with the CSSF and published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and the Company’s website (<http://www.tag-ag.com/en/investor-relations/prospectus>) after publication of the Range Notice and on the last day of the Offer Period the latest.

#### **Conditions of the Offer**

There are no conditions to which the offer is subject.

#### **Subscription**

Investors wishing to submit subscription applications via the Subscription Functionality need to submit a subscription application for the Notes to their respective depositary bank during the Offer Period. Subscription applications may not include interest limits. This requires that the depositary bank (i) has been admitted as a trading participant to the Frankfurt Stock Exchange or has access to trading on the Frankfurt Stock Exchange via an accredited trading participant, (ii) is connected to XETRA and (iii) is authorised and able to use the Subscription Functionality according to the terms and conditions for the use of the Subscription Functionality (the “**Trading Participant**”).

Upon the investor’s request, the Trading Participant submits a subscription offer on behalf of the investor via the Subscription Functionality. Subscription applications may not include interest limits. CBSB will notify the Company and the Initial Purchasers of the aggregate amount of subscription offers received so far at least once daily during the Offer Period. Upon determination of the Interest Details, the Company and the Initial Purchaser will decide on the allotment.

CBSB as financial intermediary (*Finanzkommissionär*) may accept the subscription applications and informs the Company of the subscription applications received. By way of acceptance of the subscription applications by CBSB a sales contract for the Notes is concluded, subject to the condition subsequent that the Notes are not issued on the Issue Date. Performance day is the Issue Date, which is also the value day.

Investors in Luxembourg and Austria whose depositary bank is not a Trading Participant may instruct a Trading Participant via their depositary bank to submit a subscription offer and execute it after acceptance by CBSB together with the depositary bank of the investor.

If an Over-Subscription occurs, the Subscription Functionality may cease to be available as described above; in this case, the allotment of the Notes will be decided after consultation between the Company and the Initial Purchasers. Trading with

respect to the Notes on terms of issue (*Handel per Erscheinen*) is envisaged on the open market (*Freiverkehr*) (Quotation Board) of the Frankfurt Stock Exchange until the business day immediately preceding the Issue Date.

The Private Placement will be made by the Initial Purchasers to institutional investors in Germany, Austria and Luxembourg and other countries other than the United States, Canada, Australia and Japan in accordance with certain selling restrictions.

#### **Allotment**

As long as there is no Over-Subscription with subscription offers that meet the requirements of the Interest Details, Notes (i) subscribed through the Subscription Functionality, or (ii) directly subscribed from the Initial Purchasers by institutional investors will be fully allotted.

In the event of an Over-Subscription with subscription offers that meet the requirements of the Interest Details, the allotment of the Notes will be decided after consultation between the Company and the Initial Purchasers. The ultimate decision rests with the Company. The Company and the Initial Purchasers are entitled to curtail subscription applications or reject individual subscriptions. Claims of investors in relation to already paid-in subscription fees and any expenses arising in connection with the subscription are dealt with in accordance with the legal relationship between the investor and the respective depository bank with which the investor has placed his subscription offer.

Investors who have submitted subscription offers for the Notes via the Subscription Functionality may request at their respective depository bank the number of Notes allotted to them.

#### **Issue, delivery and settlement**

The issue of the Notes is intended to take place on or about 7 August 2013 (the “**Issue Date**”).

Following confirmation which orders have been accepted and which amounts have been allotted to particular investors, delivery and payment of the Notes will be made on or about 7 August 2013.

The delivery and settlement of the Notes subscribed for via the Subscription Functionality in the Public Offer will be made by CBSB.

Subscription offers via the Subscription Functionality will be executed – deviating from the regular two day settlement period for transactions on the Frankfurt Stock Exchange – only with value as at the Issue Date, i.e. presumably on 7 August 2013. In this context, CBSB has committed itself to underwrite the Notes by way of a financial agency for the account of the Company and to deliver and settle them to the investors who subscribed for Notes in the Public Offer according to the allotment. Delivery of the Notes will be made on a delivery versus payment of the Issue Price for the Notes basis.

Delivery and settlement for the Private Placement will be made by the Initial Purchasers on a delivery versus payment of the Issue Price basis presumably on 7 August 2013 via book-entry through Euroclear and/or Clearstream.

#### **Inclusion in trading**

Inclusion in trading on the Open Market, Entry Standard (*Freiverkehr*) of the

Frankfurt Stock Exchange with participation in the Prime Standard segment for corporate bonds was applied for on 23 July 2013. Commencement of trading is expected to occur on 7 August 2013. It is not intended to admit the Notes to trading on a “regulated market” pursuant to Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on Markets in Financial Instruments.

**E.4 Any interest that is material to the issue/offer including conflicting interests**

The Company and the Initial Purchasers will enter into a subscription agreement to be signed on or around the date of this Prospectus (the “**Subscription Agreement**”). The Initial Purchasers agree in this Subscription Agreement, subject to certain customary closing conditions, to purchase such Notes which have been subscribed by, and allotted to, investors in the course of the Offer, at a price of 100% of their principal amount and to sell and transfer such Notes to the respective investors. Proceeds to the Company will be net of commissions of 1% of the principal amount of the Notes purchased by the Initial Purchasers; such commission is higher, if the interest rate for the Notes is determined to be below a certain threshold. The Company has furthermore agreed to reimburse the Initial Purchasers for certain expenses incurred in connection with the Offer of the Notes. In addition, the Company has agreed to indemnify the Initial Purchasers against certain liabilities in connection with the Offer of the Notes.

The Initial Purchasers are entitled, under certain circumstances, to terminate the Subscription Agreement with the Company. The circumstances include: any material adverse change in the financial condition, results of operations, business or prospects of TAG group and any material adverse change in conditions on the capital markets. If the Subscription Agreement is terminated, the Offer of the Notes will not take place or - if the Offer has already begun at this point - it will be cancelled. Any allotments already made to investors will be invalidated and investors will have no claim for delivery of the Notes. In this case the Initial Purchasers will not be obliged to deliver Notes to investors.

The Initial Purchasers or their affiliates have provided from time to time, and expect to provide in the future, investment services to the Company and its affiliates, for which the Initial Purchasers or their affiliates have received or will receive customary fees and commissions. In addition, Credit Suisse will assist the Company as dealer manager with respect to the intended repurchase of outstanding convertible bonds issued by the Company.

Not applicable. There are no interests of natural and legal persons other than the Company involved in the issue, including conflicting ones that are material to the issue.

**E.7 Estimated expenses charged to the investor by the issuer or the offeror**

Not applicable. The Company will not charge any costs, expenses and taxes directly to any investor. Investors must inform themselves about any costs, expenses and taxes in connection with the Notes which apply to them individually and are – with respect to any transaction costs and fees (such as customary bank commissions) – to be obtained from their deposit bank from or through which the investor subscribes, acquires or (re-) sells the Notes.

## 5. SUMMARY OF THE PROSPECTUS (GERMAN TRANSLATION)

### ZUSAMMENFASSUNG DES PROSPEKTS

*Zusammenfassungen setzen sich aus Angabeanforderungen zusammen, die als „Elemente“ bezeichnet werden. Diese Elemente sind in Abschnitte A – E (A.1 – E.7) gegliedert. Diese Zusammenfassung enthält alle Elemente, die in eine solche Zusammenfassung für diese Art von Wertpapier und Emittent aufzunehmen sind. Da einige Elemente nicht behandelt werden müssen, kann die Nummerierung der Elemente Lücken aufweisen. Auch wenn ein Element wegen der Art des Wertpapiers und des Emittenten in die Zusammenfassung aufgenommen werden muss, kann es möglich sein, dass diesbezüglich keine einschlägigen Informationen zur Verfügung gestellt werden können. In solchen Fällen wird eine kurze Beschreibung des Elements mit dem Hinweis „entfällt“ in die Zusammenfassung aufgenommen.*

#### Abschnitt A – Einleitung und Warnhinweise

**A.1 Warnhinweis** Diese Zusammenfassung („**Zusammenfassung**“) ist als Einleitung zu diesem Prospekt („**Prospekt**“) zu verstehen. Anleger sollten jede Entscheidung zur Anlage in die betreffenden Wertpapiere auf die Prüfung des gesamten Prospekts stützen.

Für den Fall, dass vor einem Gericht Ansprüche aufgrund der im Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger in Anwendung der einzelstaatlichen Rechtsvorschriften der Mitgliedstaaten des Europäischen Wirtschaftsraums die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben.

Zivilrechtlich haften nur diejenigen Personen, die die Zusammenfassung samt etwaiger Übersetzungen vorgelegt und übermittelt haben, und dies auch nur für den Fall, dass die Zusammenfassung verglichen mit den anderen Teilen des Prospekts irreführend, unrichtig oder inkohärent ist oder verglichen mit den anderen Teilen des Prospekts wesentliche Angaben, die in Bezug auf Anlagen in die betreffenden Wertpapiere für die Anleger eine Entscheidungshilfe darstellen, vermissen lassen.

**A.2 Zustimmung.** Entfällt. Eine Zustimmung hinsichtlich der Nutzung dieses Prospekts für einen nachfolgenden Weiterverkauf oder eine Platzierung von Schuldverschreibungen wurde nicht erteilt. Die Schuldverschreibungen werden in Deutschland, Österreich und dem Großherzogtum Luxemburg ausschließlich von der TAG Immobilien AG als Emittentin über das von der Frankfurter Wertpapierbörse zur Verfügung gestellte Zeichnungssystem im XETRA-Handelssystem öffentlich angeboten.

#### Abschnitt B – Emittent

**B.1 Juristische und kommerzielle Bezeichnung.** Die Firma der Emittentin lautet TAG Immobilien AG („**TAG AG**“, die „**Emittentin**“ bzw. die „**Gesellschaft**“ oder zusammen mit ihren Tochtergesellschaften „**TAG**“ bzw. der „**Konzern**“). Die Gesellschaft bedient sich in ihren Unterlagen und Werbeproschüren häufig der Bezeichnung „TAG“ als Handelsname.

**B.2 Sitz, Rechtsform, geltendes Recht, Land der Gründung.** Es handelt sich bei der Gesellschaft um eine deutsche Aktiengesellschaft mit Sitz in Hamburg, Deutschland, die in Deutschland gegründet wurde und deutschem Recht unterliegt.

**B.4b Alle bereits bekannten Trends, die sich auf die Emittentin und die Branchen, in denen sie tätig ist, auswirken.** **Konjunkturelle Entwicklung des Immobilienmarktes und Marktentwicklung der einzelnen Regionen**

Die TAG erzielt ihre Umsatzerlöse nahezu ausschließlich in den Geschäftsfeldern Vermietung und Veräußerung inländischer Wohn- und Gewerbeimmobilien. Sie bietet außerdem Dienstleistungen im Bereich des Property Management an. Im geringen Umfang wurden Umsatzerlöse außerdem durch die Vermietung von Eisenbahninfrastruktur für den Betrieb einer Eisenbahnstrecke im Tegernseer Tal erzielt, bis diese mit Wirkung zum Februar 2013 veräußert wurde. Die TAG ist daher in erster Linie abhängig von der konjunkturellen Entwicklung des Immobilienmarktes. Ein Anstieg bzw. eine Verringerung der Marktnachfrage nach den durch die TAG angebotenen Immobilien wirkt sich somit unmittelbar auf die Höhe der Umsatzerlöse aus. Insbesondere im Bereich der Gewerbeimmobilien können konjunkturelle Einflüsse zu größeren Schwankungen in den erzielbaren Vermietungs- und Verkaufsumsätzen führen. Der Bereich der Wohnimmobilien ist demgegenüber nach Einschätzung der Gesellschaft in geringerem Umfang von konjunkturbedingten Umsatzschwankungen betroffen.

**Kosteneffiziente Bewirtschaftung des Immobilienbestands durch Nutzung von Skaleneffekten und Nutzung von Wertsteigerungspotentialen durch Modernisierungs- und Umbaumaßnahmen**

Das Ergebnis der TAG wird weiterhin davon beeinflusst, die Bewirtschaftung des Immobilienbestands des Konzerns durch Nutzung von Skaleneffekten kosteneffizient durchzuführen. Ziel ist es, auch nach Akquisition weiterer Immobilien bzw. Unternehmen, die laufenden Verwaltungskosten des Konzerns so gering wie möglich zu halten. Hierzu können die bereits bestehenden Strukturen, z. B. im Bereich der konzerneigenen Hausverwaltung und der bestehenden Standorte, genutzt werden. Auch sind Kosteneinsparungen beim Erwerb von Unternehmen möglich, indem z. B. bisherige Organisationsstrukturen (Verwaltungspersonal, Geschäftsräume etc.) des erworbenen Unternehmens nicht in die TAG übernommen werden. Ziel der TAG ist es weiterhin, vorhandene Potentiale in den erworbenen Immobilienbeständen zu nutzen. Dies erfolgt durch Leerstandsreduzierung sowie durch gezielte Modernisierungs- und Umbaumaßnahmen, die unmittelbar zu einer Wertsteigerung der Immobilien führen sollen. Daher ist es für das Ergebnis der TAG von großer Bedeutung, inwieweit es gelingt, Immobilien mit Wertsteigerungspotential zu erwerben und Modernisierungs- und Umbaumaßnahmen zielgerecht durchzuführen.

**Abbau von Leerständen**

Für die Ergebnisse aus der Vermietung von Immobilien ist ferner von Bedeutung, inwieweit Leerstände im Bestand zu verzeichnen sind. Die TAG hat insbesondere in den Geschäftsjahren 2010 bis 2012 sowie im Neunmonatszeitraum zum 31. März 2013 die Leerstände in den Immobilien des Konzerns überwiegend reduzieren können. Die Leerstandsquoten im gesamten Portfolio spiegeln dies wider.

### **Bewertung der als Finanzinvestition gehaltenen Immobilien zum beizulegenden Zeitwert**

Im Bereich der langfristig gehaltenen Bestandsimmobilien (als Finanzinvestition gehaltene Immobilien) zeigen sich durch die jährlich vorzunehmenden Neubewertungen (in der Gewinn- und Verlustrechnung als „Neubewertung Renditeliegenschaften“ bezeichnet) unmittelbar positive wie negative Veränderungen des jeweiligen Immobilienmarktes und der individuellen Immobilien. Auch haben sich in diesem Bereich in der Vergangenheit Gewinne ergeben, die nach erfolgtem Ankauf von Immobilien aus der erstmaligen Zeitwertbewertung zum Bilanzstichtag entstanden sind. Durch den Ansatz der beizulegenden Zeitwerte können hier für die Jahresabschlüsse der TAG positive wie negative Effekte entstehen. Gewinne und Verluste aus der Neubewertung stellen jedoch dabei nicht zahlungswirksame Vorgänge dar. Erst bei einer späteren Veräußerung der als Finanzinvestition gehaltenen Immobilien kommt es tatsächlich zu Mittelzuflüssen bzw. Mittelabflüssen. Infolge dieser Methode ist die Volatilität der Konzernergebnisse im Vergleich zu einem Abschluss nach allgemeinen in Deutschland anerkannten Rechnungslegungsgrundsätzen (Handelsgesetzbuch, HGB), bei dem die Ergebnisrealisation regelmäßig im Zeitpunkt der Veräußerung stattfindet und Verluste bei durch Gutachten bestätigten Bedarf einer Wertminderung erfasst werden, deutlich höher. Überdies könnten wesentliche Verluste aus der Bewertung von als Finanzinvestition gehaltenen Immobilien zu einem Rückgang der Kennzahl Loan-to-Value („LTV“) bei der TAG führen und dadurch unter Umständen die Finanzkennzahlen in den Darlehensverträgen der TAG beeinträchtigen.

### **Bilanzielle Behandlung von Unternehmenszusammenschlüssen und Gewinnen aus Erstkonsolidierung**

Die bilanzielle Behandlung von Unternehmenszusammenschlüssen nach International Financial Reporting Standards (IFRS) 3 kann zum Ausweis hoher Erträge und Aufwendungen führen. Beim Erwerb einer neuen Tochtergesellschaft ist der beizulegende Zeitwert der von der TAG zu zahlenden Gegenleistung mit dem beizulegenden Zeitwert des der TAG zuzurechnenden Nettovermögens der erworbenen Tochtergesellschaft zu saldieren (Saldo der zum beizulegenden Zeitwert bewerteten Vermögenswerte und Verbindlichkeiten). Ein positiver Saldo wird als Goodwill ausgewiesen. Ein negativer Unterschiedsbetrag wird dagegen im Jahr der Anschaffung in der Gewinn- und Verlustrechnung als Ertrag erfasst. Unternehmenszusammenschlüsse wirkten sich auf das Ergebnis der TAG im Geschäftsjahr 2010 mit Gewinnen in Höhe von €8,4 Mio., im Geschäftsjahr 2011 mit Gewinnen in Höhe von €56,8 Mio. und im Geschäftsjahr 2012 mit Gewinnen in Höhe von €148,2 Mio. aus. Im ersten Quartal 2013 kam es zu keinen Unternehmenszusammenschlüssen.

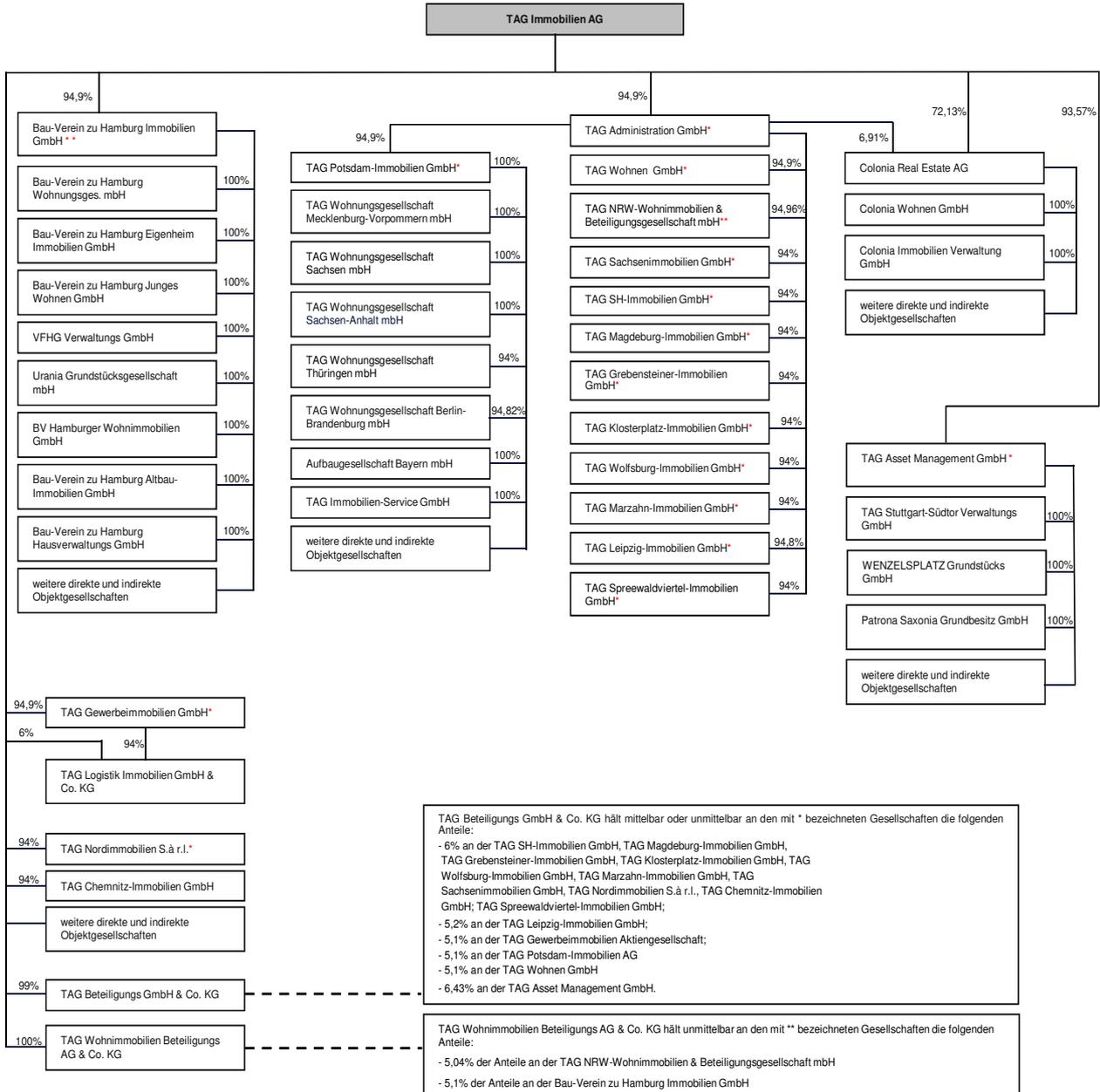
### **Finanzierungskosten**

Zur Finanzierung des Erwerbs, der Errichtung und der Entwicklung von Immobilien und bei Akquisitionen von Unternehmen nimmt die TAG auch Fremdkapital auf, zum Teil im erheblichen Umfang. Bedeutend für die Ergebnisentwicklung der Gesellschaft sind hier die mit den finanzierenden Kreditinstituten bei Abschluss der Kredite ausgehandelten Fremdfinanzierungskonditionen, die vor allem von der allgemeinen Marktentwicklung der Zinsen abhängen. Durch den Abschluss von günstigen Finanzierungsverträgen (Kredite- und Zinsswapvereinbarungen) können sich der Zinsaufwand und damit das Ergebnis der Gesellschaft verbessern.

Gegenläufig wirken sich ungünstige Finanzierungskonditionen möglicherweise negativ auf das Ergebnis aus.

**B.5 Beschreibung der Gruppe und der Stellung der Gesellschaft innerhalb der Gruppe.**

Die TAG Immobilien AG fungiert im Wesentlichen als Muttergesellschaft eines diversifizierten Immobilienkonzerns und ist in den einzelnen Geschäftsfeldern neben ihren Führungsgesellschaften aktiv. Die folgende Übersicht veranschaulicht vereinfacht die gesellschaftsrechtliche Struktur der TAG zum Datum dieses Prospekts:



**B.9 Gewinnprognosen und -**

Entfällt. Die Gesellschaft legt keine Gewinnprognose oder -schätzung vor.

schätzungen.

- B.10 Beschränkungen im Bestätigungsvermerk zu den historischen Finanzinformationen.** Entfällt. Die Bestätigungsvermerke zu den in diesem Prospekt enthaltenen historischen Finanzinformationen wurden ohne Einschränkungen erteilt.
- B.12 Ausgewählte wesentliche historische Finanzinformationen**

## Kennzahlen Konzerngewinn- und Verlustrechnungen

Wesentliche Kennzahlen der Konzerngewinn- und Verlustrechnungen der geprüften Konzernabschlüsse und des ungeprüften Konzern-Zwischenabschlusses sind nachfolgend dargestellt:

	01.01.2013 - 31.03.2013		01.01.2012 - 31.03.2012		2012		2011		2010	
	(ungeprüft)		(ungeprüft)		(geprüft)		(geprüft)		(geprüft)	
	EUR Mio.	% vom Umsatz	EUR Mio. (angepasst)	% vom Umsatz	EUR Mio.	% vom Umsatz	EUR Mio.	% vom Umsatz	EUR Mio.	% vom Umsatz
Gesamte Umsatzerlöse	164,9	100	57,0	100	252,8	100	178,3	100	82,9	100
davon Mieterlöse	63,2	38	34,4	60	192,5	76	115,3	65	51,8	62
davon Verkaufserlöse <sup>1</sup>	101,1	61	21,0	37	52,9	21	54,5	30	29,4	36
davon Dienstleistungen	0,6	0	1,6	3	7,5	3	8,5	5	1,7	2
Aufwendungen für bezogene Leistungen und Verkäufe	-114,6	-69	-30,6	-54	-105,4	-42	-91,5	-51	-42,4	-51
davon Mietaufwendungen	-13,9	-8	-8,3	-15	-48,0	-19	-36,3	-20	-11,6	-14
davon Verkaufsaufwendungen <sup>2</sup>	-100,7	-61	-21,0	-37	-53,1	-21	-46,7	-26	-29,6	-36
davon Dienstleistungsaufwand	0,0	0	-1,3	-2	-4,3	-2	-8,5	-5	-1,2	-1
Mietergebnis	49,2	30	26,1	46	144,5	57	79,0	44	40,2	48
Sonstige betriebliche Erträge	2,2	1	83,9	147	170,7	67	66,8	37	15,7	19
Bewertungsergebnis Renditeliegenschaften	-0,1	0	6,8	12	29,4	12	28,9	16	16,8	20
Rohergebnis	52,4	32	117,1	205	347,5	137	182,5	102	73,0	88
Personalaufwand	-7,3	-4	-3,2	-6	-23,1	-9	-12,7	-7	-8,8	-10
Sonstige betriebliche Aufwendungen	-4,4	-3	-4,6	-8	-20,1	-8	-20,5	-11	-15,9	-19
EBITDA (vor Neubewertungen: ungeprüft) <sup>3</sup>	40,8	25	102,4	180	275,0	109	120,3	67	31,4	38
Beteiligungs- und Equity-Ergebnis (ungeprüft) <sup>3</sup>	0,0	0	0,0	0	0,2	0	0,3	0	6,5	8
EBIT	39,0	24	107,6	189	289,1	114	144,6	81	46,9	57
Zinsergebnis	-25,7	-16	-14,2	-25	-86,8	-34	-61,6	-34	-31,2	-38
EBT	13,3	8	93,4	164	202,6	80	83,3	47	22,2	27
Konzernergebnis nach Minderheiten	14,0	8	88,3	155	179,1	71	66,9	38	18,5	22
FFO (ungeprüft) <sup>3</sup>	15,1	9	5,6	10	39,6	16	-4,7	-3	-5,8	-7
EBIT (angepasst, ungeprüft) <sup>3</sup>	41,3	25	19,3	34	121,3	48	56,3	32	23,2	28

<sup>1</sup>Summe der Umsatzerlöse aus dem Verkauf von Vorratsimmobilien und als Finanzinvestition gehaltenen Immobilien

<sup>2</sup>Summe der Aufwendungen aus dem Verkauf von Vorratsimmobilien und als Finanzinvestition gehaltenen Immobilien

<sup>3</sup>Aus dem laufenden Rechnungswesen der Gesellschaft entnommen

## Kennzahlen Konzernbilanzen

Die nachfolgende Übersicht zeigt wesentliche Positionen aus den Konzernbilanzen der geprüften Konzernabschlüsse und des ungeprüften Konzern-Zwischenabschlusses:

	31.03. 2013 (ungeprüft)		31.12. 2012 (geprüft)		31.12. 2011 (geprüft)		31.12. 2010 (geprüft)	
	EUR Mio.	%	EUR Mio.	%	EUR Mio.	%	EUR Mio.	%
Renditeliegenschaften	3.456,4	93	3.455,7	91	1.890,0	92	837,2	70
Sachanlagen	10,6	0	10,7	0	12,0	1	12,0	1
Grundstücke mit unfertigen und fertigen Bauten	87,4	2	89,6	2	37,4	2	114,0	10
Forderungen aus Lieferungen und Leistungen	16,6	0	20,1	1	13,2	1	6,7	1
Zur Veräußerung bestimmtes langfristiges Vermögen	8,3	0	111,6	3	38,3	2	16,2	1
Eigenkapital (vor Minderheitenanteilen)	1.153,4	31	1.136,2	30	547,4	27	356,5	30
Langfristige Verbindlichkeiten Kreditinstitute	1.672,3	45	1.804,8	48	1.016,8	50	523,5	44
Kurzfristige Verbindlichkeiten Kreditinstitute	441,8	12	411,3	11	172,6	8	110,5	9
Verbindlichkeiten aus Lieferungen und Leistungen	17,4	0	13,8	0	16,4	1	7,8	1
Verbindlichkeiten im Zusammenhang mit zur Veräußerung bestimmten langfristigen Vermögen	0,0	0	1,6	0	0,0	0	13,7	1
Gesamtes Immobilienvolumen (ungeprüft) <sup>1</sup>	3.560,0	96	3.663,1	96	1.968,6	96	978,0	82
Gesamte Bankverbindlichkeiten (ungeprüft) <sup>1</sup>	2.114,1	57	2.216,1	58	1.189,4	58	634,0	53
Bilanzsumme	3.697,3	100	3.800,0	100	2.047,7	100	1.190,5	100
Net Asset Value je Aktie (NAV; ungeprüft) nach der Berechnungsmethode ab dem 31.12.2011 <sup>1</sup>	€10,00	-	€9,96	-	€8,72	-	€6,67	-
Net Asset Value je Aktie (NAV; ungeprüft) nach der Berechnungsmethode bis zum 31.12.2010 <sup>1</sup>	€8,82	-	€8,69	-	€7,32	-	€6,09	-
Loan to Value (LTV; ungeprüft) <sup>1</sup>	57,6%	-	58,9%	-	58,5%	-	52,9%	-

<sup>1</sup>Aus dem laufenden Rechnungswesen der Gesellschaft entnommen

## Kennzahlen Konzernkapitalflussrechnungen

Die nachfolgende Übersicht zeigt wesentliche Positionen aus den Konzernkapitalflussrechnungen der geprüften Konzernabschlüsse und des ungeprüften Konzern-Zwischenabschlusses:

	01.01.2013 - 31.03.2013 (ungeprüft)	01.01.2012 - 31.03.2012 (ungeprüft)	2012 (geprüft)	2011 (geprüft)	2010 (geprüft)
	EUR Mio.	EUR Mio.	EUR Mio.	EUR Mio.	EUR Mio.
Cashflow aus laufender Geschäftstätigkeit	10,7	18,5	17,5	-7,3	-17,0
Cashflow aus Investitionstätigkeit	96,8	-107,9	-353,4	-39,3	-75,7
Cashflow aus Finanzierungstätigkeit	-82,6	124,4	346,0	-53,6	215,1
Liquide Mittel am Ende der Periode	56,6	56,6	31,7	21,6	121,8

**Keine wesentliche Verschlechterung der Aussichten der Emittentin / keine wesentlichen Veränderungen bei Finanzlage oder Handelsposition, die nach dem von den historischen Finanzinformationen abgedeckten Zeitraum eingetreten sind**

Die Aussichten der Gesellschaft und der TAG haben sich seit dem 31. Dezember 2012 nicht wesentlich verschlechtert.

Es sind keine Veränderungen bei Finanzlage oder Handelsposition der Gesellschaft nach dem 31. März 2013 eingetreten, die im Zusammenhang mit der Ausgabe der Schuldverschreibungen wesentlich wären.

**B.13 Ereignisse aus der jüngsten Zeit der Geschäftstätigkeit der Gesellschaft, die für die Bewertung ihrer Zahlungsfähigkeit in hohem Maße interessant sind**

Entfällt; es gibt keine Ereignisse aus der jüngsten Zeit, die für die Bewertung der Zahlungsfähigkeit der Gesellschaft in hohem Maße interessant sind.

**B.14 Geforderte Angaben gemäß B 5 und Abhängigkeit von anderen Unternehmen der Gruppe**

Siehe Paragraph 5, „Zusammenfassung – Emittentin – B.5“

Die Gesellschaft ist eine Holdinggesellschaft und ist als solche von ihren operativ tätigen Tochtergesellschaften abhängig.

## B 15 Haupttätigkeiten der Gesellschaft

Die wichtigsten Geschäftsfelder der TAG sind:

- **Wohnimmobilien** – d. h. der Erwerb, die Bewirtschaftung und in geringerem Maße die Entwicklung von Wohnimmobilien. Die TAG verfügt über ungefähr 67.260 Wohneinheiten mit einer Gesamtfläche von etwa 4.112.000 m<sup>2</sup> (Stand: 31. März 2013). Diese Wohneinheiten befinden sich vorwiegend in den Regionen Thüringen/Sachsen (44 % der Gesamtfläche), Hamburg (17 %), Berlin (20 %), Raum Salzgitter (14 %) und Nordrhein-Westfalen (5 %). Die Fokussierung auf bestimmte Regionen ermöglicht es der TAG, große Teile des Portfolios über wenige Niederlassungen zentral zu verwalten und zu bewirtschaften. Da mit der Konzentration der Verwaltung auf wenige Niederlassungen Skaleneffekte verbunden sind, nimmt das Kriterium der Verwaltbarkeit durch die vorhandenen Niederlassungen bei jeder Entscheidung über den Erwerb weiterer Immobilien und Immobilienportfolios einen bedeutenden Stellenwert ein. Das Geschäftsfeld der Wohnimmobilien umfasst neben dem Erwerb, der Entwicklung und der Bewirtschaftung zudem die selektive Veräußerung von Wohnimmobilien zur Gewinnerzielung und Optimierung des Portfolios.
- **Gewerbeimmobilien** – d. h. der Erwerb, die Bewirtschaftung und Entwicklung von Gewerbeimmobilien. Die TAG verfügt in ihrem Gewerbeportfolio über 30 eigene Gewerbeobjekte, die überwiegend von der TAG Gewerbe gehalten und für die Verwaltungs- und Bewirtschaftungsleistungen von Dritten durchgeführt werden. Diese Wohneinheiten haben eine Gesamtmietfläche von etwa 347.000 m<sup>2</sup> (Stand: 31. März 2013) und bestehen vornehmlich aus Bürogebäuden in der Region Berlin (16 % der Gesamtfläche), der Region Hamburg (14 %), in Nordrhein-Westfalen (27 %), in der Metropolregion München (41 %) und in Thüringen/Sachsen (2 %). Daneben verfügt die TAG über zahlreiche weitere Gewerbeflächen, die regelmäßig kleinflächig sind und sich beispielsweise in gemischt genutzten Wohn- und Geschäftshäusern befinden. Diese werden zusammen mit den entsprechenden Wohnflächen verwaltet und bewirtschaftet. Auch zu diesem Geschäftsfeld gehört die Veräußerung von Gewerbeimmobilien zur Gewinnerzielung und Optimierung des Portfolios sowie zur Reduzierung der Gewerbeimmobilienanlagen.

Das übergeordnete Ziel der TAG ist die Steigerung des Unternehmenswertes durch die nachhaltige Erweiterung und Wertsteigerung des Wohnimmobilienportfolios. Zu diesem Zweck sondiert die TAG auch weiterhin aussichtsreiche Gelegenheiten für den Ausbau ihres Wohnimmobilienportfolios. Die Gesellschaft beabsichtigt, ihre Profitabilität durch die Verknüpfung von Ressourcen im Bereich Immobilienbewirtschaftung und durch die Schaffung größerer Skaleneffekte zu steigern. Entsprechend ihrer Wachstumsstrategie hat die TAG Anfang 2011 die Anteilsmehrheit an der Colonia Real Estate AG („**Colonia**“) erworben und damit ihr Wohnimmobilienportfolio durch etwa 18.900 hinzugekommene Wohneinheiten mehr als verdreifacht. Darüber hinaus hat sie ihr Portfolio im Jahr 2011 durch den Erwerb von weiteren etwa 4.300 Wohneinheiten im Rahmen mehrerer kleinerer Transaktionen vergrößert. Im Jahr 2012 hat die TAG ihre Wachstumsstrategie durch den Erwerb der TAG Potsdam mit einem Portfolio von rund 26.900 Immobilieneinheiten, davon etwa 25.000 Wohneinheiten, sowie der TAG Wohnen mit einem Portfolio von etwa 11.350 Wohn- und 140 Gewerbeeinheiten fortgeführt.

Die Ausweitung des primär von TAG Gewerbe gehaltenen Gewerbeimmobilienportfolios hat dagegen zurzeit keine vorrangige Priorität. Die TAG wird ihren Gewerbeimmobilienbestand eher über ausgewählte Verkäufe wie zum Beispiel durch den

Veräußerungsvertrag bezüglich der Gewerbeinheit Königstorgraben in Nürnberg, der im April 2013 geschlossen wurde, verringern. Im Mai 2012 büßte die TAG Gewerbe ihren Vor-REIT-Status rückwirkend zum 31. Dezember 2011 ein.

**B.16 Unmittelbare oder mittelbare Kontrolle der Gesellschaft**

Nicht anwendbar. Nach Kenntnis der Gesellschaft wird sie weder direkt noch indirekt durch irgendeine andere Person kontrolliert.

Die folgende Tabelle zeigt – nach bestem Wissen der Gesellschaft – die Hauptaktionäre der TAG AG, die zum Datum dieses Prospekts Aktienbestände mit einem Anteil von mehr als 3 % am Grundkapital der TAG AG halten. Die in dieser Tabelle enthaltenen Informationen bezüglich der jeweiligen Anzahl von Aktien beruhen auf den bei der Gesellschaft eingegangenen Mitteilungen nach dem Wertpapierhandelsgesetz (WpHG) und anderen Quellen von Unternehmensinformationen. Die Informationen bezüglich der prozentualen Stimmrechtsanteile sind Neuberechnungen, ausgehend von einer Anzahl von 130.738.169 ausgegebenen Aktien der Gesellschaft zum Datum dieses Prospekts.

Des Weiteren zeigt die nachfolgende Tabelle Aktionäre, bei denen es sich um der Gesellschaft nahe stehende Personen handelt, sowie im Klammerzusatz hinter dem Namen des jeweiligen Aktionärs ggf. den Namen desjenigen, der sich die Aktien zurechnen lassen muss (bei den Angaben der Stimmrechte in Prozent können sich Rundungsdifferenzen ergeben).

Wesentliche Aktionäre	Anzahl Aktien	Prozent Stimmrechte
Ruffer LLP	19.605.027	15,00%
Flossbach von Storch SICAV	15.277.210	11,69%
Sun Life Financial, Inc.	13.091.874	10,01%
Taube Hodson Stonex Partners LLP	6.960.665	5,32%
Ameriprise	6.443.427	4,93%
Capita Financial Managers Limited	6.248.934	4,78%
DWS Investment GmbH	5.165.451	3,95%
Gesamtzahl der Aktien wesentlicher Aktionäre	72.792.588	55,68%
<b>Streubesitz</b>	57.945.581	44,32%
<b>Gesamtzahl der Aktien</b>	130.738.169	100%
<b>Aktienbesitz nahestehender Personen</b>		
Rolf Elgeti (Mitglied des Vorstandes)	153,000	0.12%
Dr. Harboe Vaagt (Mitglied des Vorstandes)	2,585	< 0.01%
Georg Griesemann (Mitglied des Vorstandes)	1,290	< 0.01%
Claudia Hoyer (Mitglied des Vorstandes)	6,000	< 0.01%
Dr. Lutz Ristow (1.400.814 eigene Aktien sowie 479.000 Aktien, die Herr Dr. Ristow gemeinsam mit seiner Ehefrau Rita Ristow hält) (Mitglied des Aufsichtsrates)	1,879,814	1.44%
Prof. Dr. Roland Frohne	309,677	0.24%

(Mitglied des Aufsichtsrates)		
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**B.17 Rating der Gesellschaft**

Nicht anwendbar. Die Gesellschaft hat kein Rating erhalten.

**Abschnitt C – Wertpapiere**

**C.1 Beschreibung von Art und Klasse der angebotenen Wertpapiere, einschließlich Wertpapiererkennung.**

Die angebotenen Wertpapiere sind festverzinsliche Schuldverschreibungen (die „Schuldverschreibungen“).

Wertpapierkennungen: ISIN XS0954227210, WKN A1TNFU

Börsenkürzel: TEGA

**C.2 Währung der Wertpapieremission.**

Die Schuldverschreibungen werden in Euro ausgegeben.

**C.5 Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere.**

Nicht anwendbar. Die Schuldverschreibungen sind frei übertragbar.

**C.8 Mit den Wertpapieren verbundene Rechte einschließlich der Rangordnung und Beschränkung dieser Rechte**

**Mit den Schuldverschreibungen verbundene Rechte**

Die Schuldverschreibungen werden vom und einschließlich des 7. August 2013 bis zum, aber ausschließlich des, 7. August 2018 mit einem Zinssatz von ●% pro Jahr verzinst, wobei die Zinsen nachträglich halbjährlich am 7. Februar und am 7. August jeden Jahres beginnend am 7. Februar 2014 zu zahlen sind.

**Rang**

Die Verbindlichkeiten unter den Schuldverschreibungen begründen nicht nachrangige und nicht besicherte Verbindlichkeiten der Gesellschaft, die untereinander und mit allen anderen nicht nachrangigen und nicht besicherten Verbindlichkeiten der Gesellschaft gleichrangig sind, soweit diesen Verbindlichkeiten nicht durch zwingende gesetzliche Bestimmungen ein Vorrang eingeräumt ist.

**Negativverpflichtung**

In der “Description of the Notes” hat sich die Gesellschaft verpflichtet, keine Sicherheiten für Kapitalmarktverbindlichkeiten zu stellen, die geeignet sind, an einer Börse oder einem anderen Wertpapiermarkt gelistet, einbezogen oder gehandelt zu werden, ohne zur selben Zeit oder zuvor die Schuldverschreibungen gleichwertig und anteilig zu besichern.

**Beschränkende Verpflichtungserklärungen**

Der Anleihevertrag enthält verschiedene Verpflichtungserklärungen, welche die Fähigkeit der Gesellschaft beschränken, weitere Verbindlichkeiten einzugehen, da eine bestimmte Loan-to-Value-Kennzahl und bestimmte Zinsdeckungsgrade einzuhalten sind.

**Vorzeitige Rückzahlung aus steuerlichen Gründen**

Eine vorzeitige Rückzahlung der Schuldverschreibungen aus steuerlichen Gründen ist, wie im Einzelnen in der “Description of the Notes” beschrieben, zulässig, wenn

die Gesellschaft aufgrund eines Wechsels oder einer Änderung des Rechts, von Verträgen oder Bestimmungen (einschließlich eines Wechsels oder einer Änderung der offiziellen Auslegung oder Anwendung dieses Rechts oder der Bestimmungen) in der Rechtsordnung der Gesellschaft oder der Zahlstelle oder einer politischen Untereinheit davon oder darin, die die Besteuerung betrifft oder die Pflicht zur Zahlung von Abgaben jeglicher Art, verpflichtet ist, weitere Zahlungen auf die Schuldverschreibungen zu leisten.

#### **Kündigungsgründe**

Der Anleihevertrag enthält eine Reihe von Kündigungsgründen, die dazu führen, dass in bestimmten Insolvenzscenarien die Schuldverschreibungen sofort fällig und rückzahlbar sind, und in allen anderen Fällen dem Treuhänder oder Anleihegläubigern von mindestens 25% des gesamten Nominalbetrags der ausstehenden Schuldverschreibung das Recht geben, wie im Einzelnen in der "Description of the Notes" beschrieben, die Schuldverschreibungen fällig und zahlbar zu stellen.

#### **Kündigungsgrund bei anderen Kündigungen**

Ein weiterer Kündigungsgrund ist gegeben, wenn, wie im Einzelnen in der "Description of the Notes" beschrieben, andere Verbindlichkeiten der Gesellschaft in Höhe von mehr als EUR 50 Millionen fällig gestellt werden.

#### **Kontrollwechsel**

Die Gesellschaft ist verpflichtet, wie im Einzelnen in der "Description of the Notes" beschrieben, den Anleihegläubigern den Verkauf ihrer Schuldverschreibungen an die Gesellschaft zum Nominalwert plus 1% und zuzüglich aufgelaufener Zinsen anzubieten, wenn es zu einem Kontrollwechsel kommt.

#### **Anwendbares Recht**

Der Anleihevertrag und die Schuldverschreibungen unterliegen dem Recht des U.S.-Bundesstaats New York und werden in Übereinstimmung mit diesem Recht ausgelegt.

**C.9 Mit den Schuldverschreibungen verbundene Rechte einschließlich der Rangordnung und Beschränkung dieser Rechte (C.8), nominaler Zinssatz, Datum, ab dem Zinsen zahlbar werden und Zinsfälligkeitstermine, sofern der Zinssatz nicht festgelegt ist, Beschreibung des Basiswerts, auf den sich der**

Siehe Paragraph 5, „Zusammenfassung – Wertpapiere – C.8“

Die Schuldverschreibungen werden auf ihren Nominalbetrag mit einem Zinssatz von mindestens 3% pro Jahr verzinst, wobei die Zinsen nachträglich halbjährlich zu zahlen sind.

Sofern sie nicht ganz oder teilweise zurückgenommen oder zurückgekauft und eingezogen wurden, wird jede Schuldverschreibung am 7. August 2018 zum Nominalbetrag zurückgezahlt.

Die Rendite der Emission beträgt mindestens 3%.

Die Inhaber der Schuldverschreibungen werden durch einen Treuhänder vertreten, die Deutsche Trustee Company Limited (der "Trustee").

**Zinssatz stützt, Fälligkeitstermine und Vereinbarungen für die Darlehenstilgung, einschließlich der Rückzahlungsverfahren, Angabe der Rendite, Name des Vertreters der Schuldtitelinhaber**

- C.10 C.9 / Derivative Komponenten bei der Zinszahlung** Siehe Paragraph 5, „Zusammenfassung – Wertpapiere – C.9“  
Entfällt. Die Schuldverschreibungen haben keine derivative Komponente bei der Zinszahlung, die dadurch einen Einfluss auf den Wert der Schuldverschreibungen haben könnte, dass sie Auswirkungen auf einen Basiswert oder mehrere Basiswerte hat.
- C.11 Börsenzulassung** Für die Schuldverschreibungen wurde die Einbeziehung in den Handel im Freiverkehr (Open Market, Entry Standard) der Frankfurter Wertpapierbörse mit Teilnahme im Prime Standard für Unternehmensanleihen beantragt. Es ist nicht beabsichtigt, für die Schuldverschreibungen die Zulassung zum Handel an einem „regulierten Markt“ gemäß der EU-Richtlinie 2004/39/EG über Märkte für Finanzinstrumente zu beantragen.

#### **Abschnitt D – Risiken**

**D.2 Zentrale Angaben zu den zentralen Risiken, die der Emittentin eigen sind**

##### **Marktbezogene Risiken**

- Der deutsche Immobilienmarkt ist von der gesamtwirtschaftlichen Entwicklung und der Nachfrage nach Immobilien abhängig.
- Die TAG ist makroökonomischen Risiken ausgesetzt, die durch die Staatsschuldenkrise in Europa verursacht sind.
- Die TAG ist einem intensiven Wettbewerb ausgesetzt. Es besteht das Risiko, dass sie sich im Wettbewerb nicht behaupten oder nicht hinreichend gegenüber ihren Wettbewerbern absetzen kann.

##### **Unternehmensspezifische Risiken**

- Der Erfolg der TAG ist davon abhängig, dass es ihr gelingt, weitere Beteiligungen an Immobiliengesellschaften sowie weitere Immobilienbestände zu angemessenen Konditionen zu erwerben, zu integrieren und zu vermarkten sowie im Rahmen eines gezielten Abbaus vorhandene Bestände zu attraktiven Preisen zu veräußern.
- Die erfolgreiche Integration und Bewirtschaftung der in der Vergangenheit erworbenen und künftig zu erwerbenden Wohn- und Gewerbeimmobilienpakete, insbesondere die dafür erforderliche Anpassung und Erweiterung der Unternehmensstrukturen, könnten misslingen.
- Die TAG ist darauf angewiesen, Fremdkapital zu angemessenen Konditionen zu erhalten. Aufgrund ihrer hohen Verschuldung könnte die TAG nicht in der

Lage sein, ihren Verbindlichkeiten nachzukommen oder neue Akquisitionen zu finanzieren. Zudem könnte eine erneute Verschärfung der Krise an den internationalen Finanzmärkten die Fremdkapitalfinanzierung der TAG erheblich erschweren und zu Liquiditätsproblemen führen.

- Zukünftige Kapitalerhöhungen oder andere Finanztransaktionen am Kapitalmarkt, wie etwa die Emission von Schuldverschreibungen oder Wandelschuldverschreibungen, könnten sich wegen eines feindlichen Kapitalmarktumfelds oder wegen einer verminderten Attraktivität der Gesellschaft als Wertpapieremittentin als schwierig erweisen.
- Notverkäufe oder zwangsweise Verwertungen von Immobiliensicherheiten würden zu erheblichen finanziellen Nachteilen für die TAG führen.
- Die in diesem Prospekt enthaltenen Wertgutachten könnten den Wert der Immobilienbestände der TAG nicht richtig darstellen. Möglicherweise kann dies bilanzielle Wertberichtigungen (*revaluation losses*) der Immobilien der TAG zur Folge haben.
- Ein erheblicher Leerstand sowie der Ausfall oder eine Reduzierung der Mieteinnahmen können zu Einnahmeausfällen und zusätzlichen Ausgaben führen. Die gesetzlichen und wirtschaftlichen Rahmenbedingungen des Mietmarktes könnten zur Nichtdurchsetzbarkeit von Mieterhöhungen führen.
- Die TAG ist im Bereich der Gewerbeimmobilien von einem wesentlichen Mieter abhängig, der rund 33 % der von ihr vermieteten Gewerbeflächen mietet.
- Für die Verwaltung ihrer Immobilien nutzt die TAG derzeit noch einen kleinen Kreis von Fremdverwaltern und ist daher von der Erbringung fremder Dienstleistungen abhängig.
- Die TAG unterliegt beim Erwerb und der Bewirtschaftung von Immobilien verschiedenen vertraglichen, behördlichen und gesetzlichen Beschränkungen, die ihre wirtschaftliche Handlungsfreiheit einschränken.
- Durch Schäden, die nicht von einer Versicherung gedeckt sind bzw. den Versicherungsumfang übersteigen, könnten der TAG erhebliche Verluste entstehen.
- Die Geschäftstätigkeit der TAG ist auf einzelne Regionen innerhalb Deutschlands beschränkt. Diese Konzentration führt zu einer Abhängigkeit von regionalen Marktentwicklungen und zu Expansionsrisiken.
- Beim Erwerb von Immobilien oder Immobilienportfolios besteht die Gefahr, dass die TAG den Wert der Objekte nicht zutreffend einschätzt und einen zu hohen Preis bezahlt. Sofern sich die TAG an Immobiliengesellschaften beteiligt, besteht die Gefahr, dass die TAG den Wert der erworbenen Unternehmensbeteiligung zu hoch einschätzt.
- Die für einen Erwerb von Immobilien, Immobilienportfolios oder Immobilienunternehmen aufgewandten Transaktionskosten könnten sich im Falle des Scheiterns der Transaktion als nutzlos erweisen.
- Es besteht die Gefahr, dass die TAG Gewährleistungsansprüchen aus dem Verkauf von Immobilien ausgesetzt ist und korrespondierende Regressansprüche nicht bestehen oder nicht erfolgreich durchgesetzt werden können.

- Die TAG AG könnte aus Haftungserklärungen oder Beherrschungs- und Ergebnisabführungsverträgen für Verbindlichkeiten ihrer Tochter- und Beteiligungsgesellschaften in Anspruch genommen werden.
- Die TAG könnte aufgrund von Altlasten, Umweltverunreinigungen oder Bauschadstoffen in Anspruch genommen werden.
- Die TAG setzt im Rahmen ihres Geschäftsbetriebs im erheblichen Umfang IT-Systeme ein. Beeinträchtigungen dieser IT-Systeme können zu Betriebsstörungen und -unterbrechungen führen.
- Der künftige Erfolg der TAG ist von ihren Führungskräften und weiteren qualifizierten Mitarbeitern abhängig.
- Die TAG-Tochtergesellschaft Colonia könnte wiederauflebenden Ansprüchen der Insolvenzgläubiger der ehemaligen Küppersbusch Aktiengesellschaft, aus welcher die Colonia hervorgegangen ist, ausgesetzt sein.
- Der TAG-Tochtergesellschaft Colonia könnten durch Ansprüche aus der sogenannten Nachverteilung hinsichtlich bestimmter Vermögensgegenstände der ehemaligen Küppersbusch Aktiengesellschaft zusätzliche Kosten entstehen.

#### **Bilanzielle, rechtliche und steuerliche Risiken**

- Abschreibungen auf die im Jahresabschluss der TAG AG bilanzierten Anteile an den Tochtergesellschaften und Forderungen gegen diese Unternehmen könnten wesentliche belastende Folgen für das Ergebnis des Jahresabschlusses der TAG AG haben.
- Eine anhaltende negative wirtschaftliche Entwicklung des Immobilienmarktes könnte zu Wertverlusten und außerplanmäßigen Abschreibungen auf die Immobilien der TAG führen.
- Die TAG ist von den allgemeinen rechtlichen Rahmenbedingungen für Wohn- und Gewerbeimmobilien in Deutschland, die erheblichen Einfluss auf die Profitabilität der TAG haben, abhängig.
- Die internen Organisationsstrukturen der Gesellschaft, insbesondere das Risikomanagement- und Compliance-System, müssen weiterentwickelt werden. Sollte dies nicht gelingen, bestünde die Gefahr, dass drohende Rechtsverletzungen oder drohende wirtschaftliche Schäden nicht rechtzeitig identifiziert und vermieden werden können.
- Sollte die TAG die gesetzlichen Voraussetzungen für den Erhalt von Fördermitteln nicht erfüllen, könnten öffentliche Geldgeber bereits gewährte Mittel zurückfordern.
- Die TAG ist Partei zahlreicher Rechtsstreitigkeiten, deren Ausgang ungewiss ist.
- Die TAG könnte Restitutionsansprüchen nach dem Vermögensgesetz und Ansprüchen nach dem Sachenrechtsbereinigungsgesetz ausgesetzt sein.
- Ein Verstoß gegen Zweckbindungsvereinbarungen beim Weiterverkauf von Immobilien kann zu Haftungsrisiken führen. Bestehende Zweckbindungsver-

einbarungen könnten den Wert der Immobilien verringern.

- Die TAG könnte aufgrund unzutreffender Immobilienverkaufsprospekte auf Schadensersatz in Anspruch genommen werden.
- Die steuerlichen Verlustvorträge der TAG könnten durch frühere oder zukünftige Kapitalmaßnahmen oder Aktienkäufe gefährdet werden.
- Die Gesellschaft ist steuerlichen Risiken ausgesetzt, indem etwa steuerliche Außenprüfungen zu Nachzahlungen führen könnten, falls die Erwerbsstrukturen für Immobiliengesellschaften sich im Hinblick auf die Grunderwerbsteuer als nachteilig erweisen oder es infolge der Steuergesetzgebung zu Änderungen kommt.
- Die TAG könnte nicht oder nur im begrenzten Umfang in der Lage sein, ihre Zinsaufwendungen steuerlich abzusetzen.
- Es besteht das Risiko, dass Mieter sich auf die Unwirksamkeit der in Mietverträgen enthaltenen Schönheitsreparaturklauseln berufen und vertraglich auf sie übertragene Schönheitsreparaturen an den Mietobjekten nicht ausführen.
- Es besteht die Gefahr, dass sich Mieter der TAG unter Hinweis auf die Formvorschriften des deutschen Mietrechts von ihren Mietverträgen vorzeitig lösen können.
- Die TAG war in der Vergangenheit im Bauträgergeschäft tätig und hat bei dem Abschluss der Bauträgerverträge Allgemeine Geschäftsbedingungen verwendet, die unter anderem bindende Annahmefristen für Kaufangebote sowie die Anerkennung bereits erfolgter Abnahmen des Gemeinschaftseigentums rückwirkend als rechtsverbindliche Abnahmen vorsehen. Aufgrund verschiedener gerichtlicher Entscheidungen besteht die Gefahr, dass diese oder andere von der TAG im Rahmen von Bauträgermaßnahmen verwendeten Allgemeinen Geschäftsbedingungen als unwirksam eingestuft werden.
- Die TAG Wohnen könnte sich Ansprüchen von Gläubigern der TLG Immobilien GmbH gegenübersehen, die die von der Bundesrepublik im Zusammenhang mit dem Anteilskaufvertrag für den Erwerb von TAG Wohnen gestellten Garantien übersteigt.

### **D.3 Zentrale Angaben zu den zentralen Risiken, die den Wertpapieren eigen sind. Risiken im Zusammenhang mit den Schuldverschreibungen**

- Die Schuldverschreibungen könnten nicht für alle Investoren eine geeignete Investition darstellen.
- Die Gesellschaft könnte unfähig sein, ausreichende Gewinne zu erzielen, um ihren Schuldendienstverpflichtungen nachzukommen.
- Andere Darlehensgeber der TAG haben Zugang zu Kreditsicherheiten der TAG. Dementsprechend werden die Anleihegläubiger im Fall einer Insolvenz der Gesellschaft nur begrenzten oder gar keinen Zugang zu den Vermögenswerten der TAG haben.
- Die Gesellschaft ist bis zu einem bestimmten Maße eine Holdinggesellschaft mit begrenzten Vermögenswerten zur Erzielung von Umsatzerlösen, und sie wird von Zahlungen ihrer Tochtergesellschaften abhängig sein, um über die finanziellen Mittel zur Erfüllung ihrer Verpflichtungen im Zusammenhang

mit den Schuldverschreibungen zu verfügen.

- Anleger könnten nicht in der Lage sein, Urteile gegen die Gesellschaft zu vollstrecken, die sie vor US-amerikanischen Gerichten erlangt haben.
- Die Gesellschaft kann zusätzliche Schulden aufnehmen und es gibt keine Beschränkungen hinsichtlich der Emission weiterer Schuldverschreibungen.
- Es könnte sich kein liquider Markt für die Schuldverschreibungen entwickeln, oder wenn sich ein solcher entwickeln sollte, könnte er nicht fortlaufend bestehen.
- Der Börsenpreis der Schuldverschreibungen könnte volatil sein und sich ungünstig entwickeln.
- Der Marktwert der Schuldverschreibungen könnte sinken, wenn sich die Kreditwürdigkeit der TAG verschlechtert.
- Obgleich der Eintritt bestimmter Formen des Kontrollwechsels die Anleihegläubiger berechtigt, die Rücknahme oder den Rückkauf der Schuldverschreibung zu verlangen, könnte die Gesellschaft nicht in der Lage sein, die Schuldverschreibungen zurückzunehmen oder zurückzukaufen.
- Wenn der Euro für einen Anleihegläubiger eine fremde Währung darstellt, so ist der Anleihegläubiger dem Risiko sich ändernder Wechselkurse ausgesetzt.
- Da die Schuldverschreibungen festverzinslich sind, sind Anleihegläubiger dem Risiko ausgesetzt, dass sich der Preis der Schuldverschreibungen infolge von Änderungen des Marktzinssatzes verschlechtert.
- Die Übertragbarkeit der Schuldverschreibungen wird beschränkt sein, was sich auf den Wert der Schuldverschreibungen nachteilig auswirken könnte.
- Die Schuldverschreibungen werden in im Wege der Depotgutschrift gehalten, so dass sich der Investor bei der Geltendmachung von Rechten und Rechtsbehelfen auf die Verfahrensweise des entsprechenden Clearingsystems verlassen muss.

## Abschnitt E – Angebot

### E.2b Gründe für das Angebot, Zweckbestimmung der Erlöse.

Die Gesellschaft beabsichtigt, die Nettoerlöse in Höhe von €196 Mio. aus dem Verkauf der Schuldverschreibungen in erster Linie zur Verbesserung der Fremdfinanzierungsstruktur und der Rückzahlung von Finanzverbindlichkeiten, insbesondere für den Rückkauf von Wandelanleihen, die die Gesellschaft zuvor ausgegeben hat und deren Zinssatz den Zinssatz der Schuldverschreibungen überschreitet, zu verwenden. Daneben beabsichtigt die Gesellschaft, die Nettoerlöse zur Finanzierung des weiteren Wachstums der Gesellschaft und für weitere allgemeine Unternehmenszwecke zu verwenden.

### E.3 Beschreibung der Angebotskonditionen.

#### Angebot der Schuldverschreibungen

Die Gesellschaft bietet Schuldverschreibungen mit einem Nominalbetrag in Höhe von insgesamt bis zu €200.000.000 und einer Verzinsung in Höhe von ●% pro Jahr an, die am 7. August 2018 zur Rückzahlung fällig sind (das “Angebot”) und deren Ausgabe voraussichtlich am 7. August 2013 (der “Ausgabetag”) erfolgen wird.

Die Schuldverschreibungen werden institutionellen Anlegern und Privatanlegern im Einklang mit den Beschränkungen für öffentliche Angebote in den Mitgliedsstaaten

des Europäischen Wirtschaftsraums angeboten. Ein öffentliches Angebot wird in Luxemburg im Anschluss an die Billigung des Prospekts durch die CSSF erfolgen und ein öffentliches Angebot kann in Deutschland und Österreich im Anschluss an die Notifizierung der Billigung des Prospekts durch die CSSF an die zuständigen Behörden in Deutschland (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) und Österreich (Finanzmarktaufsicht, FMA) gemäß Artikel 18 des Prospekttrichtlinie erfolgen.

Das Angebot setzt sich zusammen aus

- einem öffentlichen Angebot in Deutschland, Österreich und Luxemburg durch die Zeichnungsfunktionalität (die „**Zeichnungsfunktionalität**“) der Frankfurter Wertpapierbörse im XETRA-Handelssystem oder einem Ersatzhandelssystem für die Sammlung und Abwicklung von Zeichnungsaufträgen, welches ausschließlich durch die Gesellschaft durchgeführt wird (das „**Öffentliche Angebot**“); und
- einer Privatplatzierung an qualifizierte Anleger in Deutschland, Österreich und Luxemburg und bestimmten weiteren Staaten mit Ausnahme der Vereinigten Staaten von Amerika, Kanada, Australien und Japan (die „**Privatplatzierung**“) durch die Initial Purchasers (wie in §2, „*Notice to Investors*“ definiert) im Einklang mit den anwendbaren Ausnahmebestimmungen für Privatplatzierungen.

Das Öffentliche Angebot wird ausschließlich durch die Gesellschaft durchgeführt. Die Initial Purchasers nehmen an dem Öffentlichen Angebot nicht teil.

Es gibt kein vorab festgelegten Tranchen von Schuldverschreibungen für das Öffentliche Angebot und die Privatplatzierung.

Es gibt keine Mindest- oder Maximalsummen für die zu erwerbenden Schuldverschreibungen. Anleger können Erwerbsangebote in Höhe von jeder Summe abgeben, die ein ganzes Vielfaches von €1.000 ist.

Bezugsrechte für die Schuldverschreibungen bestehen nicht und werden auch nicht ausgegeben. Daher gibt es keine Verfahren für die Ausübung von Vorkaufsrechten, die Übertragbarkeit von Bezugsrechten und den Umgang mit nicht ausgeübten Bezugsrechten.

Der Angebotszeitraum für die Privatplatzierung wird am 29. Juli 2013 beginnen und wird am 2. August 2013 enden (der „**Angebotszeitraum Privatplatzierung**“). Der Angebotszeitraum für die das öffentliche Angebot wird am 30. Juli 2013 beginnen und wird am 2. August 2013 enden (der „**Angebotszeitraum Öffentliches Angebot**“ und zusammen mit dem Angebotszeitraum Privatplatzierung der „**Angebotszeitraum**“). Der Angebotszeitraum gilt vorbehaltlich einer Verkürzung oder Verlängerung.

Eine „**Überzeichnung**“ findet statt, wenn der Gesamtbetrag (i) der Zeichnungsaufträge, die im Rahmen des Öffentlichen Angebots an die CBSB als Orderbuchmanager des Öffentlichen Angebots übermittelt wurden und (ii) der von den Initial Purchasers im Rahmen der Privatplatzierung erhaltenen Zeichnungsaufträge den Gesamtnominalwert der angebotenen Schuldverschreibungen überschreitet. Im Fall einer Überzeichnung kann der Angebotszeitraum vor dem zuvor genannten Datum enden, und zwar an dem Handelstag, an dem es zur Überzeichnung kommt.

### **Zinssatzspannenmitteilung und Preismitteilung**

Die Schuldverschreibungen werden auf ihren Nominalbetrag mit einem Zinssatz von •% pro Jahr verzinst, wobei die Zinsen nachträglich halbjährlich zu zahlen sind.

Der Zinssatz und die Rendite der Emission der Schuldverschreibungen (die „**Zinsdetails**“) werden von der Gesellschaft und den Initial Purchasern im Rahmen eines Bookbuilding-Verfahrens festgelegt, welches während der Laufzeit des Öffentlichen Angebots durchgeführt wird. Das Bookbuilding-Verfahren wird berücksichtigen, in welchem Umfang und mit welchem Vorschlag bezüglich des Zinssatzes und der Rendite Anleger im Rahmen der Privatplatzierung und des Öffentlichen Angebots Angebote zum Erwerb der Schuldverschreibungen abgeben. Das Bookbuilding-Verfahren wird in zwei Schritten erfolgen:

- In einem ersten Schritt wird eine indikative Zinssatzspanne ermittelt (die „**Zinssatzspanne**“). Nach ihrer Ermittlung wird die Zinssatzspanne in einer Mitteilung bekannt gemacht (die „**Zinssatzspannenmitteilung**“), die auf der Internetseite der Gesellschaft (<http://www.tag-ag.com/en/investor-relations/prospectus>) spätestens am letzten Tag des Angebotszeitraums veröffentlicht wird.
- In einem zweiten Schritt werden die Zinsdetails ermittelt. Nach ihrer Ermittlung werden die Zinsdetails und die Gesamtsumme des Nominalbetrags der auszubehenden Schuldverschreibungen in einer Mitteilung (die „**Preismitteilung**“) bekannt gemacht, die bei der CSSF eingereicht und auf der Internetseite der Luxemburger Börse ([www.bourse.lu](http://www.bourse.lu)) und der Internetseite der Gesellschaft (<http://www.tag-ag.com/en/investor-relations/prospectus>) nach der Veröffentlichung der Zinssatzspannenmitteilung und spätestens am letzten Tag des Angebotszeitraums veröffentlicht wird.

#### **Angebotsbedingungen**

Das Angebot unterliegt keinen Bedingungen.

#### **Zeichnung**

Anleger, die Zeichnungsangebote über die Zeichnungsfunktionalität abgeben möchten, müssen ihre Zeichnungsangebote für die Schuldverschreibungen innerhalb der Angebotsfrist bei ihrer jeweiligen Depotbank einstellen. Die Zeichnungsangebote können kein Zinslimit enthalten. Dies setzt voraus, dass die Depotbank (i) als Handelsteilnehmer an der Frankfurter Wertpapierbörse zugelassen ist oder über einen zugelassenen Handelsteilnehmer Zugang zum Handel an der Frankfurter Wertpapierbörse hat, (ii) dem XETRA-Handelssystem angeschlossen ist und (iii) berechtigt und in der Lage ist, die Zeichnungsfunktionalität gemäß den Bedingungen für die Nutzung der Zeichnungsfunktionalität zu nutzen (der „**Handelsteilnehmer**“).

Auf Wunsch des Anlegers gibt der Handelsteilnehmer im Namen des Anlegers ein Zeichnungsangebot über die Zeichnungsfunktionalität ab. Die Zeichnungsangebote können kein Zinslimit enthalten. CBSB meldet während der Zeichnungsfrist mindestens einmal täglich den Gesamtbestand der bis zu diesem Zeitpunkt eingegangenen Zeichnungsangebote an die Gesellschaft und die Initial Purchasern. Nach Festlegung der Zinsdetails der Bepreisung werden die Gesellschaft und die Initial Purchasern die Zuteilung vornehmen.

Die CBSB als Finanzkommissionär kann Zeichnungsangebote annehmen und informiert die Gesellschaft über die erhaltenen Zeichnungsangebote. Mit der Annahme der Zeichnungsangebote durch die CBSB kommt ein Kaufvertrag über die Schuldverschreibungen unter der auflösenden Bedingung zustande, dass die Schuldver-

schreibungen nicht am Ausgabetag ausgegeben worden sind. Der Ausgabetag ist zugleich der Tag der Lieferung der Schuldverschreibungen und der Wertstellungstag.

Investoren in Luxemburg und Österreich, deren Depotbank kein Handelsteilnehmer ist, können über ihre Depotbank einen Handelsteilnehmer beauftragen, ein Zeichnungsangebot einzustellen und dies nach Annahme durch die CBSB zusammen mit der Depotbank des Investors abzuwickeln.

Im Fall einer Überzeichnung wird die Zeichnungsfunktionalität voraussichtlich nicht mehr wie oben beschrieben zur Verfügung stehen; in diesem Fall wird über die Zuteilung nach Rücksprache zwischen der Gesellschaft und den Initial Purchasern entschieden. Für die Schuldverschreibungen ist ein Handel per Erscheinen im Freiverkehr an der Frankfurter Wertpapierbörse bis zum unmittelbar dem Ausgabetag vorangehenden Geschäftstag beabsichtigt.

Die Privatplatzierung erfolgt durch die Initial Purchasern an institutionelle Anleger in Deutschland, Österreich und Luxemburg sowie weiteren Staaten mit Ausnahme der Vereinigten Staaten von Amerika, Kanada, Australien und Japan im Einklang mit bestimmten Verkaufsbeschränkungen.

#### **Zuteilung**

Soweit es nicht zu einer Überzeichnung mit Zeichnungsaufträgen kommt, die die Anforderungen der Zinsdetails erfüllen, werden Schuldverschreibungen, die (i) durch die Zeichnungsfunktionalität gezeichnet wurden oder (ii) direkt durch die Initial Purchasern gezeichnet wurden, vollständig zugeteilt.

Im Fall einer Überzeichnung mit Zeichnungsaufträgen, die die Anforderungen der Zinsdetails erfüllen, wird über die Zuteilung der Schuldverschreibungen nach Beratung zwischen der Gesellschaft und den Initial Purchasern entschieden. Die endgültige Entscheidung trifft die Gesellschaft. Die Gesellschaft und die Initial Purchasern sind berechtigt, Zeichnungsaufträge zu kürzen oder einzelne Zeichnungen zurückzuweisen. Forderungen von Investoren bezüglich schon eingezahlter Zeichnungsgebühren und jeglicher Kosten, die im Zusammenhang mit der Zeichnung entstehen, werden entsprechend der Rechtsbeziehung zwischen dem Investor und der jeweiligen Depotbank, über die der Investor sein Zeichnungsangebot abgegeben hat, behandelt.

Investoren, die Zeichnungsangebote für die Schuldverschreibungen über die Zeichnungsfunktionalität abgegeben haben, können die Zahl der zugeteilten Schuldverschreibungen bei ihrer Depotbank erfragen.

#### **Ausgabe, Lieferung und Abrechnung**

Die Ausgabe der Schuldverschreibungen soll am oder um den 7. August 2013 stattfinden.

Im Anschluss an die Bestätigung, welche Angebote angenommen wurden und welchen Summen einzelnen Anleger zugeteilt wurden, wird die Lieferung und Zahlung der Schuldverschreibungen am oder um den 7. August 2013 erfolgen.

Die Lieferung und Abrechnung der im Rahmen des Öffentlichen Angebots über die Zeichnungsfunktionalität gezeichneten Schuldverschreibungen wird durch CBSB vorgenommen.

Zeichnungsangebote über die Zeichnungsfunktionalität werden – in Abweichung von dem üblichen zweitägigen Valuta für Transaktionen an der Frankfurter Wertpa-

pierbörse – nur mit Wertstellung am Abrechnungstag, d.h. voraussichtlich am 7. August 2013, abgerechnet. In diesem Zusammenhang hat CBSB sich dazu verpflichtet, die Schuldverschreibungen im Wege des Finanzkommissionärs auf Rechnung der Gesellschaft zu übernehmen und sie an die Anleger, die im Rahmen des Öffentlichen Angebots Zeichnungsangebote abgegeben haben, gemäß der Zuteilung zu liefern und abzurechnen. Die Lieferung der Schuldverschreibungen erfolgt Zug-um-Zug gegen Zahlung des Ausgabepreises für die Schuldverschreibungen.

Die Lieferung und Abrechnung der Schuldverschreibungen im Rahmen der Privatplatzierung erfolgt voraussichtlich am 7. August 2013 durch die Initial Purchasers Zug-um-Zug gegen Zahlung des Kaufpreises durch Einbuchung bei Euroclear und/oder Clearstream.

#### **Einbeziehung in den Handel**

Die Einbeziehung in den Handel im Freiverkehr (Open Market), Entry Standard, der Frankfurter Wertpapierbörse mit Teilnahme im Prime Standard für Unternehmensanleihen wurde am 23. Juli 2013 beantragt. Der Handelsbeginn wird für den 7. August 2013 erwartet. Es ist nicht beabsichtigt, die Schuldverschreibungen zum Handel an einem „regulierten Markt“ gemäß der Richtlinie 2004/39/EG des Europäischen Parlaments und des Rates vom 21. April 2004 über Märkte für Finanzinstrumente zuzulassen.

#### **E.4 Für die Emission/das Angebot wesentliche oder auch kollidierende Beteiligungen**

Die Gesellschaft und die Initial Purchasers werden einen Übernahmevertrag abschließen, der am oder um den Tag dieses Prospekts unterzeichnet wird (der „**Übernahmevertrag**“). Die Initial Purchasers erklären sich in diesem Übernahmevertrag, vorbehaltlich der Erfüllung von üblichen Bedingungen, dazu bereit, die Schuldverschreibungen zu einem Preis von 100% ihres Nominalbetrags zu erwerben und die während des Angebots von Anlegern gezeichneten und diesen zugeteilten Schuldverschreibungen an die jeweiligen Anleger zu verkaufen und zu übertragen. Von den Erlösen, die an die Gesellschaft ausgekehrt werden, werden Verkaufskommissionen von 1% des Grundbetrags der von den Initial Purchasers erworbenen Schuldverschreibungen abgezogen; die Verkaufskommission ist höher, wenn der Zinssatz für die Wandelschuldverschreibungen unterhalb einer bestimmten Schwelle liegt. Die Gesellschaft hat sich darüber hinaus bereit erklärt, den Initial Purchasers bestimmte Ausgaben, die ihnen im Zusammenhang mit dem Angebot der Schuldverschreibungen entstanden sind, zu ersetzen. Weiter hat sich die Gesellschaft dazu bereit erklärt, die Initial Purchasers von bestimmten Haftungstatbeständen im Zusammenhang mit dem Angebot der Schuldverschreibungen freizustellen.

Die Initial Purchasers sind unter bestimmten Umständen berechtigt, den Übernahmevertrag mit der Gesellschaft zu beenden. Diese Umstände schließen ein: jede wesentliche nachteilige Änderung der finanziellen Situation, der Jahresergebnisse, der Geschäftstätigkeit oder Aussichten der TAG-Gruppe und jede wesentliche nachteilige Änderung der Bedingungen des Kapitalmarkts. Sofern der Übernahmevertrag beendet wird, findet das Angebot der Schuldverschreibungen nicht statt oder – falls das Angebot zu diesem Zeitpunkt bereits begonnen hat – wird dieses aufgehoben. Alle Zuteilungen an Anleger, die bereits erfolgt sind, werden für ungültig erklärt und kein Anleger kann die Lieferung der Schuldverschreibungen verlangen. In diesem Fall sind die Initial Purchasers nicht zur Lieferung der Schuldverschreibungen an die Anleger verpflichtet.

Die Initial Purchasers oder ihre Tochtergesellschaften haben gegenüber der Gesellschaft und ihren Tochtergesellschaften von Zeit zu Zeit Investmentdienstleistungen erbracht oder beabsichtigen solche Dienstleistungen in der Zukunft zu erbringen, für

die die Initial Purchasers oder ihre Tochtergesellschaften übliche Gebühren und Provisionen erhalten haben oder erhalten werden. Darüber hinaus wird Credit Suisse die Gesellschaft als Dealer Manager hinsichtlich des beabsichtigten Rückkaufs von ausstehenden Wandelschuldverschreibungen, welche durch die Gesellschaft ausgegeben wurden, unterstützen.

Nicht anwendbar. Mit Ausnahme der Gesellschaft bestehen keine (auch keine kollidierenden oder wesentlichen) Beteiligungen natürlicher oder juristischer Personen, die an der Emission mitwirken.

**E.7 Schätzung der Ausgaben, die dem Anleger von der Emittentin oder dem Anbieter in Rechnung gestellt werden.**

Nicht anwendbar. Die Gesellschaft wird den Anlegern unmittelbar keine Kosten, Gebühren und Steuern in Rechnung stellen. Die Anleger haben sich selbst über alle Kosten, Gebühren und Steuern zu informieren, die im Zusammenhang mit den Schuldverschreibungen auf sie individuell entfallen und – hinsichtlich aller Transaktionskosten und -gebühren (wie z.B. übliche Bankprovisionen) – von ihren Depotbanken, von denen oder durch die die Anleger die Schuldverschreibungen zeichnen, erwerben oder (wieder)verkaufen, erhoben werden.

## 6. RISK FACTORS

*Before taking a decision to purchase the Notes, investors should carefully read and consider the risks described below and the other information contained in this Prospectus. The materialisation of any of these risks, whether individually or in combination with other circumstances, could have material adverse effects on TAG Immobilien AG's (the "Company" or "TAG AG" and together with its subsidiaries collectively referred to as "TAG" or the "Group") business and on its net assets, financial condition and results of operations, as well as on its ability to fulfil the obligations under the Notes. This would notably be the case if several of the following risks were to materialise simultaneously. The sequence in which the individual risks are described below does not represent an indication of either the probability of their occurrence, their severity, or their significance. In addition to the risks described below, there may be further significant risks and aspects of which the Company is not aware at present. If any one of these risks materialises, the stock exchange price of the Notes could decrease and investors could lose part or all of their investment.*

### 6.1. Market-related risks

*The German real estate market depends on the macroeconomic development and on the demand for real estate.*

TAG's core business is in acquiring, letting and selling residential and commercial real estate in Germany. TAG's business success is therefore dependent on the performance of the German real estate market, and especially on the level of achievable rental income, the expenses necessary to earn that income, the level of achievable proceeds on disposal, and purchase prices, as well as the individual properties' market value. The German real estate market in turn is dependent in particular on the macroeconomic development and the demand for real estate in Germany. Among the significant factors for the performance of the overall economy in Germany are the condition of the global economy, the development of commodity prices, the inflation rate, levels of national indebtedness or interest rates, as well as factors specific to regional markets. For example, another slump in global economic performance, a further intensification of the current financial crisis in various countries within the Euro area or at various system-relevant banks, extreme fluctuations in commodity prices and especially in the price of oil, an elevated increase in the rate of inflation (as could possibly result from events such as further monetary support measures from central banks, or interest rates remaining low for an extended period), as well as deflationary trends, could adversely affect the macroeconomic development. Excessive state debt could result in rising taxes, an increase in the inflation rate, lower economic output, and a declining proclivity to invest among private and institutional investors, among other consequences. Similar effects could be triggered by deflation. Fluctuations in exchange rates, especially the Euro-to-US-Dollar rate, could have material effects on German exports and consequently also on the performance of the German economy as a whole.

Demand for real estate is affected in particular by demographic change, the development of the job market, the extent of private debt among potential buyers, the development of individual real income, and the activity of foreign investors in the German real estate market. For example, a decline in population could result in a decline in demand for residential real estate. A decrease in real income and an increase in unemployment could adversely affect the population's purchasing power, and therefore their propensity to acquire real estate or to lease large or high-end residential spaces. An increase in national indebtedness and interest rates could lower private and institutional investors' propensity to invest. Regionally limited demographic and economic changes could also have a significant influence on TAG because TAG's real estate holdings are concentrated in selected regions of Germany.

Demand for real estate in Germany has also been influenced in the past by the tax environment. Tax incentives for real estate investments have been reduced considerably in the recent past. For example, substantial changes have been made in respect of depreciation periods, time limits for private disposals, and inheritance tax; these changes have already adversely affected demand for real estate and could continue to do so. Negative changes

in state subsidisation for purchasers of real estate, such as the recent elimination of the homeowners' subsidy (*Eigenheimzulage*), could have a further adverse effect on future demand for real estate.

Particularly because of the current uncertain economic situation in Germany and Europe, it cannot be foreseen whether the real estate market in Germany will evolve favourably for TAG. A deterioration of the performance of the German economy and declining demand for real estate in Germany could adversely affect TAG's business performance and would have material adverse effects on its business and its net assets, financial condition and results of operations.

***TAG is exposed to macroeconomic risks caused by the sovereign debt crisis in Europe.***

TAG is subject to macroeconomic risks caused by the sovereign debt crisis in Europe that are outside of its control. Concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual member states. General market volatility has resulted from uncertainty about sovereign debt and fear that the governments of countries such as Greece, Portugal, Ireland, Spain and Italy will default on their financial obligations. High levels of sovereign debt in certain European countries, combined with weak growth and high unemployment, could lead to fiscal reforms (including austerity measures), sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility, and, potentially, disruptions in the credit and equity markets, as well as other outcomes that might adversely impact TAG's ability to finance its operations.

With regard to currency instability issues, concerns exist in the eurozone with respect to individual macro-fundamentals on a country-by-country basis, as well as with respect to the overall stability of the European monetary union and the suitability of a single currency to appropriately deal with specific fiscal management and sovereign debt issues in individual eurozone countries. The realization of these concerns could lead to the exit of one or more countries from the European monetary union and the re-introduction of individual currencies in these countries or, in more extreme circumstances, the possible dissolution of the European monetary union entirely, which could result in the redenomination of a portion or, in the extreme case, all of TAG's euro denominated assets, liabilities and cash flows to the new currency. The capital market disruption that would likely accompany any such redenomination event could have a material adverse impact on TAG's liquidity and financial condition. Furthermore, any redenomination event would likely be accompanied by significant economic dislocation, particularly within the eurozone countries, which in turn could have an adverse impact on the prices in the German real estate market and, as a result, on TAG's revenue and cash flows. Moreover, any changes from a euro to a non-euro currency in Germany would require TAG to modify its financial systems. No assurance can be given that any required modifications could be made within a timeframe that would allow TAG to timely collect the rents from its tenants or to prepare and file the required financial reports. Furthermore, should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Notes.

***TAG is exposed to intense competition. There is a risk that it might not be able to compete successfully, or that it might not be able to distinguish itself adequately from its competitors.***

TAG faces various competitors in all sectors of its business. Because of the size and fragmentation of the German real estate market and the multiplicity of market participants, TAG is exposed to intense competition. In purchasing real estate holdings, the Company believes it competes primarily with other real estate companies, open-end real estate funds and other institutional investors.

Several of TAG's competitors have substantially greater financial resources or better financing opportunities, larger or more diversified real estate holdings, or conversely, because of greater specialisation, they have real estate holdings more specific to their target groups; or they may have other competitive advantages over TAG.

In the future, the intense competition to which TAG is exposed could result in lower rental income or lower proceeds from disposals. In acquisitions of further real estate portfolios, competitive pressure could cause

purchase prices to rise substantially and thus reduce the returns from newly acquired portfolios. In particular, portfolio transactions in the recent past have shown increasing interest of national and international investors in German real estate portfolios. This interest is likely to grow due to an increase in the number of publicly listed real estate companies in Germany having access to the capital market and pursuing an investment strategy similar to that of TAG. A continuing or even increasing interest of competing investors could lead to increasing purchase prices and reduced investment opportunities for TAG and thus jeopardise TAG's expansion strategy.

An inability on TAG's part to compete successfully, or to distinguish itself adequately from its competitors, could have a material adverse effect on its business and its net assets, financial condition and results of operations.

## **6.2. Company-specific risks**

***TAG's success depends on its ability to acquire, integrate and market further participations in real estate companies and further real estate holdings on appropriate terms, and on its ability to sell these at attractive prices in the course of a selective reduction of existing holdings.***

In the absence of a positive change in the current market situation and an associated increase in rent levels and real estate prices, TAG's existing holdings offer the possibility of only limited positive business development. This is because the revenue from existing properties is limited primarily to rental income and the proceeds from the disposal of properties, and these amounts can be increased only within narrow limits. In respect of increases in residential rents in particular, TAG is subject to statutory and, in certain cases, contractual restrictions. For that reason, TAG must grow further in order to achieve its strategic objectives. It intends to attain this growth primarily by acquiring attractive real estate holdings or investing in additional real estate companies that offer potential for appreciation.

Part of this strategy was the acquisition of TAG Potsdam-Immobilien GmbH ("**TAG Potsdam**", at the time of its acquisition DKB Immobilien Aktiengesellschaft) in March 2012. This is a large German real estate company that holds a portfolio of some 25,000 own residential units, and about 1,500 residential units managed for third parties, as well as 500 commercial units, with a regional emphasis in various parts of Eastern Germany. A further part of this strategy was the acquisition of TAG Wohnen GmbH ("**TAG Wohnen**", at the time of its acquisition TLG Wohnen GmbH) in December 2012. TAG Wohnen is also a large German real estate company that holds a portfolio of approximately 11,350 residential and 140 commercial units in various parts of Eastern Germany.

TAG's future business success depends on the Company's ability to build up a larger real estate portfolio, and to manage and market it successfully. The further expansion of the residential portfolio is in particular impeded by increasing competition to acquire attractive existing properties for holding purposes and by increased market prices resulting therefrom. In addition to building up its real estate portfolio, the Company also intends to selectively optimise and streamline its existing property holdings in order to maximise its value, improve the earning power of the remaining portfolio, reduce vacancies, improve equity ratio, realize gains, and establish a basis for further investments.

If TAG is unable to acquire further real estate holdings or real estate companies on attractive terms, to manage and market its existing property holdings appropriately or to improve its profitability, this inability could have a material adverse effect on TAG's net assets, financial condition and results of operations.

***TAG might be unable to successfully integrate and manage the residential and commercial real estate packages it has acquired in the past and will acquire in the future, and in particular to adjust and expand corporate structures as is necessary for this purpose.***

The growth associated with past and planned future acquisitions of real estate packages makes considerable demands on TAG's management and internal corporate organisation. TAG's strategy is to handle future acquisitions with its existing resources whenever possible. However, acquiring real estate, irrespectively of whether the acquisition is made through a direct acquisition of real estate portfolios or through the acquisition of property-owning or property-management companies, could require establishing new organisational

structures within TAG or the acquired companies, or modifying the existing ones. In that case, it might be necessary to hire new personnel and create new personnel management structures, or to integrate existing structures into the Company's internal organisation, in its areas of property management, property development, renovation and modernisation of TAG, so that it can efficiently manage newly acquired real estate portfolios. These acquisitions could also alter TAG's geographical footprint, so that it would be necessary to create or integrate new regional corporate structures. The Company's internal organisation must also be adjusted continuously as required by its growth, for example in the areas of asset and property management, accounting, personnel, and IT.

This process of growth and integration could prove to be more difficult, or more time-consuming and expensive, than the Company had originally expected. For example, the real estate portfolio that TAG acquired by purchasing TAG Potsdam poses substantial integration challenges for TAG, because some of the properties are located at a considerable distance from the regions that TAG covered before this transaction. Finally, the acquisition of TAG Potsdam, whose portfolio of some 25,000 residential units and some 1,500 units managed for third parties was nearly as large as TAG's existing portfolio at that time. The acquisition of TAG Wohnen, whose portfolio comprises approximately 11,350 residential and 140 commercial units, will lead to material integration expenses as well.

If TAG is unable to successfully integrate real estate portfolios or participations in real estate companies, whether already acquired or acquired in the future, TAG's growth strategy could be jeopardised, causing potential material adverse effects on TAG's net assets, financial condition and results of operations.

***TAG must rely on raising debt capital on reasonable terms. Because of its extensive leverage, TAG could be unable to meet its obligations or to finance new acquisitions. Moreover, a further intensification of the crisis in the international financial markets could significantly impede TAG's debt financing, and result in liquidity problems.***

The business operations of TAG AG, its subsidiaries and its affiliates are financed to a substantial degree through debt financing. As of 31 March 2013, TAG's total consolidated bank liabilities came to €2,114.1 million, while total consolidated assets came to €3,697.3 million and equity (before minority interests) was €1,153.4 million. This high level of debt could have adverse effects on obtaining new financing for the further expansion of property holdings or extending or restructuring existing financing, and therefore on the successful implementation of TAG's business strategy.

Depending on the conditions of individual loans, and especially the due dates for interest payments and for the repayment of principal in each of the underlying loan agreements, TAG must have sufficient cash funds at each of the agreed maturity dates to service the interest and principal of its loans as scheduled. Moreover, it must obtain refinancing on appropriate terms after each of the loan agreements expires. For example, at 31 March 2013, a portion of the consolidated bank liabilities of €441.8 million had a remaining term of one year or less. Furthermore, similar interest payment and capital repayment claims result from the terms of the convertible bonds issued by TAG AG and Colonia Real Estate AG ("Colonia"). In some cases, these may provide investors a right to terminate or for early repayment for which TAG would have to maintain, or at short notice create, the necessary liquidity.

TAG must furthermore rely on being able to obtain debt financing at adequate terms in the future, particularly at appropriate financing interest rates. Because of its high level of debt capital, TAG is dependent on an absence of substantial increases in interest rates. Increases in interest rates could occur under variable rates loan agreements, in cases of refinancing, or if new liabilities are undertaken elsewhere. The derivative financial instruments that TAG has entered into for approximately 96% of its aggregate debt to manage existing interest rate risks may only partially offset these risks. Future changes in market interest rates could cause the derivatives to exert further adverse effects on the hedging reserve in equity or on consolidated profit.

In addition, existing financing agreements with lending banks include various obligations incumbent upon TAG AG or its subsidiaries in respect of reporting, conduct and providing information, and these must be complied with for the life of the agreement. For example, in the loan agreements it has entered into, TAG is subject to

sometimes comprehensive “financial covenants” (obligations to maintain key financial performance indicators). This is particularly the case for loans taken out by (i) TAG Gewerbeimmobilien GmbH (“**TAG Gewerbe**”), for a total of €173 million, (ii) Bau-Verein zu Hamburg Immobilien GmbH (“**Bau-Verein GmbH**”) and its subsidiaries (collectively “**Bau-Verein**”), for a total of €72 million, (iii) the five property companies (TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH, and TAG Wolfsburg-Immobilien GmbH) acquired in the Theta project in 2011, for a total of €97 million, (iv) for the acquisition of TAG Potsdam, for a total of €557 million, and (v) for the acquisition of TAG Wohnen, for a total of €187 million. For these loans, the banks have set loan requirements for capital cost cover ratios or equity or debt ratios to be maintained (the so-called “loan to value” indicators). Non-compliance with these requirements may lead to an event of default, and the respective lending bank may request TAG to deposit cash as collateral, may request a reduction of the loan or may even be entitled to terminate the respective loan and demand the repayment in part or in whole of the outstanding loan amount. In addition, such events may have negative consequences on other loan agreements as well, as other banks might be entitled to terminate their loan agreements under so-called cross-default clauses. There have been cases of non-compliance with these requirements in the past. For instance, as of 30 June 2013, one of the Company’s indirect subsidiaries violated a financial covenant of a financing agreement totalling €47 million for the commercial real estate portfolio “Stuttgart-Südtor” and had to deposit approximately €0.6 million as collateral.

A breach of the obligations set forth in the existing financing agreements with lending banks, for example if the financial covenants are not met, could occur as a result of further acquisitions, an increase in vacancy rates or an impairment of its properties. If this and other loan covenants were violated, the associated loan could become due for early repayment in full. If repayment is not possible out of available liquid funds in such cases, TAG could be compelled to take out other loans on considerably less favourable terms, or to raise cash by selling properties on short notice – so-called “distress” sales. Moreover, if individual credit commitments become distressed, respective clauses (known as “cross default” clauses) in the financing agreements could trigger other loans to be terminated and become due and payable.

The number and diversity of TAG’s financing arrangements leads to liquidity risks and makes high demands on TAG’s liquidity management systems. To ensure its liquidity, TAG uses extensive liquidity planning instruments in both the short and medium-term segments at the level of the individual operating subsidiary and the Group as a whole to ensure that business transactions are based on appropriate forecast data. Extensive liquidity reports are prepared on a regular basis. Any failure in the reporting and liquidity planning system could lead to unexpected liquidity needs which TAG is unable to meet at the contractually agreed date.

The occurrence or intensification of crises in the international financial markets could also have material adverse effects on TAG’s debt financing and consequently its business activities. Access to debt capital was significantly restricted during the financial crisis of 2008 and 2009 and restrictions still persist due to the Euro crisis. Many credit institutions scaled back their loan exposures because of stricter equity capitalisation requirements. Numerous international banks made substantial reductions in their exposures in Germany. A further intensification of the financial and Euro crises or more stringent regulatory requirements for banks’ equity capitalisation could compel credit institutions to limit their risk and thus their loan exposures further. This could make it considerably more difficult or more expensive for TAG to take out loans. In particular, it might not be possible to extend TAG’s existing financings, refinancing might no longer be obtainable, or the underlying terms of the financing agreements might become considerably less attractive. As a result, TAG could find it substantially more difficult to raise the necessary funding and thus experience liquidity problems. These circumstances could have a material adverse effect on the Company’s business activity.

Difficulties in servicing or refinancing financial liabilities, or an early calling in of loans, as well as the materialisation of one of the other risks listed above in connection with TAG’s high level of debt financing, could have material adverse effects on TAG’s net assets, financial condition and results of operations and its ability to satisfy its obligations under the Notes. If multiple risks affecting liquidity coincide, the Company’s survival could be jeopardised.

***Future capital increases or other financing transactions through the capital markets, like the issuance of notes or convertible bonds, might be difficult due to a hostile capital market environment or due to a reduced attractiveness of the Company as issuer of securities.***

TAG uses the capital markets extensively in order to finance its operations and growth. In recent years the Company issued four convertible bonds and made various capital increases by secondary placements of its shares. The Company intends to use significant parts of the net proceeds from the sale of the Notes for the repurchase of outstanding convertible bonds, the interest rate of which exceeds the interest rate of the Notes. Notwithstanding that, the Company may again need to access the capital market in the future in order to refinance existing liabilities, including liabilities arising out of the issue of the Notes, or to finance its further growth. Future transactions might, however, be difficult or even impossible due to a hostile capital market environment or due to a reduced attractiveness of the Company's shares for investors. This may in particular be the case as a result of the fact that the stock exchange price of the Company's shares is subject to fluctuations. These price fluctuations may in part be attributable to the high price volatility of the shares of listed companies in general, and of real estate companies in particular, but also to specific developments at the Company. In particular, the following factors, among others, could affect the stock exchange price of TAG AG shares: profit forecasts; market expectations about the valuation, development of value, and appropriate capitalisation of real estate companies in general; investors' assessment of TAG's real estate portfolio; changes in the valuation of other real estate companies; TAG's creditworthiness; etc. Moreover, changes in the Company's business results or those of companies comparable to it, or changes in the general situation within the sector, the economy as a whole, and the financial markets could cause substantial fluctuations in the price of the Company's shares. In general, securities markets have been subject to substantial fluctuations in prices and trading volumes in the past. Irrespective of the Company's business performance, its operating results, or its financial condition, such fluctuations could have material adverse effects on the price of the Company's shares. A reduced attractiveness of the Company's shares would as well limit its ability to issue shares, notes, convertible bonds or other financial instruments to finance its operations and might significantly restrict or even terminate the Company's ability to use the capital markets as a source for its future financing.

***Distress sales or forced disposals of real estate collateral would cause TAG material financial detriment.***

TAG has furnished considerable collateral for its financings. For example, the Company's shares in Bau-Verein GmbH and Colonia as well as in other subsidiaries and affiliates are pledged in part or in whole. Moreover, TAG has in particular furnished mortgage liens to the banks that financed the properties, and in some cases also on other properties in its real estate holdings. Because of the so-called "broad statements of collateral purpose" (*Sicherungszweckvereinbarungen*) normally used by the banks, the furnished liens regularly secure all claims by the respective banks vis-à-vis the respective borrower, including future claims. If the banks' loan claims cannot be repaid when due, the collateral might be sold. Moreover, broad definitions of collateral purpose in the loan documentation for the financing of one property or group of properties may even include other secured obligations, particularly real estate loans for the financing of other properties, not financed by these loans. Any forced sale or forced disposal of collateral, particularly participations, portfolios or individual properties, would result in large price discounts, especially if market conditions are poor, and thus cause TAG material financial detriment. This would have material adverse effects on TAG's net assets, financial condition and results of operations, and could jeopardise the Company's existence.

***The valuation reports contained in this Prospectus might not properly represent the value of TAG's real estate holdings. This could result in revaluation losses.***

The valuation reports contained in this Prospectus indicate a valuation of TAG's properties based on standardised valuation principles as at an effective date. The valuation includes both objective factors, such as the general market environment, interest-rate levels, development at the particular location, vacancies, and tenant credit ratings, and also a subjective assessment by the independent appraiser preparing the valuation report. An individual appraisal of each property was not possible in every case; instead, for some partial portfolios, a valuation of properties of comparable quality was performed, along with associated blanket estimates. Because of the large number of factors, the appraiser's subjective assessment associated with the

valuations report, and the need for blanket estimates, there is a risk that the values of TAG's properties presented in the appraisals might not be realistic, in terms of the actual achievable current or future rental revenues or might not reflect actual achievable future or current proceeds from disposal. The valuation methods used for the valuation reports could also prove unsuitable in retrospect. In that regard, it is possible that the valuation reports could have reached inaccurate or erroneous valuations of the properties. If, in the case of the disposal of one or more properties included in the valuation report, the obtained selling price is below the market values indicated in the appraisals, or if, in the case of the disposal of unappraised properties, a selling price is obtained that is below the market value assumed by TAG at the time of acquisition of those properties, or if for other reasons – for example because of a revaluation – the valuations for the real estate holdings recognised in TAG's annual and consolidated financial statements must be corrected downward, this could have material adverse effects on TAG's net assets, financial condition and results of operations.

***Substantial vacancy rates or a loss or reduction of rental income could result in losses of income and additional expenses. The legal and economic environment in the rental market could make rent increases unenforceable.***

TAG is subject to the risk of a loss of rental income and the risk of vacancies in rental properties. In addition to the loss of income, these could also result in unforeseeable or additional expenses, because operating costs and service charges must still be paid, but may be recovered only partially or not at all from tenants. Similar considerations apply for maintenance, repair or modernisation work for which the cost cannot be passed on. At 31 March 2013, some 10.6% of TAG's rentable area was not rented. The vacancy rate was especially high, at approximately 22.3%, for the residential real estate portfolio in Salzgitter, where TAG's roughly 8,800 residential units represent a substantial portion of TAG's entire residential real estate portfolio. Reduced or lost rental income may, among other causes, result from a lack of demand or a surplus supply of properties in the local residential and commercial real estate market, and also if the condition of TAG's properties is not consistent with market requirements. If TAG partially or wholly fails to prevent a deterioration of its rented properties by failing to perform the appropriate maintenance and modernisation work, the result could be an increase in vacancies and consequent material adverse effects on income from existing or future leases, and on the associated costs.

A portion of the leases for commercial properties include so-called "indexing" clauses (*Indexierungsklauseln*) which could also result in a reduction in rental income if the reference index undergoes a negative change. On the other hand, rent increases may not be enforceable if the reference index changes for the better. Unless such leases include at least a ten-year commitment by the lessor, the courts could find that such rent increases are not enforceable from the time when the judgment becomes final. In leases entered into before 14 September 2007, this could allow tenants to refuse rent adjustments and demand refunds of rent adjustments already paid. Consequently, the indexing clauses used by TAG could have the result that the rent collected in the future by TAG is no longer in line with the market rates.

There is also the possibility that because of outside circumstances, such as a change in infrastructure or population structures, the neighbourhood and thus the attractiveness of the properties could deteriorate. If as a consequence the leases entered into for these properties are terminated or expire, there will be a risk that rental income from new leases must be reduced, or may be lost entirely because of the impossibility of letting to new tenants, leading in turn to an increase in vacancies.

Furthermore, regionally limited economic and demographic effects could have a substantial impact on vacancy rates in the properties owned by TAG, because TAG's real estate portfolio is concentrated in selected regions of Germany that are subject to different economic and structural conditions. Persistently negative economic growth, especially in structurally weak areas like Salzgitter or several areas in Eastern Germany, could cause continuous attrition of the population through relocation, with a consequent increase in residential vacancy rates.

An increase in vacancy rates or a loss or reduction of rental income from a rather large number of tenants, could have material adverse effects on TAG's net assets, financial condition and results of operations.

***In commercial real estate, TAG is dependent on a single major tenant who rents approximately 33% of the commercial space that TAG lets out.***

In its commercial real estate portfolio, TAG has a so-called “cluster risk”. In the course of TAG Gewerbe’s acquisition of the Berlin/Siemensdamm, Mannheim/Dynamostrasse, Cologne/Franz-Geuer-Strasse, Munich/St.-Martin-Strasse and Hofmannstrasse properties from Siemens AG (the “Siemens Portfolio”) in 2007, these properties were leased to Siemens AG. The total space currently leased by Siemens AG is 113,456 square metres, equivalent to approximately 32.7% of the total commercial space leased out by TAG Gewerbe. The total rent paid by Siemens AG is currently €7.8 million annually, equivalent to approximately 29.7% of the annualised annual projected rent receipts of the commercial real estate portfolio. If business relations with Siemens AG undergo an adverse change, or if Siemens AG were to leave entirely as a tenant, significant rental income for TAG Gewerbe would be reduced or lost. A loss or reduction in the payment of rent by major tenants (such as tenants in large spaces) or by a rather large number of tenants, could have substantial adverse effects on TAG’s net assets, financial condition and results of operations.

***TAG still uses a small group of outside managers to manage its properties, and is therefore dependent on third parties’ provision of services.***

Some of the residential properties held by subsidiaries which TAG acquired within the last years are currently being managed by a small group of third-party managers who perform, among other duties, lease management, financial accounting, and repair and supervision work for the properties they manage. TAG intends to gradually dissolve its contractual bonds with these third-party managers and to manage its properties itself. If the contractual relationships with one or more of these managers are terminated inopportunistically, TAG might not be able to incorporate the extensive management tasks into its own internal property management, or to transfer them temporarily to another manager in time. This could adversely affect TAG’s business operations and therefore its net assets, financial condition and results of operations.

***In acquiring and managing real estate properties, TAG is subject to various contractual, regulatory and statutory restrictions that limit its economic freedom of action.***

In acquiring and managing real estate portfolios, for example those held by public sector entities such as the German states and municipalities, TAG is subject to contractual restrictions in relation to individual properties. For example, the agreements for purchasing real estate from public sector entities typically provide that in the event of the sale of residential units the units must be sold primarily to tenants and limit lease terminations for older tenants, prohibit so-called “luxury renovations”, and require that social concerns and urban development objectives be taken into account when remodelling or reselling the property. Such social charters in particular exist with respect to material portions of the TAG Potsdam real estate portfolio and the TAG Wohnen real estate portfolio. Moreover, some properties in TAG’s portfolio are in urban renewal areas, so that the associated entries in the land register include redevelopment memoranda that include restrictions on sale or that may entail an obligation for the landowner to pay compensation. Similar restrictions and encumbrances apply for TAG’s properties in urban development or redevelopment areas. Finally, some residential properties are subject to restrictions on the possibility of increasing rents. The portfolios of TAG Potsdam and TAG Wohnen also include a substantial amount of comparable contractual, regulatory and statutory restrictions.

Furthermore, encumbrances are regularly entered in the land register for TAG’s properties. These pertain not only to the land charges that furnish collateral for third parties, as noted above, but also further encumbrances for the benefit of third parties that restrict free enjoyment, reduce value, or grant rights to third parties, such as servitudes that establish or safeguard third parties’ rights of use.

Moreover, TAG is subject to the statutory provisions that protect tenants, such as restrictions on possibilities for terminating leases or increasing rents and to the laws regarding general terms and conditions, which limit options for passing on to tenants the costs of decorative repairs, maintenance, upkeep, repairs, or modernisation.

The various restrictions could impede TAG from managing the relevant residential units in an optimal manner, or from carrying out sales or rationalisation and modernisation work as it desires. This could result in lower

revenues from residential management and sales, and could have material adverse effects on TAG's net assets, financial condition and results of operations.

***TAG could suffer material losses from damage that is not covered by insurance, or that exceeds the insurance cover.***

To cover damage that it or third parties might incur as a consequence of its business operations, TAG has taken out the following insurance, among others:

- Building insurance against fire, water, storm and hail damage for all properties owned by the group,
- Building and land owners' liability insurance for most properties,
- Insurance against environmental and flood damage for some properties,
- Contractor's liability insurance, public liability insurance, and electronics insurance for the entire group, and
- A group-wide pecuniary loss liability insurance policy for the Management Board, the Supervisory Board, and senior employees of the group (D&O insurance).

As a rule, the insurance cover is not unlimited, but rather is subject to liability limitations and liability exclusions. It is therefore not impossible that TAG could incur damage that is not covered by its insurance or that exceeds the cover limits. Moreover, TAG might not be able to obtain appropriate insurance cover in the future, or the existing insurance cover could be terminated or TAG may no longer be able to finance it due to rising costs. The occurrence of any of these conditions could have material adverse effects on TAG's net assets, financial condition and results of operations.

***TAG's business is limited to certain regions within Germany. This concentration results in a dependence on regional market developments, and in expansion risks.***

TAG has a geographically diversified portfolio of residential and commercial properties, with emphases in the Berlin region, the Hamburg region, North Rhine-Westphalia, Thuringia/Saxony and Rostock/Stralsund region, as well as in the Salzgitter region. Because of its concentration on certain regions, there is a dependence on the development of the real estate markets in these regions. This pertains, for example, to TAG's residential property portfolio in Salzgitter representing approximately 14% of TAG's entire residential portfolio. Furthermore, because of its regional specialisation, the Company could incur expansion and integration risks if it invests in other regions of Germany. One of these risks, for example, could be that because of their geographical location, the newly acquired properties cannot be serviced from the property management unit's current locations, and therefore a cost-intensive development of additional management units could be necessary.

Furthermore, in some regions – such as the Salzgitter area and certain areas in Eastern Germany – the real estate market is characterised by excess supply. This does not only cause vacancy risks but also makes potential sales of the respective properties more difficult, as such sales are impeded by a surplus supply. These risks could intensify due to a continued or increasing migration from Eastern Germany to more attractive locations in West Germany and the expected continuous attrition of the population due to demographic changes in some regions in Eastern Germany as well as in Western Germany. Such changes in the local demand for housing could adversely affect TAG's future results, because the returns from holding inventory are, as a rule, less than those from the sale of residential units.

TAG's geographical concentration on individual regions of Germany, and the associated risks, could therefore have material adverse effects on TAG's net assets, financial condition and results of operations.

***In acquiring real estate or real estate portfolios, there is a risk that TAG might not accurately appraise the properties' value, and might pay an excessive price. When TAG acquires a participation in real estate companies, there is the risk that TAG might overestimate the value of the acquired participation.***

TAG intends to achieve economies of scale, and thus to improve its profitability, by steadily acquiring additional real estate, real estate portfolios, and participations in real estate companies. In such transactions, and particularly in the acquisition of large-volume real estate portfolios, there is a risk that TAG could overestimate earning potential and synergies, and underestimate the rental and cost risks, and consequently pay too high a purchase price. There is furthermore a risk that real estate or real estate portfolios could be inaccurately appraised for other reasons, even if they were acquired on the basis of valuation reports and due diligence reviews, and therefore a particular target return cannot be obtained from rentals, or if applicable, a certain price cannot be obtained upon resale. Therefore there is a risk that the market value of individual properties or entire real estate portfolios could be less than the purchase price paid by TAG. This would result in a reduction of income and the need for impairment losses. This risk pertains to both transactions in the past and possible future acquisitions.

Moreover, even carefully-chosen properties may have latent defects, for example in their structure or from legacy pollutants on the land that had not become known to TAG at the time of purchase. If the defects are discovered subsequent to the purchase, they could delay development or rental work, and result in repair or remediation costs that cannot be foreseen. Furthermore, there is generally a risk that a remediation to be carried out on a property could be associated for other reasons with substantial additional, unforeseeable costs to the Company.

Comparable risks could arise if TAG acquires participations in real estate companies. Here too, is a risk that TAG could overestimate the earning potential and synergies associated with the participation to be acquired, or could underestimate the liabilities and risks inherent in the real estate company in which it is to acquire a participation, and could consequently pay too high a purchase price for the investment.

Any inaccurate estimation in the appraisal of individual properties, real estate portfolios, or participations in real estate companies or the presence of latent defects and additional remediation costs could have material adverse effects on TAG's net assets, financial condition and results of operations.

***The transaction costs expended for future acquisition of real estate, real estate portfolios or real estate companies could prove to be useless if the transaction is not completed.***

In planned acquisitions of real estate, real estate portfolios or real estate companies, unforeseen problems could arise, for example in the form of substantial economic or legal impediments to an acquisition. This could cause the Company to withdraw from a planned transaction. If a transaction that has been actively pursued fails, the amounts spent on the project, some of which could be considerable, for example for consultants, could prove to be useless.

A substantial number of terminated transactions and a rather large amount of useless expenses could have material adverse effects on TAG's net assets, financial condition and results of operations.

***There is a risk that TAG could be exposed to warranty claims resulting from the sale of properties, and that there may be no corresponding claims for recourse, or that claims for recourse cannot be asserted successfully.***

TAG is exposed to the risk that because of defects in sold buildings or land, or parts thereof, it could be liable for up to ten years for defects in the sold property unless contractual liability exclusions have been agreed or if such limitations are ineffective. In particular, for the property and project development work that has already been completed, there is a liability risk for defects in sold buildings or land, or parts thereof, particularly in cases of the occurrence of structural damage or structural defects, for a period of at least five years. This also applies to real estate that has already been marketed. In this connection, under IFRS TAG made provisions of €1.3 million (for remedying defects) at 31 March 2013. However, TAG cannot set a specific figure for total possible warranty claims, which could considerably exceed the provisions made.

If a defect simultaneously constitutes a defect that can be asserted against the original seller or builder or planner, TAG generally has recourse against those sellers, builders or planners if it is itself liable to buyers because of structural defects. To that extent, however, TAG bears the default risk in the event that those entities or persons are no longer able – for example, because of insolvency – to meet their reworking or payment obligations (particularly obligations to pay damages). It is also conceivable that TAG AG or its pertinent subsidiary or affiliate could still be liable to the purchasers, but recourse could no longer be possible because the warranty has expired or for other reasons. The warranty bonds provided by the companies engaged to perform construction work, normally in the amount of 5% of the total construction cost, often do not suffice to hedge these risks.

Any assertion of warranty claims against TAG AG or its subsidiaries or affiliates, especially if there is no recourse against third parties for a damages claim that has been upheld, could have a material adverse effect on TAG's net assets, financial condition and results of operations.

***Action could be taken against TAG AG for liabilities of its subsidiaries and affiliates under declarations of liability or under domination and profit and loss transfer agreements.***

Both TAG AG and its principal subsidiaries often bear direct or indirect liability to one another, as well as for their respective subsidiaries and affiliates, under liability declarations (such as suretyships, guarantees or letters of comfort) or under domination and profit and loss transfer agreements, or because they have assumed the position of personally liable partner.

In particular, TAG AG is liable for loans taken out by TAG Gewerbe, Bau-Verein, TAG Asset Management GmbH ("TAG AM"), TAG Wohnen and other subsidiaries and affiliates under suretyships. These suretyships present the risk that action could be taken directly against TAG AG to obtain payment. Likewise, TAG AG, Bau-Verein GmbH and TAG Potsdam are financially responsible for any losses suffered by their principal subsidiaries and affiliates under domination and/or profit and loss transfer agreements or liability declarations, such as letters of comfort. Such domination and/or profit and loss transfer agreements are also concluded between entities of the respective sub-groups. In addition, TAG AG intends to grant further suretyships, to conclude further domination and/or profit and loss transfer agreements and to execute further liability declarations in the course of its ordinary business in the future.

Any such action brought under liability declarations or domination and profit and loss transfer agreements could have material adverse effects on TAG's net assets, financial condition and results of operations.

***Action could be taken against TAG for legacy pollution, environmental pollution or hazardous construction materials.***

TAG in general bears the risk that land it owns or holds, the groundwater below or surface water on such land could be polluted with legacy pollutants, other pollutants that cause harmful changes to the soil or the water, or hazardous construction materials (such as asbestos, Polychlorinated Biphenyls (PCB), Dichlorodiphenyltrichloroethane (DDT), Pentachlorophenol (PCP) and Lindane), or could give rise to other environmental pollution, and that action could be brought against it by the authorities or private third parties because of these pollutants. This is particularly the case in view of the fact that land purchase agreements regularly include a hold-harmless clause in favour of the former owner with regard to liability under the German Federal Soil Protection Act (*Bundesbodenschutzgesetz*), and exclude recourse claims against the former owner under section 24 (2) of that Act.

Such an action, for example, could demand the performance of expert studies, the establishment of safeguards, the removal and disposal of harmfully altered soil, building parts or other items, the remediation of ground or surface water polluted as a consequence, or reimbursement of the costs and damage incurred for installing safeguards against or remediating the legacy pollutants, harmful changes to the soil or water. An exclusion of liability for legacy pollutants is legally permitted only within very narrow limits. Furthermore, legacy pollutants, harmful alterations of the soil or water, or hazardous construction materials, or even the mere suspicion of a harmful alteration of the soil or pollution with hazardous building materials, has a material

adverse effect on the value and the possibility of exploiting the properties, and especially the possibility of selling them.

Even if TAG did not cause the harmful alterations itself, in many cases it will have only a very limited possibility of taking recourse or asserting claims for indemnification against the polluter or polluters, or against other responsible parties, such as the seller of the property involved.

There is also a risk that action could be brought in respect of properties that TAG has already sold. Under the Federal Soil Protection Act, in some circumstances the competent authority can require the former owner of a property to remediate the damages at his own expense or to assume the costs of such remediation. Even if land sale agreements provide that the buyer must hold the seller company from the TAG Group harmless from claims under the Federal Soil Protection Act, and waives the statutory claim to compensation, the risk that an action may be brought cannot be excluded. For example, a contractual claim for indemnification would be worthless if the seller involved became insolvent.

Some of TAG's properties are recorded in "legacy pollutant land registers" (Altlastenkataster) maintained by states or municipalities. A property is entered in these registers when there is a suspicion that it contains legacy pollutants, for example due to a previous commercial use. Furthermore, on a few of the properties held by TAG Wohnen legacy pollutants were actually detected. Finally, a few of the buildings which are part of the TAG Wohnen portfolio were built with hazardous construction materials.

Further, it cannot be excluded that tenants of TAG's buildings assert claims for rent reduction, remediation measures and/or damages in connection with hazardous construction materials in their lease objects. It cannot be excluded either that tenants terminate their leases due to hazardous construction materials.

Any action brought because of legacy pollution, other harmful alterations of the soil or water, hazardous construction materials, or other environmental pollution emanating from its land or affecting the usability of its buildings could have a material adverse effect on TAG's net assets, financial condition and results of operations.

***TAG uses IT systems extensively in its business operations. Impairments of these IT systems could result in disturbances and interruptions of business.***

A loss of data records or extended downtime in the IT systems used by TAG could result in substantial disturbances of business operations. In particular, it cannot be ruled out that the implementation of new software applications could adversely affect the functionality of TAG's IT systems. It furthermore cannot be ruled out that the safeguards applied by TAG could be circumvented. Moreover, in connection with the acquisition of other entities, structurally different IT systems could have to be integrated into TAG's IT systems, and in the event of insufficient compatibility of these IT systems their functionality could be impaired or data could be lost. In particular, TAG intends to implement a new uniform ERP (enterprise resource planning) IT system for the group in two steps in 2014 and 2015. In the course of the implementation, substantial disturbances of business operations might occur. In case the implementation of the new IT system fails, the risk associated with the insufficient compatibility will persist for a period of time which cannot be determined from today's perspective. Finally, it cannot be entirely ruled out that data could be lost because of fires or similar damage. If any of these circumstances arises, it could have material adverse effects on the Company's net assets, financial condition and results of operations.

***TAG's future success depends on its executives and other qualified employees.***

TAG's business success depends materially on the activity of its executives and qualified employees, particularly the members of the Management Board of TAG AG, Rolf Elgeti, Claudia Hoyer, Georg Griesemann and Dr Harboe Vaagt, who have many years of experience and extensive contacts in the German real estate market. A further material factor for the future achievement of TAG's strategic and operating goals will be the ability to recruit qualified expert employees and executives, particularly in the areas of acquisition, real estate management, technology, planning and sales, and to keep them with the Company for the long term.

It cannot be ruled out, however, that employees in key positions could, for example, be enticed away by the Company's competitors or could leave TAG AG for other reasons. Moreover, intense competition in the real estate market has resulted in a shortage of qualified employees who have the necessary knowledge of the market, and the Company is in vigorous competition with its competitors for qualified employees. If the Company is therefore unable to recruit further qualified employees, or to keep employees who are working in key positions, the result could be material adverse effects on the Company's net assets, financial condition and results of operations.

***TAG subsidiary Colonia could be exposed to a revival of claims from insolvency creditors of the former Küppersbusch Aktiengesellschaft, from which Colonia originated.***

Colonia was formed from Küppersbusch Aktiengesellschaft, which declared insolvency in 1999. The insolvency proceedings regarding the assets of the former Küppersbusch Aktiengesellschaft were suspended by a decision of the Local Court (*Amtsgericht*) of Essen – the Insolvency Court – dated 7 May 2000 (case No. 160 IN 20/99), after the confirmation of an insolvency plan prepared by the insolvency administrator at that time became final. The structuring part of this insolvency plan included an extensive waiver of claims by the then-creditors of the former Küppersbusch Aktiengesellschaft, as well as a limitation of the entitlement to satisfaction for remaining claims against the assets in the insolvency estate, or against the assets of the former Küppersbusch Aktiengesellschaft that to this day remain subject to a so-called “follow-up distribution” (*Nachverteilung*). It cannot be ruled out that the former insolvency administrator might not have fully carried out the insolvency plan, or that Colonia could still be subject to provisions of the Allocation Agreement (*Bestimmungsvertrag*) of 2 November 1999 for a certain portion of the assets of the former Küppersbusch Aktiengesellschaft that still remains subject to follow-up distribution, or that it could have breached the obligation to seek an optimal satisfaction of the associated claims. In that case, the waived claims might revive in part or in whole, or the restriction on entitlements to satisfaction could lapse. Because the insolvency plan will continue to extend effects into the future, the occurrence of one of the above events could have a material adverse effect on the Company's net assets, financial condition and results of operations.

***TAG subsidiary Colonia could incur additional costs from claims arising from the follow-up distribution for certain assets of the former Küppersbusch Aktiengesellschaft.***

Since the insolvency proceedings were suspended by the decision of the Local Court of Essen – the Insolvency Court – of 7 May 2000 following the completion of the insolvency plan proceedings, the former assets of Küppersbusch Aktiengesellschaft that still remain in Colonia's possession and that have not been disposed of by the insolvency administrator are subject to administration by the former insolvency administrator as trustee, in the context of what is known as a follow-up distribution. Although the trustee has the power of disposition and the former insolvency creditors of the former Küppersbusch Aktiengesellschaft hold an economic entitlement, under civil law both the land assets and the participation in Küppersbusch Aktiengesellschaft & Co. Grundstücksgesellschaft OHG are owned by Colonia. Therefore, Colonia will bear in full any liability risks that it may incur, as the personally liable partner, from ownership of this property, or from the participation in Küppersbusch Aktiengesellschaft & Co. Grundstücksgesellschaft OHG, for that entity's liabilities under the applicable terms of the German Commercial Code (*Handelsgesetzbuch*). As these assets are withheld from administration by the governing bodies of Colonia because of the so-called follow-up distribution, the associated liability risks to Colonia cannot be definitively determined, nor can Colonia counteract possible liability risks.

Colonia is not entitled to claims for reimbursement of expenses against the trustee in excess of an amount of approximately €49 thousand, which was agreed upon in a court-approved settlement dated 6 May 2008. Colonia must answer for any liabilities that the assets included in the insolvency estate give rise to after the termination of the insolvency proceedings, without being able to gain access to the relevant assets of the estate to which the insolvency creditors are entitled. If action is brought against Colonia, or Colonia is liable, for an obligation associated with the assets included in the insolvency estate, this could have a material adverse effect on the Company's net assets, financial condition and results of operations.

### 6.3. Financial reporting, legal and tax risks

***Impairment losses on the participations in the subsidiaries reported in the annual financial statements of TAG AG and claims against those companies could have material adverse consequences for the net results shown in the annual financial statements of TAG AG.***

The annual financial statements of TAG AG under German GAAP for the period ended 31 December 2012 include book values for investments in affiliated companies in the amount of €303.3 million, and receivables from affiliated companies in the amount of €884.2 million. The investments in affiliated companies primarily comprise the shares held in Colonia (€147.7 million), Bau-Verein (€89.5 million), TAG Administration GmbH (€24.0 million) and TAG Gewerbe (€19.6 million). Receivables from associated companies primarily exist vis-à-vis TAG Administration GmbH (€623.6 million), TAG Gewerbe (€99.0 million), Colonia (€41.3 million) and TAG AM (€40.1 million). These book values are largely founded on expectations of future income and payment surpluses from the respective subsidiaries. If the actual results differ from the expected results, it could be necessary to recognise a partial or full impairment loss on participations in affiliated companies and receivables from affiliated companies. This would have material adverse effects on TAG's net assets, financial condition, results of operations and its future ability to pay dividends.

***A persistent negative business performance of the real estate market could cause losses of value and extraordinary impairment losses on TAG's properties.***

In TAG's consolidated annual financial statements for the period ended 31 March 2013, with total assets of €3,697.3 million, a significant component of assets is represented by investment properties, with a book value of €3,456.4 million, and inventory properties (land with unfinished or finished construction), with a book value of €87.4 million. If the market for the properties leased out or held for sale by TAG, its associated companies and affiliates deteriorates, this would have material adverse effects on the properties' value. In the case of the investment properties, in reporting under IFRS the loss of value would have a direct effect reducing profits because of the fair value valuation that must be carried out annually. In the case of the inventory properties, the result could be write-downs to the lower selling price. These losses of value of the properties could have material adverse effects on TAG's net assets, financial condition and results of operations.

***TAG is dependent on the general legal and regulatory environment for residential and commercial properties in Germany, which has a significant influence on its profitability.***

TAG's business activities depend to a considerable degree on the applicable legal environment for residential and commercial real estate. That environment particularly includes the provisions of tenancy law. Other provisions as well, such as those under construction laws, labour and employment laws, environmental laws, land laws, and tax laws, are of great significance for TAG. A number of residential units, particularly Colonia's properties in Salzgitter, are partly protected as historical buildings. This also applies to the TAG Wohnen portfolio. Regulations to protect historical buildings could have the result that construction works cannot be carried out as intended or proves to be much more expensive, additional preservation work could be needed, or restrictions on use may have to be obeyed. There have been significant changes in the legal environment in past years, for example in environmental law. These changes, for example, include the new rules on documenting energy consumption and to provide energy performance certificates (*Energieausweise*) to potential acquirers and tenants, the federal government's energy concept for upgrading the energy efficiency of all buildings in Germany or the other requirements of the Energy Conservation Ordinance (*Energieeinsparverordnung*) and other environmental regulations. Under German statutory law, landlords can unilaterally increase the rent of existing lease agreements only under certain conditions and within certain limits. In the course of a recent change in the German tenancy law the governments of the German federal states (*Bundesländer*) are authorised to decrease the limit of permissible rent adjustment on the basis of customary comparable rents (*ortsübliche Vergleichsmieten*) from 20% in a three-years-period to 15% by way of statutory orders. Such decrease of the applicable limit may be imposed with respect to municipalities or certain regions of municipalities in which not enough living space is available for rent. It cannot be excluded that further and more onerous restrictions regarding the rents landlords are permitted to charge will be imposed in the future. In addition, the legal and tax environment for real estate investments in Germany has deteriorated in many ways in the past. For example,

depreciation periods, time periods for disposals, and the real estate transfer tax have undergone significant changes. The real estate transfer tax has increased recently from 3.5% to up to 5% in some German states. The Company expects that further increases will take place in the future. In addition, since 7 June 2013, it is not possible any more to avoid real estate transfer tax by using so called “RETT”-blocker transaction structures so that future sales and acquisitions of properties or property companies are likely to be more cumbersome (see also Section 7.3, “Risk Factors – Financial reporting, legal and tax risks – The Company is exposed to tax risks, for example if tax audits result in a need for follow-up payments, if acquisition structures for real estate companies prove to be detrimental under the real estate transfer tax regime, or if changes occur because of tax legislation”).

Changes in the legal environment could also occur in the future. If such conditions are made more rigorous, for example concerning tenant protection (e.g., enabling tenants to give shorter termination notice), fire protection, environmental protection (e.g., for energy upgrades), laws on hazardous construction materials (e.g., regarding asbestos) and the resulting remediation obligations, as well as the conditions for real estate investments, they could have material adverse effects on the profitability of investments and TAG’s results of operations. Moreover, changes in the legal environment could give rise to a significant need for action on TAG’s part, with very substantial resulting additional costs, which for legal or factual reasons can be passed on to tenants either only to a limited extent or not at all. For example a significant amendment of the German Energy Savings Regulation is expected to be passed in 2014, under which the amended and more rigorous EU Directive 2010/31/EU on the energy performance of buildings will be implemented. That directive provides, among others, higher energy efficiency standards for newly erected buildings and also for existing buildings (e.g. the energy efficiency standards for existing buildings undergoing a major renovation will be significantly enhanced). Furthermore, under the version of the Energy Economy Act (*Energiewirtschaftsgesetz*) in force since 4 August 2011, the operators of customer systems, such as energy supply lines in a residential building, must offer each user of those lines a free choice of suppliers. All agreements that provide for electricity or gas to be supplied through the owner or the landlord (for example, in a decentralised energy supply system) may limit the free choice of suppliers. The consequence for the owner or landlord could be that the regulatory laws on energy management could apply, causing a substantial increase of the administrative outlay. Furthermore, the changes in the Drinking Water Regulation (*Trinkwasserverordnung*) that came into force on 1 November 2011 resulted in greater investigative obligations for the operators of water supply systems who may also be building owners, particularly with regard to the contamination of drinking water with *Legionella*. It is likely that further amendments to the existing statutory regulations will be passed in the future which will impose further requirements regarding the energy efficiency and the technical fixtures not only of newly erected buildings but also of existing buildings. It is to be expected that such requirements will result in substantial costs for TAG, which cannot be allocated to the tenants.

In addition, on 21 July 2011, Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers (the “AIFMD”) entered into force. EU Member States had to implement the AIFMD into national laws by 22 July 2013. The German legislator has done so materially by way of a new Capital Investment Code (*Kapitalanlagegesetzbuch* – “KAGB”), which entered into force on time on 22 July 2013. According to a draft interpretive note of the German Federal Financial Services Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin) regarding the scope of the KAGB and the notion of the term “investment fund” published on 28 March 2013, a listed real estate stock corporation whose purpose is the acquisition, lease, management and sale of real estate and not an operating activity is only to be considered as falling outside the scope of the KAGB if it pursues a “corporate strategy” rather than a “defined investment strategy”. The draft interpretive note specifies this in such a way that the stock corporation is to be considered as pursuing a corporate strategy (i.e. thus falling outside the scope of the KAGB) if the purpose of the stock corporation according to its Articles of Association is broadly defined and does not set forth specific investment criteria. Although there seem to be good arguments that TAG AG should be outside the scope of the KAGB based on the foregoing principles, there remains a risk that BaFin might nevertheless take the opposite view and qualify TAG AG (and possibly also any of its subsidiaries) as an “alternative investment fund” (AIF) within the meaning of the KAGB. This applies all the more since BaFin has eliminated the aforementioned specification as to how the terms “corporate strategy” and “defined investment strategy” should be demarcated

in the final version of its interpretive note published on 14 June 2013. In order to comply with the requirements of the KAGB, TAG AG might have to obtain a licence (and it cannot be guaranteed that TAG AG will receive such licence) as an “alternative investment fund manager” (AIFM) with regard to the entity or entities to be qualified as an AIF provided that TAG AG will be appointed as AIFM. However, the relevant AIF may also appoint another regulated manager as AIFM who may delegate particular functions to TAG AG or another TAG entity. As a consequence, in both situations TAG AG (and as the case may be the other AIFM) would be subject to the ongoing supervision of BaFin. Further, TAG AG (and as the case may be the other AIFM) would in such case have to comply with other requirements imposed by the KAGB, including with regard to valuation of assets under management, leverage restrictions, additional reporting requirements and certain restrictions applicable when acquiring control of non-listed companies and issuers. In addition, the appointed AIFM would have to ensure that a depository is mandated for the safekeeping of the assets of each identified AIF. This would lead to additional costs. As a consequence of the foregoing requirements, TAG might have to change its business model or incur additional costs.

Because TAG has only limited abilities to adapt its business model accordingly, it regards adverse changes in the legal environment (and in particular the effects of the KAGB) or a more rigorous legal environment as a significant risk. Any deterioration in the legal environment could have material adverse effects on TAG’s net assets, financial condition and results of operations.

***The Company’s internal organisational structures, particularly its risk management and compliance system, must be developed further. If this is unsuccessful, there would be the risk that it would not be possible to identify or avoid impending violations of the law or impending economic losses in a timely manner.***

TAG has a risk management and compliance system that serves to sustainably safeguard TAG’s existence and growth, and is intended to promptly identify disproportionate risks of fact and law, control them, and avoid them to the extent possible. However, TAG has grown vigorously in recent years, placing considerable strain on its internal organisational structures. Following the acquisition of TAG Wohnen in November of 2012, it took considerable organisational efforts to integrate TAG Wohnen into TAG, as has been the case with TAG Potsdam, following its acquisition by TAG in March of 2012. Therefore, there will still be the risk in the future that further rapid growth could overextend the Company’s internal organisational structures. Consequently, safeguarding a further development of appropriate organisational, risk monitoring, and risk management systems that can keep pace with growth and enable the Company to detect undesirable developments and risks at an early stage represents a permanent challenge to TAG. If the measures taken to improve the risk management and compliance system are inadequate, if the intended improvements fail, or if the initiated measures are implemented too late or deficiently, the consequence could be that Company management would recognise risks and undesirable developments too late or not at all.

If TAG is unable to ensure that its risk management and compliance system keeps pace with its growth, this could result in significant business mistakes, with consequent material adverse effects on TAG’s net assets, financial condition and results of operations.

***If TAG does not meet the legal requirements to receive subsidies, public providers of funds could demand the refund of funding already granted.***

Some of TAG’s subsidiaries – particularly subsidiaries of Colonia and TAG Potsdam, as well as TAG Wohnen – have received public subsidies. These subsidies were granted in the form of financial aid and non-refundable grants – i.e., funding that generally is not repaid to the state. The granting of such funds is subject to compliance with certain contractual provisions, the provisions of grant decisions, and other legal requirements. Among the terms of these requirements are that the lessor of a subsidised residential unit may demand no more than a specified maximum rent, and may let the unit only to certain persons (such as persons with low income). If the subsidiaries of TAG that have received subsidies do not comply with such prerequisites and other legal requirements for being granted funds, the government funders could impose monetary penalties or demand the return of the funds plus interest. These penalties and the loss of these subsidies could have material adverse effects on TAG’s net assets, financial condition and results of operations.

***TAG is a party to numerous legal disputes, the outcome of which is uncertain.***

TAG AG, its subsidiaries and its affiliates are the respondents in, or parties to, numerous legal disputes in and out of court. These in particular include disputes about construction defects, as well as some isolated disputes with tenants (particularly tenants in commercial properties) as well as administrative law proceedings. The most significant proceedings include, without limitation:

- trial proceedings and evidence-gathering proceedings in connection with construction defects in various Bau-Verein projects and actions against TAG AM seeking advance payments to cover uncompleted construction work or defects in condominium properties,
- proceedings by owners against TAG AM to rescind purchase agreements because the desired tax effects did not occur, and
- various proceedings against Colonia, primarily concerning payment demands resulting from the sale of shares in various affiliates.

The outcome of these proceedings is uncertain. Furthermore, it is not impossible that legal disputes with significant amounts in dispute could also arise in the future, for example with regard to the general terms and conditions used by TAG for work performed as a property developer. If TAG is wholly or partly defeated in disputes that have a significant value at issue, this could have a material adverse effect on its net assets, financial condition and results of operations.

***TAG could be exposed to claims for restitution under the Act on Unsettled Property Questions (Vermögensgesetz) and claims under the Act Settling Legal Relationships regarding Real Estate (Sachenrechtsbereinigungsgesetz).***

Particularly since its acquisition of the majority interest in Colonia, the acquisition of the companies in the Theta project, the acquisition of TAG Potsdam and the acquisition of TAG Wohnen, TAG is now the owner of numerous properties in the territory of the former German Democratic Republic (“GDR”). If persons have lost the ownership of these properties in the past as a result of expropriation without compensation or comparable measures to transfer a property to public ownership, these persons or their successors could have claims for restitution under the Act on Unsettled Property Questions (*Vermögensgesetz*). Under that Act, such claims can also accrue to persons who were persecuted for racial, political, religious or ideology reasons in the period from 30 January 1933 to 8 May 1945, and therefore lost their property through compulsory sales, expropriation, or otherwise, or to their successors.

The notice period for asserting claims for restitution already expired at the end of 1992. Nevertheless, future claims for restitution or damages in various cases cannot be ruled out. These cases refer, e.g., to expropriations during the GDR era that pertain not to real estate itself, but to business entities that had the power of disposal over business premises. Applications for such restitution claims with regard to real estate are often lodged incompletely or defectively, but these defects do not weigh against the claimant. Also, in cases of expropriations between 1933 and 1945 in which the “Jewish Claims Conference” has become the legal successor of the persons who suffered the expropriation, it is possible to lodge a blanket restitution claim, simply stating the name and home address of the persons who suffered expropriation. The detailed investigation of the properties that were owned by these persons has not been completed.

In the recent past, one action has been pending regarding TAG’s real estate portfolio. In this case, a restitution claim has been asserted with regard to a property of TAG Wohnungsgesellschaft Thüringen mbH. The German Federal Office for Central Services and Unresolved Property Issues (*Bundesamt für zentrale Dienste und offene Vermögensfragen*) has issued an envisaged decision (*Beabsichtigte Entscheidung*) to the effect that the restitution claim is justified and the parties agreed on a compensation payment of about €75 thousand instead of restituting the property. Further comparable claims have also been asserted occasionally in the past. If, in the future, the number of actions asserting claims for restitution or damages were to increase, this could significantly limit TAG’s ability to manage the properties in question or to have the power of disposition over

them. Furthermore, if actions for restitution were to succeed, TAG would be obliged to re-transfer the properties in question without compensation.

Moreover, with respect to some of the properties of TAG Wohnen restitution risks are known and further restitution claims may arise. On 31 March 2013 restitution risks existed with respect to 104 properties of TAG Wohnen, four of which are subject to a risk of a claim for restitution in kind (*Naturalrestitution*). The restitution risks were transferred to the Federal Office for Special Tasks Arising out of Unification (*Bundesanstalt für vereinigungsbedingte Sonderaufgaben*, “BvS”) by virtue of an agreement of 20 December 2007 and supplemental agreement dated 27 January 2012. There is a risk that possible claims of TAG Wohnen against BvS need to be enforced by time and cost consuming legal procedures if BvS fails to comply with its obligations under the aforementioned agreement.

In addition, with reference to properties located in the territory of the former GDR, claims could also exist under the Act Settling Legal Relationships regarding Real Estate (*Sachenrechtsbereinigungsgesetz*). Under that Act, persons who have erected a building on another person’s land may under certain circumstances demand the transfer of the land at half of its market value, or demand the registration of a heritable building right at a ground rent that is only half of the usual ground rent.

The assertion of claims under the Act on Unsettled Property Questions or under the Act Settling Legal Relationships regarding Real Estate could therefore have material adverse effects on TAG’s net assets, financial condition and results of operations.

***A violation of purpose limitation covenants at the time of the resale of properties could result in liability risks. Existing purpose limitation covenants could diminish the value of the affected properties.***

If TAG acquires real estate holdings from sellers who set store on a specific later use or impose limitation, or who set conditions for the subsequent resale (this is particularly the case with public law legal entities or companies that are or were public property). These goals are often specified in the purchase agreement, for example with purpose limitation covenants, some of which are reinforced with contractual penalty clauses. Frequently, moreover, the purchase agreements specify that the purpose limitation covenant must be passed on at the time of resale. In the event of a violation of these contract clauses, the sellers may be entitled to damages or contractual penalties. In particular, a large portion of the TAG Potsdam residential units are subject to purpose limitation covenants that protect tenants. This relates in particular to the “social charter” which represents a commitment on the part of TAG Potsdam and provides, among other things, for enhanced tenancy protection, limitations to rent adjustments and sales of residential units, and a ban on luxury renovations. If TAG resells properties from the TAG Potsdam portfolio, TAG would have to ensure that the purchaser also adopts and abides by the social charter. Similar restrictions and obligations pertain to the portfolio of TAG Wohnen.

If TAG does not or cannot comply with the purpose limitation covenants, this could have material adverse effects on TAG’s net assets, financial condition and results of operations. Further, it cannot be excluded that the existing purpose limitation covenants have an adverse effect on the value of the respective assets. In particular, such covenants can diminish the prices for the respective assets in the event that the respective properties are resold to a third party, since such covenants have to be adopted by the purchaser.

***Action could be brought against TAG for damages because of inaccurate real estate sales prospectuses.***

In the past, TAG has sold newly constructed or privatised residences and townhouses on the basis of sales prospectuses that were made available as a basis for sale to the respective brokers, interested parties and buyers. Inaccurate information in sales prospectuses, or information deviating from the notarial purchase agreements, could result in liability claims on the part of the buyers, if the information and expectations represented in the prospectus do not materialise later as described or prove to be incorrect. As a rule, the claims are directed to compensation for disadvantages (damages), but in severe violations may also be directed to a rescission of the notarial purchase agreement. TAG is already exposed to various proceedings of this kind. If erroneous or incomplete prospectuses result in claims for damages or rescission against TAG, this could have material adverse effects on TAG’s net assets, financial condition and results of operations.

***TAG's tax loss carry-forwards could be jeopardised by past or future capital measures or share purchases.***

TAG's tax loss carry-forwards could be jeopardised. Under section 8c of the Corporation Tax Act (*Körperschaftsteuergesetz*, KStG), if capital measures and/or share purchases cause more than 25% of the registered share capital or voting rights to be transferred within a five-year period to a single buyer, a related party to that buyer, or a buyer group with shared interests, loss carry-forwards for the same amount – i.e., in the amount of the equivalent ownership share – can no longer be deducted. If the transfer of registered share capital or voting rights to a buyer or buyer group exceeds 50% within five years, no loss carry-forwards may be deducted at all. Due to the numerous capital increases in the past years or due to future capital measures or due to past or future transfers of TAG's shares such conditions could be met and TAG's tax loss carry-forwards could be jeopardised. If substantial loss carry-forwards cannot be deducted, in part or in whole, this could have material adverse effects on TAG's net assets, financial condition and results of operations.

***The Company is exposed to tax risks, for example if tax audits result in a need for follow-up payments, if acquisition structures for real estate companies prove to be detrimental under the real estate transfer tax regime, or if changes occur because of tax legislation.***

At present a total of 43 TAG Group companies are undergoing tax audits. Audits have been in progress since August 2010 at seven Bau-Verein companies for the 2003 through 2004 tax periods. Tax audits are also being conducted at Colonia and eight of its subsidiaries for the 2005 through 2008 tax periods. In tax audits, differences in the tax authority's interpretation of matters could result in follow-up tax liabilities that will lower liquidity for the short term and could have material adverse effects on TAG's net assets, financial condition and results of operations. For example, in various transactions the Company acquired directly or indirectly through a wholly owned subsidiary less than 95% of the shares of real estate companies, while the remaining shares were acquired by TAG Beteiligungs GmbH & Co. KG. Although such transaction structures were common practice and, to the extent the Company is aware, have not hitherto been subject to objections from the tax authorities, it cannot be ruled out that the tax administration could in the future categorise this procedure as detrimental under the real estate transfer tax. Since 7 June 2013, it is not possible any more to avoid real estate transfer tax by using such "RETT-blocker" transaction structures. As a result at least future sales and acquisitions are likely to be more cumbersome which could have a negative impact on TAG's expansion strategy.

In addition, a similar structure was used by Colonia AG in the past, when Colonia acquired 94% of the shares of various real estate companies, while the remaining shares were acquired by GIMAG AG, Switzerland, a company in which Colonia AG itself held 94% of the shares. These transactions are currently under close review of the tax authorities. The outcome of such review is open. If the transaction structure used by Colonia AG proves to be detrimental under the real estate transfer tax regime, Colonia might have to pay additional taxes in an amount which TAG estimates to be about €15 million.

Moreover, changes in tax legislation, especially with regard to a possible limitation on the offsetting of loss carry-forwards, could have adverse effects on the TAG Group. Although they are not on a cash basis, deferred tax income and expenses can sometimes also have a substantial influence on consolidated profits. Deferred tax income can also result from recognising tax loss carry-forwards as an asset in the consolidated balance sheet. Here a change in tax legislation, as well as changes in future taxable income expectations, could have material adverse effects on TAG's net assets, financial condition and results of operations.

***TAG could be unable, or able only to a limited extent, to deduct its interest expenses for tax purposes.***

Because the amount of annual net interest (interest expenses less interest income) in the Bau-Verein and TAG AG integrated fiscal units (*Organkreise*) reaches or exceeds the *de minimis* the tax exempt threshold of €3 million in each, to avoid the so-called "interest barrier" (*Zinsschranke*) these companies must rely on an equity ratio comparison. The interest barrier refers to the limits on tax deductibility of interest expenses under section 4h of the German Income Tax Act (*Einkommensteuergesetz*, "EStG"). According to current understanding the equity ratio comparison has been successful for both the companies in the TAG Immobilien AG integrated fiscal unit and in the integrated fiscal unit of Bau-Verein GmbH. Consequently the interest

expenses are fully deductible for tax purposes (subject to other restrictions). According to the current status of the law, however, many details of the calculation of the equity ratio modified for tax purposes are in dispute, so that a subsequent audit could result in changes and possibly the inapplicability of the equity ratio comparison. Inapplicability of the equity ratio comparison would have the consequence that interest expenses can be deducted only up to the amount of interest income, and beyond that point only up to 30% of the German taxable EBITDA plus unused EBITDA-carry forwards (*EBITDA-Vorträge*) from the preceding five business years. This would have material adverse effects on TAG's net assets, financial condition and results of operations.

***There is a risk that tenants could claim that the decorative repairs clauses in leases are invalid, and might not perform the decorative repairs on rental properties as transferred to them under the leases.***

German courts apply increasingly strict requirements for the validity of contractual clauses in general terms and conditions that transfer the obligation to make decorative repairs from the landlord to the tenant. This applies for both lease agreements regarding residential and commercial space. For example, rigid time schedules that impose the tenant's renovation obligations at certain time intervals, irrespective of the condition of the rented property, are deemed invalid. Also invalid is the combination of the obligation to make decorative repairs during the lease and the obligation to perform a renovation at the end of the lease. Numerous older TAG leases include such provisions, which are invalid according to recent decisions by the German Federal Court of Justice. The legal consequence is that the clauses transferring decorative repairs to tenants are entirely invalid.

If lease agreements concluded by TAG are based on general terms and conditions which provide for such clauses, there is a risk that tenants could refuse to perform decorative repairs. Tenants could even, conversely, have claims against TAG to perform decorative repairs. Moreover, tenants could assert a claim against TAG for a reimbursement of their expenses if they have performed decorative repairs in the past without being obliged to do so. There is also the risk of a loss of value of individual properties if their condition is not maintained at TAG's expense. In any case, the invalidity of applied decorative repair clauses will result in higher costs for TAG. Because TAG uses standardised leases, moreover, there could be a multiplication of the described risks, which could have material adverse effects on TAG's net assets, financial condition and results of operations.

***There is a risk that TAG tenants of commercial units could terminate their leases early, citing the formal requirements of German tenancy law.***

Entering into long-term commercial leases presupposes compliance with the requirements of written form established by law. If the leases do not meet these statutory requirements, under German law they are deemed entered into for an indefinite term, and may consequently be terminated for convenience, and therefore early, by either party, subject to the statutory notice periods. Significant provisions of a lease, including all exhibits, addenda and supplementary agreements, must be included in a cohesive contractual document. This applies in particular for provisions on the definition of the term and the definition of the leased space. In its leases, TAG regularly agrees on so-called good behaviour clauses under which the parties to a long-term lease cannot invoke a possible formal invalidity of the contract. However, there is no legal certainty that these contractual covenants will withstand the defence of a defect in written form. In some recent court decisions, such clauses have rather been deemed invalid under certain circumstances. Therefore, it cannot be ruled out that some leases into which TAG has entered may not satisfy the formal requirements formulated – somewhat inconsistently – by jurisdiction. Therefore there is a risk that some tenants could attempt to terminate their leases early or to renegotiate them, citing noncompliance with the written-form requirements, so as to obtain more advantageous terms. Early termination of leases and signing individual new leases on economically less advantageous terms would reduce TAG's rental income. This would have material adverse effects on TAG's net assets, financial condition and results of operations.

***TAG has acted as a property developer in the past, and in establishing the property development agreements used general terms and conditions which, among other provisions, included binding time periods for the acceptance of purchase offers, as well as the retroactive acknowledgement of prior acceptances of the joint property as legally binding. There is a risk that these general terms and conditions, or others used by TAG in property development work, could be deemed invalid by courts.***

In the course of its business as a property developer, which it has now discontinued, TAG sold properties using general terms and conditions which, among other provisions, included the requirement that the potential buyer should make an offer to buy. The general terms and conditions provided a binding acceptance period for these offers of considerably more than a month. In 2010, the German Federal Court of Justice decided that a clause in general terms and conditions providing for a binding acceptance period which is considerably longer than an acceptance period the applicant can reasonably expect under normal circumstances in accordance with section 147 para. 2 of the German Civil Code (*Bürgerliches Gesetzbuch*, “BGB”) is invalid, because it impose an unfair imposition of a disadvantage. For the financed purchase of an owner-occupied residence by a consumer, this acceptance period is as a rule four weeks. The German Federal Court of Justice expressly left open the question whether a period of four weeks should also be considered appropriate for property development contracts. Therefore there is a risk that the clauses regarding binding acceptance periods used by TAG in its property and project development business could be held invalid by a court. If TAG’s acceptance of purchase offers on the basis of these binding acceptance clauses took place after the expiration of the time period that is to be considered appropriate under section 147 para. 2 of the German Civil Code, purchasers of properties could assert refund claims against TAG, with the argument that the development agreement is null and void. If this risk materialises, TAG could be exposed to substantial payment obligations.

Furthermore, TAG has sold remaining residential properties from completed property development projects, with general terms and conditions which provide that the buyers in each case acknowledge that the prior acceptance (*Abnahme*) of the commonly used parts of the property (*Gemeinschaftseigentum*) will retroactively constitute a legally binding acceptance. This acceptance of the commonly used parts of the property was as a rule declared invalid, if the respective general terms and conditions provide that acceptance was to be declared by experts engaged or proposed by the property developer, i.e. by TAG. The Higher Regional Court (*Oberlandesgericht*) of Munich decided in 2008 that such clauses on acceptance by experts engaged by the property developer are invalid, because they impose an unfair disadvantage on the buyer. The associated acceptance consequently would not take effect. To that extent, there is a risk that the clause used by TAG, under which an acceptance already declared for the commonly used parts of the property must be acknowledged retroactively as legally binding, could also be held invalid by a court. In that event, it would be not unlikely that the court decides that the acceptance of the commonly used parts of the property does not take effect for the buyer. This would be associated with the risk of substantial refund or warranty claims against TAG.

Any assertion of refund or warranty claims against TAG could have material adverse effects on TAG’s net assets, financial condition and results of operations.

***TAG Wohnen might be facing claims from creditors of TLG Immobilien GmbH which exceed the indemnity provided by the Federal Republic of Germany in the share purchase agreement for the acquisition of all shares in TAG Wohnen.***

Prior to the acquisition of TAG Wohnen by TAG, the residential real estate portfolio of TAG Wohnen was held, together with the commercial real estate portfolio, by TLG Immobilien GmbH and transferred to TAG Wohnen by way of a spin-off (*Abspaltung*) pursuant to the German Transformation Act (*Umwandlungsgesetz*). The spin-off took effect upon its registration with the commercial register of TLG Immobilien GmbH on 24 May 2012.

Pursuant to the provisions of the German Transformation Act (*Umwandlungsgesetz*), all legal entities that are party to a spin-off are jointly and severally liable for those liabilities and obligations of the entity that has spun-off a part or parts of its business, which were in existence when the spin-off became effective for a period of five years onwards. Therefore, TAG Wohnen is liable vis-à-vis the creditors of TLG Immobilien GmbH for the liabilities of TLG Immobilien GmbH that existed on 24 May 2012 (e.g. resulting from bank liabilities) until the end of 24 May 2017 also to the extent those liabilities pertain to the commercial real estate portfolio that

remained with TLG Immobilien GmbH and not to the residential portfolio that was spun-off to TAG Wohnen. To the extent TAG Wohnen satisfies such claims it can reclaim the relevant amounts from TLG Immobilien GmbH. Those claims for repayment, however, may be difficult or impossible to realise if TLG Immobilien GmbH lacks sufficient funds. Moreover, in the share purchase agreement relating to the acquisition of all shares in TAG Wohnen, the Federal Republic of Germany as the seller of TAG Wohnen has given an indemnity to TAG Wohnen for claims of creditors of TLG Immobilien GmbH that were in existence when the spin-off became effective and were retained by TLG Immobilien GmbH in the course of the spin-off. This indemnity, however, is limited in amount to the purchase price paid by TAG for the shares in TAG Wohnen (i.e. an amount of approx. €217.8 million) and therefore might not be sufficient to fully protect TAG Wohnen from being held liable for such claims. If claims are therefore brought forward against TAG Wohnen by creditors of TLG Immobilien GmbH that exceed the indemnity granted by the Federal Republic of Germany, this might result in an insolvency of TAG Wohnen. This could have material adverse effects on TAG's net assets, financial condition and results of operations.

#### **6.4. Risks related to the Notes**

An investment in the Notes involves certain risks associated with the characteristics, specification and type of the Notes which could lead to substantial or total losses the holders the Notes would have to bear in the case of selling their Notes or with regard to receiving interest payments and repayment of principal. Those risks include and comprise, *inter alia*, the following:

##### ***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investments of certain investors are subject to investment laws or regulations or, respectively, the supervision or regulation by certain authorities. Each potential investor should consult with a financial advisor, if and to which extent (i) the Notes are an investment suitable to it, (ii) the Notes may serve as collateral for different types of debt financing, and (iii) other limitations on the purchase or pledge of the Notes apply. Financial institutions should consult with their legal advisor of the appropriate regulatory authority in order to assess the suitable classification of the Notes with respect to the applicable rules on risk capital or similar provisions.

##### ***The Company may not be able to generate sufficient cash flows to meet its debt service obligations.***

The Company's ability to make scheduled payments on, or to refinance, its obligations with respect to its indebtedness, including the Notes, will depend on its financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond its control. TAG cannot assure the investors that its business will generate sufficient cash flow from operations or that future sources of capital will be available to it in an amount sufficient to enable it to service its

indebtedness, including the Notes, or to fund its other liquidity needs. If TAG is unable to generate sufficient cash flow to satisfy its debt obligations, it may have to undertake alternative financing plans, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. TAG cannot assure the investor that any refinancing would be possible, that any assets could be sold or, if sold, of the timing of the sales and the amount of proceeds that may be realized from those sales, or that additional financing could be obtained on acceptable terms, if at all. The Indenture that will govern the Notes will restrict TAG's ability to dispose of assets and use the proceeds from the disposition. TAG's inability to generate sufficient cash flows to satisfy its debt obligations, or to refinance its indebtedness on commercially reasonable terms, would materially and adversely affect its financial condition and results of operations and its ability to satisfy its obligations under the Notes.

***Other lenders of TAG have access to collateral of TAG. As a result, the Holders will have only limited or no access to assets of TAG in the event of the Company's insolvency.***

TAG has furnished considerable collateral for its other financings. For example, the Company's shares in Bau-Verein GmbH and Colonia as well as in other subsidiaries and affiliates are pledged in part or in whole. Moreover, TAG has in particular furnished mortgage liens to the banks that financed the properties, and in some cases also on other properties in its real estate holdings. The Notes are unsecured. As a result, Holders of the Notes will only have limited access (if any) to assets of the Issuer in an enforcement event, in particular in the event of the insolvency of the Issuer. The Company's assets serving as collateral for the benefit of other lenders will – in an enforcement scenario – in the first instance serve for the satisfaction of those lenders.

***The Company is, to a considerable degree, a holding company with limited assets to generate revenue, and will depend on payments from its subsidiaries to provide it with funds to meet its obligations under the Notes.***

The Company serves to a considerable degree as a holding company whose assets very largely comprise participations in its operating subsidiaries and affiliates. As the Notes are not guaranteed by the Company's subsidiaries and affiliates, a Holder of the Notes has no claims to their assets and is structurally subordinated vis-à-vis their creditors. As the Company's revenues are less than the amounts needed to cover its operating and other expenses, it must rely on distributions from its operating subsidiaries and affiliates. If the Company does not receive such payments in sufficient amounts, this would have material adverse effects on the Company's net assets, financial condition and results of operations and might lead to an inability to repay the Notes.

***Holders of the Notes may be unable to enforce judgments obtained in the U.S. courts against the Company.***

The Company is incorporated under the laws of Germany. In addition, the members of the Management Board and the Supervisory Board live outside the United States. All of TAG's assets are located outside the United States. As a result, it may be difficult for investors to serve process on those persons or on the Company in the United States or to enforce judgments obtained in U.S. courts against them based on civil liability provisions of the securities laws of the United States.

***The Company may incur additional debt and there is no limitation regarding the issuance of further notes.***

The amount of debt which the Company may incur is restricted only under certain covenants in the indenture governing the issue of the Notes. Within these covenants, the Company may incur additional debt. Such additional debt may be pari passu with the Notes or even prior ranking (and potentially even secured). Each additional liability (financial debt) increases the indebtedness of the Company and its obligations to pay interest. Furthermore, each additional liability could reduce the amount that the Holders receive in the event of a liquidation or insolvency of the Company. Moreover, the Company could issue further notes with the same or similar characteristics as the Notes. The issue of such further notes competing with the Notes could have an adverse effect on the market value of the Notes.

***A liquid market for the Notes may not develop, or if it does develop, it may not continue.***

Although application has been made to include the Notes in trading in the Open Market, Entry Standard (*Freiverkehr*) of the Frankfurt Stock Exchange with participation in the Prime Standard segment for corporate bonds of Deutsche Börse AG, there can be no assurance regarding the future development of a market for the

Notes. There is a risk that no liquid secondary market for the Notes will develop or, if it does develop, that it will not continue. The fact that the notes may be listed does not necessarily lead to greater liquidity as compared to unlisted Notes. In an illiquid market, an investor is subject to the risk that it will not be able to sell its Notes at any time at fair market prices. The possibility to sell the Notes might additionally be restricted for country specific reasons.

***The stock exchange price of the Notes may be volatile and may develop unfavourably.***

The development of market prices of the Notes depends on various factors, such as changes of market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the Notes. In addition, the Issue Price could exceed the market value of the Notes on the Issue Date. The Holders are therefore exposed to the risk of an unfavourable development of market prices of their Notes which materialises if the Holders sell the Notes prior to the final maturity. If a Holder decides to hold the Notes until final maturity, the Notes will be redeemed at the amount set out in section 21, “*Description of the Notes*”.

***The market value of the Notes could decrease if the creditworthiness of TAG worsens.***

If, due to the materialisation of any of the risks regarding the Company, or due to any other reason, the likelihood that the Company will be in a position to fully perform all obligations under the Notes when they fall due decreases, the market value of the Notes will suffer. In addition, even if the likelihood that the Company will be in position to fully perform all obligations under the Notes when they fall due actually has not decreased, market participants could nevertheless have a different perception. In addition, the market participants’ estimation of the creditworthiness of corporate debtors in general or debtors operating in the same business as TAG could adversely change.

If any of these risks occurs, third parties would only be willing to purchase the Notes for a lower price than before the materialisation of said risk. Under these circumstances, the market value of the Notes will decrease.

***Although the occurrence of specific change of control events will permit Holders to require redemption or repurchase of the Notes, the Company may not be able to redeem or repurchase such Notes.***

Upon the occurrence of specific change of control events, the Holders will have the right to require the redemption or repurchase of all or part of their Notes at 101% of their principal amount, plus accrued and unpaid interest. The Company’s ability to redeem or repurchase Notes upon such events will be limited by its access to funds at the time of the redemption or repurchase and the terms of certain debt agreements, which agreements could restrict or prohibit such a redemption or repurchase. Upon a change of control event, the Company may be required to immediately repay the outstanding principal, any accrued interest on and any other amounts owed by it under one or more of its bank facilities and may be required to offer to repurchase certain other debt instruments. The source of funds for these repayments would be the available cash or cash generated from other sources. However, it cannot be assured that there will be sufficient funds available upon a change of control to make these repayments and any required redemption or repurchases of tendered Notes.

***If the Euro represents a foreign currency to a Holder, such Holder is exposed to the risk of changes in currency exchange rates.***

The Notes are denominated in Euro. If such currency represents a foreign currency to a Holder, such Holder is particularly exposed to the risk of changes in currency exchange rates which may affect the yield of such Notes. Changes in currency exchange rates result from various factors such as macro-economic factors, speculative transactions and interventions by central banks and governments.

In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable currency exchange rate. As a result, Holders may receive less interest or principal than expected, or no interest or principal at all.

***As the Notes are fixed rate notes, Holders are exposed to the risk that the price of such notes falls as a result of changes in the market interest rate.***

The Notes bear a fixed interest rate. A holder of fixed rate notes is particularly exposed to the risk that the price of such notes falls as a result of changes in the market interest rate. While the nominal interest rate of a fixed rate note is fixed during the life of the Notes, the current interest rate on the capital markets typically change on a daily basis. As the market interest rate changes, the price of fixed rate notes also changes, but in the opposite direction. If the market interest rate increases, the price of fixed rate notes typically falls, until the yield of such notes is approximately equal to the market interest rate of comparable issues. If the market interest rate falls, the price of fixed rate notes typically increases, until the yield of such notes is approximately equal to the market interest rate of comparable issues. If a Holder of the Notes holds its Notes until maturity, changes in the market interest rate are without relevance to such Holder as the Notes will be redeemed at the principal amount of the Notes.

***The transfer of the Notes will be restricted, which may adversely affect the value of the Notes.***

The Notes have not been registered under the U.S. Securities Act or any U.S. state securities laws. Consequently the Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, and Holders may be required to bear the cost of their investment in the Notes until their maturity. It is the Holders' obligation to ensure that their offers and sales or resales of the Notes within the United States and other countries comply with applicable securities laws. See section 22.2, "*Subscription, Offer and Sale – Selling restrictions.*"

***The Notes will be held in book-entry form and therefore the investor must rely on the procedures of the relevant clearing system to exercise any rights and remedies.***

The Notes will be issued in fully registered global form. The global note(s) in registered form without interest coupons attached representing the Notes (the "**Global Notes**") will be deposited, on the closing date, with, or on behalf of, a depository for the account of Euroclear and/ or Clearstream and registered in the name of the nominee of the depository.

Ownership of interests in the Global Notes (the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and/ or Clearstream or persons that hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and/ or Clearstream and their participants. Owners of beneficial interests in the Global Notes will not be entitled to receive definitive Notes in registered form, except under the limited circumstances described in section 23, "*Book-entry, delivery and form – Definitive Registered Notes*". So long as the Notes are held in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Global Notes. The depository for Euroclear and/ or Clearstream or their nominee, as applicable, will be considered the sole holder of Global Notes.

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and additional amounts, if any) will be made by the Issuer to the Paying Agent(s). The Paying Agent(s) will, in turn, make such payments to the depository for Euroclear and/ or Clearstream or their nominee, which will, in turn, distribute such payments to participants in accordance with its procedures. After payment to the depository for Euroclear and/ or Clearstream, TAG will have no responsibility or liability for the payment of interest, principal or other amounts to the holders of Book-Entry Interests. Accordingly, if the investor holds a Book-Entry Interest, it must rely on the procedures of Euroclear and/ or Clearstream, as applicable, or the procedures of the participant through which the investor holds its interest, to exercise any rights and obligations of a holder of Notes under the Indenture governing the Notes.

Unlike the Holders themselves, holders of Book-Entry Interests will not have the direct right to act upon the Company's solicitations for consents, requests for waivers or other actions from Holders. Instead, if the investor holds a Book-Entry Interest, it will be permitted to act only to the extent it has received appropriate

proxies to do so from Euroclear and/ or Clearstream, as applicable. The procedures implemented for the granting of such proxies may not be sufficient to enable the investor to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture governing the Notes, unless and until definitive registered Notes are issued in respect of all Book-Entry Interests, if the investor holds a Book-Entry Interest, it will be restricted to acting through Euroclear and/ or Clearstream. The procedures to be implemented through Euroclear and/ or Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

## **7. PRESENTATION OF COMPANY, INDUSTRY AND MARKET DATA**

### **7.1. Documents on display**

For the period during which this Prospectus remains valid, the following documents mentioned in this Prospectus which relate to the Company and are to be published will be available at TAG Immobilien AG, Steckelhörn 5, 20457 Hamburg, during regular business hours:

- The Company's Articles of Association;
- The Company's unaudited condensed interim consolidated financial statements (IFRS for interim financial reports (IAS 34)) for the period from 1 January to 31 March 2013;
- The Company's audited consolidated financial statements (IFRS) for the year ended 31 December 2012;
- The Company's audited consolidated financial statements (IFRS) for the year ended 31 December 2011;
- The valuation report by CB Richard Ellis GmbH, Berlin, about the real estate portfolio of TAG with the exception of the real estate portfolio held by TAG Gewerbeimmobilien GmbH ("TAG Gewerbe"), TAG Logistik Immobilien GmbH & Co. KG, as at the 30 September 2012 reporting date, with respect to Stadthaus am Anger GmbH as at the 30 November 2012 reporting date, and with respect to TAG Wohnen as at the 31 December 2012 reporting date;
- The valuation report by Otto & Kollegen, Berlin, about the real estate portfolio held by TAG Gewerbe and TAG Logistik Immobilien GmbH & Co. KG as at the 30 September 2012 reporting date.

The Company's consolidated financial statements for financial years 2011, and 2012 and the Company's interim consolidated financial statements as at 31 March 2013 are also available for download on the TAG AG website at <http://www.tag-ag.com>. Future annual and interim reports of the Company will be available from the Company and the Paying Agent (as defined in section 21, "*Description of the Notes*").

### **7.2. Sources of market data and note on financial data and other figures**

This Prospectus contains or refers to figures, market data, analyst reports, and other publicly available information about the market in which TAG operates or to estimates by the Company, most of which are themselves based on published market data or figures from publicly available sources. To the extent that information contained in this Prospectus was derived from third-party sources, the Company confirms that such information is accurately reproduced and that as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted that would render the information reproduced in this Prospectus inaccurate or misleading.

The Company and the Initial Purchasers have not verified the figures, market data, and other information contained in the publicly available sources and do not assume any responsibility for the accuracy of the figures, market data, or other information from the publicly available sources.

The following sources were used in the preparation of this Prospectus:

- Ben Shlomo, Jonathan, Differences in ownership rates of residential properties (*Unterschiede in den Eigentumsquoten von Wohnimmobilien*), Schriften der wissenschaftlichen Hochschule Lahr Nr. 26, 2011;
- Business Monitor International Ltd., Germany Real Estate Report Q3 2012;
- CB Richard Ellis, Investment Quarterly Germany Q1 2013; CB Richard Ellis, Office Market Munich Q1 2013; CB Richard Ellis, Special Report, Residential Market Germany, 2010/2011; Residential Real Estate Market & Portfolio Transaction, (*Wohnimmobilienmarkt & Portfoliotransaktionen Deutschland*), 2010/2011; Market View – Residential Portfolio Investment, Q2 2012;

- Colliers, City Survey Office and Investment Markets – An Overview Q1 and Q2 2012;
- Deutsche Bundesbank, Monthly Reports, August 2012 and March 2013; Interest Rate Statistic, May 2013;
- DIP Deutsche Immobilien-Partner, Market and Facts (*Markt und Fakten*) 2011 and 2012;
- Deutsche Genossenschafts-Hypothekenbank, Real Estate Market Germany (*Immobilienmarkt Deutschland*) 2012/2013;
- Engel & Völkers, Report Braunschweig 2012, Report Erfurt 2012, Report Hanover 2012;
- European Central Bank, Monthly Bulletin, May 2013;
- Federal Government (*Bundesregierung*), “*Bericht über die Wohnungs- und Immobilienwirtschaft in Deutschland*” as per 17 October 2012, Bundestags-Drucksache, 17/11200;
- German Federal Office for Building and Regional Planning (*Bundesamt für Bauwesen und Raumordnung – BBR*), Report on the sharp decline in transactions involving large property portfolios in Germany (*BBR-Bericht Kompakt: Starker Rückgang der Transaktionen großer Wohnungsportfolios*);
- German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbooks 2011 and 2012; German Federal Statistical Office (*Statistisches Bundesamt*), press releases no.57/13 of 14 February 2013, 151/13 of 30 April 2013; 156/13 of 7 May 2013, 161/13 of 13 May 2013; 163/13 of 15 May 2013;
- GfK GeoMarketing GmbH, database, press release dated 21 December 2012;
- Initiativkreis Europäische Metropolregionen in Deutschland (IKM), Regionales Monitoring 2012;
- Immobilien Manager, *Erst aufwärts, dann abwärts*, available on: <http://www.immobilienmanager.de/immobilienmegatrends/bueroimmobilien.html> at the date of this Prospectus;
- International Monetary Fund, World Economic Outlook Update, 23 January 2013;
- IVG Research, Market Report Germany, 2012, 2013;
- Jones Long LaSalle, Office Market Overview (*Büromarktüberblick*) Q2 2012 and Q4 2012; Report Berlin H2 2012, Report Hamburg H2 2012, Residential Market Profile Dresden, Residential City Report Leipzig H2 2012;
- Regional Database Germany (*Regionaldatenbank*), Result 173-01-4;
- Savills, Market Report Germany Offices Q1 2013, May 2013;
- Verband Deutscher Pfandbriefbanken, Report 7 of 15 May 2013.

Certain numerical figures and financial data as well as market data contained in this Prospectus have been rounded in accordance with commercial principles, hence the totals set out herein do not, in all cases, correspond to the amounts in the underlying sources. Information is denominated in thousands of Euros (€ thousand), millions of Euros (€ million), or billions of Euros (€ billion). Rounding differences may result from the presentation in € thousand, € million, and € billion also by comparison with the annual and consolidated financial statements set out in the Financial Section of this Prospectus.

### **7.3. Note on the appraisals prepared on the TAG real estate portfolio**

This Prospectus includes appraisals by companies that act as experts. The following appraisals concerning the valuation of TAG’s real estate portfolio (see section 30, “*Valuation Reports*”) are included:

- The valuation report by CB Richard Ellis GmbH, Hausvogteiplatz 10, 10117 Berlin, Germany, about the real estate portfolio of TAG with the exception of the real estate portfolio held by TAG Gewerbeimmobilien GmbH (“TAG Gewerbe”), TAG Logistik Immobilien GmbH & Co. KG, as at the 30 September 2012 reporting date, with respect to Stadthaus am Anger GmbH as at the 30 November 2012 reporting date, and with respect to TAG Wohnen as at the 31 December 2012 reporting date;
- The valuation report by Otto & Kollegen, Kaiserdamm 82, 14057 Berlin, Germany, about the real estate portfolio held by TAG Gewerbe and TAG Logistik Immobilien GmbH & Co. KG as at the 30 September 2012 reporting date.

These valuation reports were prepared by persons acting as independent experts according to the guidelines of the European Securities and Markets Authority (ESMA) update of the CESR recommendations – The consistent implementation of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive – dated 23 March 2011. These experts have performed the real estate appraisals in their capacity as qualified external experts in accordance with the requirements of the Royal Institution of Chartered Surveyors (“RICS”) (CB Richard Ellis GmbH) or as publicly appointed, sworn experts on the appraisal of developed and undeveloped properties and as certified experts for real estate appraisal ZIS (Otto & Kollegen). None of the experts has a material interest in TAG AG.

The Appraisals were prepared upon request by TAG AG. TAG AG declares that experts who approved of the content of the respective Appraisal also consented to the form and context in which all Appraisals are included herein.

**8. USE OF PROCEEDS**

The Company intends to use the net proceeds of €196 million from the sale of the Notes primarily for the improvement of the debt financing structure and the repayment of financial indebtedness, in particular for the repurchase of convertible bonds previously issued by the Company, the interest rate of which exceeds the interest rate of the Notes. Besides this, the Company intends to use the net proceeds for the financing of further growth of the Company and further general corporate purposes

## **9. CAPITALIZATION**

The tables below show the capitalization and debt of TAG as of 31 March 2013. This information has been prepared on a consolidated basis in accordance with the accounting requirements of the International Financial Reporting Standards as applied in the EU (IFRS) and has been taken from the unaudited interim financial statements as of 31 March 2013 of TAG prior to the issuance of the Notes (first column) and as adjusted to give pro forma effect to the issuance of €200 million aggregate principal amount of the Notes, as if this issuance had occurred on 31 March 2013 (second column). For simplification purposes it is assumed that the expected costs of the issuance of the Notes of approximately €4 million can be fully charged against the principal amount of the Notes. Possible tax effects on this costs are not taken into account.

These tables should be read in conjunction with the unaudited consolidated interim financial statements of TAG as of 31 March 2013, the audited consolidated financial statements of TAG as of 31 December 2011 and as of 31 December 2012 as well as section 11. “Management's Discussion and Analysis of Financial Condition and Results of Operations” and section 7. “Risk Factors”.

	As of 31 Mar. 2013 prior to the issuance of the Notes ( <u>unaudited</u> ) € million	Based on the figures as of 31 Mar. 2013 assuming issuance of the Notes ( <u>unaudited</u> ) € million
<b>Current liabilities</b>	529.9	529.9
<b>of which other current financial liabilities</b>	446.1	446.1
Current liabilities to banks	441.8	441.8
(of which secured: €441.8 million; of which guaranteed: €5.0 million; of which neither secured nor guaranteed: €0.0 million)		
Convertible bonds	4.3	4.3
(of which secured: €0.0 million; of which guaranteed: €0.0 million; of which neither secured nor guaranteed: €4.3 million)		
<b>of which other current liabilities</b>	83.8	83.8
(of which secured: €0.0 million; of which guaranteed: €0.0 million; of which neither secured nor guaranteed: €83.8 million)		
<b>Non-current liabilities</b>	1,993.6	2,189.6
<b>of which non-current financial liabilities</b>	1,846.0	2,042.0
Non-current liabilities to banks	1,672.3	1,672.3
(of which secured: €1,672.3 million; of which guaranteed: €0.0 million; of which neither secured nor guaranteed: €0.0 million)		
Convertible bonds	173.7	173.7
(of which secured: €0.0 million; of which guaranteed: €0.0 million; of which neither secured nor guaranteed: €173.7 million)		
Notes	0.0	196.0
(of which secured: €0.0 million; of which guaranteed: €0.0 million; of which neither secured nor guaranteed: €196.0 million)		
<b>of which other non-current liabilities</b>	147.6	147.6
(of which secured: €0.0 million; of which guaranteed: €0.0 million; of which neither secured nor guaranteed: €147.6 million)		
<b>Equity</b>	1,173.8	1,173.8
Subscribed capital	130.7	130.7
Capital reserves	739.9	739.9
Other reserves	-16.9	-16.9
Net retained profits	299.7	299.7
Non-controlling interests	20.4	20.4

Other equity reserves relate to the hedge accounting reserves, in which effects from interest rate hedges are recognised, revenue reserves and a reserve from the currency translation of financial statements from foreign subsidiaries.

The current and non-current financial liabilities to banks are primarily secured by mortgages, by assigning rental income and by pledging shares in affiliated companies. The reported guarantees of €5.0 million relate to additional security provided by WH Vermögensverwaltungs GmbH, Düsseldorf, for a bank loan in this amount, for which TAG AG itself has also provided collateral (see also the information provided in section 18.1. *“Agreements with members of the Management Board and Supervisory Board”*).

TAG AG intends to use part of the proceeds from the issuance of the Notes for the repurchase and cancellation of convertible bonds issued in the past. The major effects from this would be a reduction of the amount of financial liabilities from outstanding convertible bonds as well as reduced interest expenses in the following financial periods. In return the expected cost resulting from the prematurity of the repurchased convertible bonds would be fully recognized as expenses. Possible tax effects are not taken into account.

## 10. SELECTED FINANCIAL INFORMATION

The financial information summarised below has been taken from the audited consolidated financial statements for the financial years ended 31 December 2011 (which also contain comparative figures for the financial year ending 31 December 2010) and 31 December 2012 and from the unaudited consolidated interim financial statements for the three-month period from 1 January to 31 March 2013. These consolidated financial statements, which were prepared in accordance with IFRS accounting requirements, are incorporated by reference into this Prospectus (for further information see section 28. “*General Information/Documents incorporated by reference*”). The consolidated financial statements for the financial year ended 31 December 2011 were audited by Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, and given an unqualified auditor’s report. The consolidated financial statements for the financial year ended 31 December 2012 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, and given an unqualified auditor’s report. Unqualified auditor’s reports were also issued for the consolidated management reports prepared for the respective consolidated financial statements. The consolidated management reports are not included in this Prospectus. The consolidated interim financial statements as of 31 March 2013 are unaudited. They were neither subject to an audit of financial statements pursuant to sections 316 et seq. German Commercial Code (*Handelsgesetzbuch*, “HGB”) nor reviewed pursuant to section 37x para. 3 sentence 3 German Securities Trading Act (*Wertpapierhandelsgesetz*, “WpHG”). These consolidated interim financial statements do not necessarily permit any conclusions about the future financial condition and results of operation of TAG for any other period, including the financial year ended on 31 December 2013, and should be read in conjunction with the audited consolidated financial statements for the financial years ended 31 December 2011 and 31 December 2012.

The selected financial information should be read in conjunction with section 11. “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, the audited consolidated financial statements for the financial years ended on 31 December 2011 and 31 December 2012, the unaudited consolidated interim financial statements for the three-month period from 1 January to 31 March 2013 as well as section 7. “*Risk Factors*”.

Unless specified otherwise, figures are provided as € millions. The presentation in € millions may result in rounding differences, including when compared with the audited consolidated financial statements and the unaudited consolidated interim financial statements.

### Key figures from the consolidated income statements

Key figures from the consolidated income statements of the audited consolidated financial statements and the unaudited consolidated interim financial statements are presented below:

	1 Jan. 2013 - 31 Mar. 2013		1 Jan. 2012 - 31 Mar. 2012		2012		2011		2010	
	(unaudited)		(unaudited)		(audited)		(audited)		(audited)	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
	of revenues		of revenues		of revenues		of revenues		of revenues	
Total revenues	164.9	100	57.0	100	252.8	100	178.3	100	82.9	100
of which rental revenues	63.2	38	34.4	60	192.5	76	115.3	65	51.8	62
of revenues from sales <sup>1</sup>	101.1	61	21.0	37	52.9	21	54.5	30	29.4	36
of which property management	0.6	0	1.6	3	7.5	3	8.5	5	1.7	2
Cost of purchased services and sales	-114.6	-69	-30.6	-54	-105.4	-42	-91.5	-51	-42.4	-51
of which rental expenses	-13.9	-8	-8.3	-15	-48.0	-19	-36.3	-20	-11.6	-14
of which sale expenses <sup>2</sup>	-100.7	-61	-21.0	-37	-53.1	-21	-46.7	-26	-29.6	-36
of which property management expenses	0.0	0	-1.3	-2	-4.3	-2	-8.5	-5	-1.2	-1
Net rental income	49.2	30	26.1	46	144.5	57	79.0	44	40.2	48
Other operating income	2.2	1	83.9	147	170.7	67	66.8	37	15.7	19
Net gains/losses from the remeasurement of investment properties	-0.1	0	6.8	12	29.4	12	28.9	16	16.8	20
Gross profit	52.4	32	117.1	205	347.5	137	182.5	102	73.0	88
Personnel expenses	-7.3	-4	-3.2	-6	-23.1	-9	-12.7	-7	-8.8	-10
Other operating expenses	-4.4	-3	-4.6	-8	-20.1	-8	-20.5	-11	-15.9	-19
EBITDA (before revaluation, unaudited) <sup>3</sup>	40.8	25	102.4	180	275.0	109	120.3	67	31.4	38
Income from investments in associated companies and equity-accounted investments (unaudited) <sup>3</sup>	0.0	0	0.0	0	0.2	0	0.3	0	6.5	8
EBIT	39.0	24	107.6	189	289.1	114	144.6	81	46.9	57
Net interest result	-25.7	-16	-14.2	-25	-86.8	-34	-61.6	-34	-31.2	-38
EBT	13.3	8	93.4	164	202.6	80	83.3	47	22.2	27
Consolidated net profit after non-controlling interests	14.0	8	88.3	155	179.1	71	66.9	38	18.5	22
FFO (unaudited) <sup>3</sup>	15.1	9	5.6	10	39.6	16	-4.7	-3	-5.8	-7
EBIT (adjusted, unaudited) <sup>3</sup>	41.3	25	19.3	34	121.3	48	56.3	32	23.2	28

<sup>1</sup>Total revenues from the sale of real estate inventory and investment properties

<sup>2</sup>Total expenses from the sale of real estate inventory and investment properties

<sup>3</sup>Derived from the Company's ongoing accounting records

The Company calculates gross profit by deducting the cost of purchased services and sales (rental expenses, expenses from the sale of real estate and service expenses) from revenues and adding other operating income and gains and losses on the fair value remeasurement of investment properties.

The earnings before interest, taxes, depreciation and amortisation (“**EBITDA**”) (before revaluation) key figure is calculated as follows: consolidated net profit before non-controlling interests, income and other taxes as well as before income from associated companies and equity-accounted investments and net interest result, less depreciation, amortisation and impairment losses and gains or net losses on the fair value remeasurement of investment properties.

The earnings before interest and taxes (“**EBIT**”) key figure is calculated as follows: consolidated net profit before non-controlling interests, income and other taxes as well as before income from investments in associated companies and equity-accounted investments and net interest result.

The earnings before taxes (“**EBT**”) key figure is calculated as follows: consolidated net profit before non-controlling interests and before income and other taxes.

In this context, the net income result is the total of interest income less interest cost.

The Company calculates funds from operations (“**FFO**”) by deducting net gains/losses from the remeasurement of investment properties, net-gains from first-time consolidations and deconsolidations and share of profit of associated companies from EBT and adding depreciation and amortisation, impairment losses on inventories and on receivables and non-cash net interest results. Net gains/losses from sales of inventory real estate and investment properties were not considered in the calculation of FFO.

The “**EBIT (adjusted)**” key figure is calculated by the Company by deducting net gains/losses from the remeasurement of investment properties as well as net-gains from first-time consolidations and deconsolidations from EBIT and adding depreciation and amortisation as well as impairment losses on inventories and on receivables. Net gains/losses from sales of inventory real estate and investment properties were not considered in the calculation of this key figure.

Gross profit, EBITDA (before revaluation), EBIT, EBT, FFO and EBIT (adjusted) are not key figures used to measure the net assets, operating revenues or liquidity according to generally accepted accounting principles, in particular not according to IFRS, and do therefore not present an alternative to the key net asset, profit or loss or liquidity figures determined in accordance with IFRS. Moreover, there are no standard definitions for gross profit, EBITDA (before revaluation), EBIT, EBT, FFO or EBIT (adjusted). This means that these key figures or other key figures with similar names published by other companies are not necessarily comparable to the Company’s key figures.

### Key figures from the consolidated balance sheets

The following summary shows key items from the consolidated balance sheets of the audited consolidated financial statements and of the unaudited consolidated interim financial statements:

	31 Mar. 2013 (unaudited)		31 Dec. 2012 (audited)		31 Dec. 2011 (audited)		31 Dec. 2010 (audited)	
	€ million	%	€ million	%	€ million	%	€ million	%
Investment properties	3,456.4	93	3,455.7	91	1,890.0	92	837.2	70
Property, plant and equipment	10.6	0	10.7	0	12.0	1	12.0	1
Land with unfinished and finished buildings (real estate inventory held for sale)	87.4	2	89.6	2	37.4	2	114.0	10
Trade receivables	16.6	0	20.1	1	13.2	1	6.7	1
Non-current available for sale assets	8.3	0	111.6	3	38.3	2	16.2	1
Equity (before non-controlling interests)	1,153.4	31	1,136.2	30	547.4	27	356.5	30
Non-current liabilities to banks	1,672.3	45	1,804.8	48	1,016.8	50	523.5	44
Current liabilities to banks	441.8	12	411.3	11	172.6	8	110.5	9
Trade payables	17.4	0	13.8	0	16.4	1	7.8	1
Liabilities in connection with the non-current available for sale assets	0.0	0	1.6	0	0.0	0	13.7	1
Total real estate volume (unaudited) <sup>1</sup>	3,560.0	96	3,663.1	96	1,968.6	96	978.0	82
Total liabilities to banks (unaudited) <sup>1</sup>	2,114.1	57	2,216.1	58	1,189.4	58	634.0	53
Total assets	3,697.3	100	3,800.0	100	2,047.7	100	1,190.5	100
Net asset value per share (NAV; unaudited) according to calculation method used as from 31 Dec. 2011 <sup>1</sup>	€10.00	-	€9.96	-	€8.72	-	€6.67	-
Net asset value per share (NAV; unaudited) according to calculation method used until 31 Dec. 2010 <sup>1</sup>	€8.82	-	€8.69	-	€7.32	-	€6.09	-
Loan-to-value ratio (LTV; unaudited) <sup>1</sup>	57,6%	-	58,9%	-	58,5%	-	52,9%	-

<sup>1</sup> Derived from the Company's ongoing accounting records

Total real estate volume comprises investment properties, real estate reported under property, plant and equipment, real estate inventory held for sale and real estate under non-current assets held for sale. Total liabilities to banks include non-current and current liabilities as reported in the consolidated balance sheet and liabilities to banks disclosed as liabilities in connection with non-current assets held for sale.

The Company calculated the net asset value per share (“NAV”) as of 31 December 2010 by dividing the equity before non-controlling interests by the number of issued shares at the balance sheet date. Any dilution effects of potentially diluting financial instruments, e.g. convertible bonds, were not taken into account. Since 31 December 2011, the Company defines NAV on the basis of equity before non-controlling interests, whereby the carrying amounts of derivative financial instruments (primarily interest rate swap agreements) and deferred taxes included in the consolidated balance sheet are eliminated from equity, divided by the number of issued shares at the balance sheet date. NAV has been redefined in financial year 2011 to bring its calculation in line with the recommendations issued in this regard by the European Public Real Estate Association (EPRA), an association of listed European real estate companies.

The key figure loan-to-value (“LTV”) ratio is calculated on the basis of the non-current and current liabilities to banks plus the liabilities to banks reported under the balance sheet item “liabilities in connection with non-current assets held for sale” less cash and cash equivalents in relation to the total real estate volume (investment properties and real estate inventory as well as real estate reported under the balance sheet items “property, plant and equipment” and “non-current assets held for sale”). Liabilities from convertible bonds were not included in the calculation of the LTV ratio, due to the fact that during the financial years 2010, 2011 and 2012 and in the three-month period ended 31 March 2013 the conversion price of the convertible bonds was mostly below or near the current price of the TAG share. If the convertible bonds had been taken into account, the LTV ratio would have been 62.6% as of 31 March 2013, 63.7% as of 31 December 2012, 64.0% as of 31 December 2011 and 63.5% as of 31 December 2010.

NAV and LTV are not key figures used to measure net assets, operating revenues or liquidity according to generally accepted accounting principles, in particular not according to IFRS, and do therefore not present an alternative to the key net asset, profit or loss or liquidity figures determined in accordance with IFRS. Moreover, there are no standard definitions for NAV and LTV. This means that NAV and LTV or other key figures with similar names published by other companies are not necessarily comparable to the Company’s NAV and LTV.

#### Key figures from the consolidated cash flow statement

The following summary shows key items from the consolidated cash flow statements of the audited consolidated financial statements and of the unaudited consolidated interim financial statements:

	1 Jan. 2013 - 31 Mar. 2013 (unaudited)	1 Jan. 2012 – 31 Mar. 2012 (unaudited)	2012 (audited)	2011 (audited)	2010 (audited)
	€ million	€ million	€ million	€ million	€ million
Cash flow from operating activities	10.7	18.5	17.5	-7.3	-17.0
Cash flow from investing activities	96.8	-107.9	-353.4	-39.3	-75.7
Cash flow from financing activities	-82.6	124.4	346.0	-53.6	215.1
Cash and cash equivalents at the end of the period	56.6	56.6	31.7	21.6	121.8

## **11. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of the assets, liabilities, financial position, and profit or loss ("financial condition and results of operations") is primarily based on the audited consolidated financial statements for the financial years ended 31 December 2011 (which also contain comparative figures for the financial year ending 31 December 2010) and 31 December 2012 and the unaudited consolidated interim financial statements for the three-month period from 1 January to 31 March 2013. Those financial statements were prepared on the basis of IFRS. The audited consolidated financial statements for the financial years ended 31 December 2011 and 31 December 2012 (hereinafter also referred to as the "Audited Consolidated Financial Statements") and the unaudited consolidated interim financial statements for the three-month period ended 31 March 2013 (hereinafter also referred to as the "Unaudited Consolidated Interim Financial Statements" and, in conjunction with the Audited Consolidated Financial Statements, as the "Consolidated Financial Statements") are incorporated by reference into this Prospectus (for further information see section 28. "*General Information / Documents incorporated by reference*").

The consolidated financial statements as of 31 December 2011 were audited by Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, whereas the consolidated financial statements as of 31 December 2012 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, and certified in each case with an unqualified auditor's report. The auditor's reports to the Audited Consolidated Financial Statement were also issued in respect of the consolidated management reports. The consolidated management reports are not included in this Prospectus.

The consolidated interim financial statements as of 31 March 2013 are unaudited. They were neither subject to an audit of financial statements pursuant to sections 316 et seq. HGB nor to a review pursuant to section 37x para. 3 sentence 3 WpHG. These consolidated interim financial statements do not necessarily permit conclusions to be drawn with respect to the future financial condition and results of operations of TAG for any other period, including the financial year ended on 31 December 2013, and should be read in conjunction with the Audited Consolidated Financial Statements.

The following analysis and discussion of the financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and section 7. "*Risk Factors*". Unless specified otherwise, figures contained in this section are quoted in € millions. The presentation of the financial information in € millions may give rise to rounding differences, including in comparison with the Consolidated Financial Statements.

### 11.1. Overview

TAG is an integrated and diversified real estate group that is incorporated, listed and active in Germany pursuing a strategy of long-term growth and value creation. TAG's business operations focus on acquisition, management and to a lesser extent development of residential real estate. In addition, TAG holds a diversified portfolio of commercial properties. The geographic footprint of the real estate portfolio is characterized by concentrated investment exposure in the Hamburg region, Berlin region, North Rhine-Westphalia, Salzgitter region and Thuringia/Saxony. The following are TAG's most important business segments:

- **Residential real estate** – i.e. the acquisition, management and to a lesser extent development of residential properties. As of 31 March 2013, TAG held approximately 67,280 residential units with a total floor area of some 4,112,000 m<sup>2</sup>. These residential units are primarily located in the following regions: Thuringia/Saxony (44% of the total floor area), Hamburg region (17%), Berlin region (20%), Salzgitter region (14%) and North Rhine-Westphalia (5%). This business segment also oversees the selective sale of residential properties for the purpose of generating profit and optimising the portfolio in addition to the acquisition, development and management of residential real estate. As of 31 March 2013 the total book value of TAG's total real estate volume in the residential real estate segment amounted to €3,100.0 million. In the first quarter 2013 TAG generated rental revenues in the residential real estate segment amounting to €56.3 million.
- **Commercial real estate** – i.e. the acquisition, management and development of commercial properties. TAG's commercial real estate portfolio comprises 30 of its own commercial properties most of which are held by TAG Gewerbe and for which administration and management services are obtained from a third party. These have a total rental space measuring some 347,000 m<sup>2</sup> (as of 31 March 2013) and mainly comprise office buildings in the Berlin region (16% of the total floor area), Hamburg region (14%), North Rhine-Westphalia (27%), in the Munich metropolitan area (41%) and in Thuringia/Saxony (2%). In addition, TAG also holds numerous other, mostly small-scale commercial spaces located e.g. in mixed-use residential and commercial buildings. These are administered and managed along with the corresponding residential spaces. This business segment also oversees the sale of commercial real estate for the purpose of reducing the investments in commercial real estate, generating profits and optimising the portfolio. As of 31 March 2013 the total book value of TAG's total real estate volume in the commercial real estate segment amounted to €460.0 million. In the first quarter 2013 TAG generated rental revenues in the commercial real estate segment amounting to €6.6 million

### 11.2. Comparability of the financial information contained in the Consolidated Financial Statements

In financial years 2010 to 2012 and in the three-month period ending 31 March 2013 changes in accounts and adjustments to prior-year figures were made in TAG's Consolidated Financial Statements which limit the comparability of the financial information in some respects. In this Prospectus, the financial information is presented at each reporting date as it was published at that date (e.g. in relation to the consolidated financial statements as of 31 December 2011, as it was actually reported in the consolidated financial statements as of 31 December 2011), except for the figures for the year ending 31 December 2010, which were taken from the financial statements for the year ending 31 December 2011. The principal changes to the method of reporting and adjustments of prior-year figures are described in the following paragraphs.

### ***Financial year 2012 in comparison with financial year 2011***

The following changes were made as of 31 December 2012 in comparison with the prior-year financial statements as of 31 December 2011:

- The income of €4.5 million from interest rate swaps with designated hedging relationship reported as interest income in 2011 year is netted with interest expense on interest rate swaps and reported within interest expense in the current year. The figures for 2011 have been restated accordingly.
- The issuing costs for convertible bonds of €0.5 million reported as other operating expense in 2011 are now included within interest expense in line with the application of the effective interest method. The figures for 2011 have been restated accordingly.

### ***Three-month periods ended 31 March 2013 and 31 March 2012 in comparison with financial years 2011 and 2012***

The comparability of the three-month period ended 31 March 2013 with the three-month period ended 31 March 2012 and with financial years 2010 to 2012 is limited by the fact that TAG Potsdam and TAG Wohnen were only included as a subsidiary in TAG's consolidated financial statements once a majority shareholding had been obtained with effect as of 26 March 2012 and 31 December 2012 respectively. The assets, liabilities, income and expenses of TAG Potsdam and TAG Wohnen were not reflected in TAG's consolidated financial statements until those dates.

### **11.3. Critical accounting policies applied**

TAG's Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The following accounting principles that are critical in the opinion of the Company were applied in the Consolidated Financial Statements:

- Business combinations are accounted for using the purchase method. Under this method, the cost of the acquisition is allocated to the separately identifiable assets and liabilities and contingent liabilities acquired in accordance with their fair values at the date of acquisition. In this context, material estimates and judgements are required to determine the fair values of the assets and liabilities acquired in the business combination. Any remaining positive difference is recognised as goodwill while any negative difference is taken directly to income. If shares are purchased or sold in companies previously or subsequently fully consolidated (company acquisition without change of status), the differences between the purchase price and the carrying amount of the net assets acquired or sold are recorded directly in equity.
- Investment properties are measured initially at the purchase cost or cost of production including ancillary costs. Investment properties are measured subsequently at their fair value which reflects market conditions on the balance sheet date. Gains and losses arising from changes in the fair values are recorded in the income statement. In the event that real estate held for sale is transferred into investment properties, any difference between the fair value and the carrying amount arising at that time is recognised in the income statement. The fair value of investment properties is determined on the basis of the results of independent valuation experts who are retained for this purpose. For valuation purposes, certain estimates are required, such as future rental income and the applicable discount rates, which may have a direct material bearing on the fair value of the investment properties.

- Real estate held for sale and other inventories are measured at the lower of acquisition costs or cost of production and net realisable value. Net realisable value comprises the estimated sale proceeds achievable in the normal course of business less the estimated costs to completion and the necessary selling costs. Debt incurred in connection with the purchase or construction of real estate are capitalised provided the relevant conditions are met. The estimate of the net realisable value from the sale of real estate held as inventories entails uncertainty particularly with respect to the realisable prices. The net realisable value represents the estimated sales price achievable in the ordinary course of business less estimated costs to complete and less foreseeable sales and distribution costs.
- Current tax assets and tax liabilities are measured at the amount at which a repayment from or payment to the tax authorities is expected to occur. The amounts are based on the tax rates and tax laws applying at the balance sheet date. Deferred taxes are recognised using the balance sheet liability method for all temporary differences existing at the balance sheet date between the carrying amount of an asset or a liability in the balance sheet and its respective tax base. Deferred tax assets are recognised for all deductible temporary differences, unutilised tax loss carry-forwards and unutilised tax credits to the extent that it is probable within a planning period for future years that it will be possible to offset them in the future against available taxable income. The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect the extent of taxable income expected to be available in the future. Deferred tax assets and liabilities are measured using the tax rates expected to apply in the period in which an asset is realised or a liability settled. For this purpose, the tax rates taken into account are those expected at the balance sheet date to apply at the anticipated date of reversal of the difference.
- The effective portion of the change in the fair value of derivatives suitable for cash flow hedges (hedging relationship to hedge cash-flows) of variable-rate loans and designated as such is recorded directly in equity within a hedge accounting reserve after reflecting deferred income tax effects. The hedged items for such hedges are loans taken out at variable interest rates. The gain or loss arising on the ineffective portion of the hedge is recorded in the income statement. The retrospective or prospective effectiveness of the hedge is measured using the dollar offset method or by sensitivity analysis, under which changes in the value of the hedged item are compared with changes in the value of the hedging instrument. Derecognition of a(n) (expected) hedge takes place when the Group unwinds the hedge or the hedging instrument expires or is sold, terminated or exercised or is no longer suitable for hedging purposes. The full amount of the gain or loss recorded in equity at that time remains in equity and is taken to income only when the hedged (expected) transaction is also recorded in the income statement. If the anticipated transaction is no longer expected to occur, the entire gain or loss recorded in equity is transferred immediately to the income statement.
- Other Provisions are recognised when TAG has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation is possible despite uncertainty as to the amount or timing. Other provisions are recognised at the amount which can reasonably be assumed to be payable to settle the present obligation on the reporting date or, in the event of the transfer of the obligation to a third party, on the date of transfer. Allowance is made for risks and uncertainties by applying appropriate estimation methods in the light of their probability. Non-current provisions due for settlement in more than one year are discounted in the case of a material interest effect.

#### **11.4. Key factors affecting the results of operations**

The external (market- and industry-specific) and internal (company-specific) factors affecting TAG's results that are significant in the opinion of the Company are presented in the following.

##### **Cyclical development of the real estate market and development of the market in individual regions**

TAG generates its revenues almost entirely from the rental of and sale of domestic residential and commercial real estate. It also provides property management services. Minor revenues were also generated from the rental of rail infrastructure for the operation of a railway line in Tegernsee Valley until being sold effective in February 2013. TAG is therefore primarily dependent on the cyclical development of the real estate market. Any rise or fall in market demand for the properties offered by TAG has a direct effect on the amount of its revenues. In the commercial real estate segment in particular, cyclical effects can result in substantial fluctuations in the revenues achievable from rentals and sales. In contrast, the revenues of the residential real estate business segment are less exposed to fluctuations caused by cyclical factors, in the opinion of the Company.

The revenues generated by TAG are significantly dependent on the extent to which sales of investment properties and real estate inventory are achieved. The sales prices achieved in each case are not only determined by the location and quality of the properties but are also influenced by the cyclical development of the real estate market.

The revenues of the Group are dependent on the development of the market in the regions in which TAG's properties are located. The principal locations in which TAG invests in residential real estate are the Hamburg region, Berlin region, North Rhine-Westphalia, Salzgitter region and Thuringia/Saxony. Different market conditions in the individual regions may give rise to both positive and negative effects on rental revenues and revenues from the sale of real estate, as for example effects on the rental or sales prices per square metre achievable for residential or commercial space.

##### **Cost-efficient management of the real estate portfolio using economies of scale and utilising value enhancement potential through modernisation and conversion work**

TAG's results of operations are further affected by its ability to manage the Group's real estate portfolio cost-efficiently through the use of economies of scale. The Company has also set itself the objective of keeping the ongoing administrative costs of the Group as low as possible following the acquisition of additional properties or companies. The existing structures, for example, the Group's own property management operations and existing locations can be used for this purpose. TAG can also reduce costs when acquiring companies, for example, by not taking over the existing organisational structures (administrative personnel, business premises, etc.) of the acquired companies. TAG also aims to utilise existing potential in the real estate portfolios acquired. The methods of achieving this include reducing vacancies as well as carrying out intended modernisation and rebuilding measures with the aim of achieving an immediate enhancement of the value of the properties. Therefore, the extent to which TAG is successful in acquiring real estate with value enhancement potential and carrying out modernisation and conversion work effectively has a significant effect on its results of operations.

In this context, TAG achieved a substantial reduction of the number of employees per 1,000 units from 20 in 2010, to 10 in 2011 and to 7 in 2012. As a result, the ratio of personnel expenses to rental revenues amounted to 11.6% as of 31 March 2013, 12.0% as of 31 December 2012, 11.0% as of 31 December 2011 and 17.0% as of 31 December 2010. In the same periods the ratio of other operating expenses to rental revenues amounted to 7.0%, 10.4%, 17.8% and 30.7% respectively.

### **Reduction of vacancies**

A further significant factor affecting the profit or loss from real estate rental is the extent to which vacancies exist in the property portfolio. In financial years 2010 to 2012 in particular as well as in the three-month period ended 31 March 2013, TAG succeeded for a substantial part of its portfolio in reducing vacancies within the Group's real estate holdings. This is reflected in the decrease of the vacancy rate across the portfolio. The portfolio comprises mostly TAG's old residential portfolio (total residential portfolio without acquisitions), commercial portfolio, Colonia portfolio, TAG Potsdam portfolio and TAG Wohnen portfolio.

Therefore, the vacancy rates are considered separately for these sub-portfolios. In TAG's "old residential portfolio" (excluding Colonia portfolio, TAG Potsdam portfolio, and TAG Wohnen portfolio and further acquired portfolios since 2010) the vacancy rate amounted to 5.9% as of 31 December 2010, 3.9% as of 31 December 2011, 3.1% as of 31 December 2012 and 3.5% as of 31 March 2013. In the same periods the vacancy rate in the commercial portfolio increased and amounted to 3.9% in 2010, 8.2% in 2011, 15.1% in 2012 and 16.4% as of 31 March 2013. Since the first-time consolidation of Colonia in March 2011, the vacancy rate in the Colonia Portfolio has slightly decreased from 16.0% to 15.8% as of 31 December 2011, to 15.1% as of 31 December 2012 and to 15.0% as of 31 March 2013.

In March 2012 TAG acquired TAG Potsdam. At this time the TAG Potsdam portfolio had a vacancy rate of 11.3% compared to 10.9% as of 31 December 2012 and to 11.2% as of 31 March 2013. Effective 31 December 2012 TAG acquired TAG Wohnen. The vacancy rate amounted to 4.9% at that point in time compared to 4.9% as of 31 March 2013.

The reduction in vacancy within the residential portfolios resulted in an increase in rental income while also reducing the proportion of operating and ancillary costs that cannot be recharged to the tenant. The increase in the vacancy rate for commercial real estate as of 31 December 2011 compared with 31 December 2010 is mainly due to the fact that there was a delay in renegotiating a rental agreement for a commercial property in Northern Germany.

### **Remeasurement of investment properties at fair value**

The real estate portfolio held for the long term (investment properties) immediately reflects positive as well as negative changes in the relevant property market and the individual properties as a result of the valuation required to be carried out annually (reported in the income statement as "Net gains/losses from the valuation of investment properties"). In the same context, gains have arisen in the past as a result of the initial valuation at fair value at the balance sheet date of properties recently acquired. The recognition of investment properties at their fair value can therefore have positive as well as negative effects on TAG's financial statements. However, gains and losses from valuation do not represent transactions affecting cash funds. Actual inflows and outflows of cash only occur if the investment properties are sold at a later date. As a result of this method, the volatility of the consolidated profit or loss is substantially higher than in the case of financial statements under German GAAP (HGB), in which the gain is generally recognised at the date of disposal and losses are recognized if expert opinions indicate the need for impairment. Furthermore, material losses from the remeasurement of investment properties could lead to a decrease in TAG's key figure loan-to value (LTV) and potentially jeopardize financial covenants in TAG's loan agreements (for further information see section 7.2. "Company-specific risks"). The net gains/losses from the remeasurement of investment properties amounted to €-0.1 million for the three months ending 31 March 2013, €29.4 million for 2012, €28.9 million in 2011 and €16.8 million in 2010.

### Accounting treatment of business combinations and profits from first-time consolidation

The accounting treatment of business combinations in accordance with IFRS 3 can give rise to significant amounts of income and expenses. When a new subsidiary is acquired, the fair value of the consideration payable by TAG (cost) is set against the fair value of the net assets of the subsidiary acquired attributable to TAG (balance of the assets and liabilities measured at fair value). A positive difference is reported as goodwill. If it becomes necessary in subsequent years to recognise impairments in respect of that goodwill, this may have a significant impact on the profit or loss for the period. In contrast, a negative difference is recorded as income in the income statement in the year of the acquisition.

Business combinations affected the results of TAG in financial year 2010 with profits of €8.4 million, in financial year 2011 with profits of €56.8 million and in financial year 2012 with profits of €148.2 million. The profits in 2010 arose from the purchase of shares in TAG Nordimmobilien S.à r.l. (€4.0 million), TAG Sachsenimmobilien GmbH (€0.8 million) and TAG NRW-Wohnimmobilien und Beteiligungs GmbH (€3.6 million). The profits in 2011 arose from the purchase of shares in Colonia (€32.4 million) as well as arsago wohnen I GmbH, arsago wohnen II GmbH, arsago wohnen IV GmbH, arsago wohnen V GmbH and arsago wohnen VI GmbH (€24.4 million) which operate since 2011 as TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH and accordingly TAG Wolfsburg-Immobilien GmbH. On 26 March 2012, TAG acquired TAG Potsdam which generated a profit of €99.2 million. Furthermore, the acquisition of all of the shares of TAG Wohnen as of 31 December 2012 led to a profit of €49.0 million.

The profit from the first time consolidation of TAG Wohnen on 31 December 2012 was derived as follows:

	2012 (audited) € million
Fair value of the assets acquired	577.5
Fair value of the liabilities assumed	-304.9
Fair value of the net assets attributable to TAG	<u>272.6</u>
Cost of the acquisition	-221.4
Transaction costs	-2.2
Profit on first-time consolidation	<u><u>49.0</u></u>

As the acquisition is dated 31 December 2012, no revenues or expenses have been recognised in the consolidated income statements in financial year 2012. If TAG Wohnen had been acquired on 1 January 2012, it would have generated revenues within TAG's consolidated financial statements for the financial year 2012 of €59.3 million and net earnings for the period of €2.3 million assuming identical adjustments to fair values from first-time consolidation.

The first-time consolidation profit generated by the acquisition of TAG Potsdam on 26 March 2012 was calculated as follows:

	2012 (audited) <u>€ million</u>
Fair value of the assets acquired	1,117.8
Fair value of the liabilities assumed	-857.2
Interests of other shareholders in the fair value of the net assets acquired	-1.4
Fair value of the net assets attributable to TAG	<u>259.2</u>
Cost of the acquisition	-160.0
Profit on first-time consolidation	<u><u>99.2</u></u>

Since the date of acquisition, TAG Potsdam has generated revenues of €65.8 million and a net loss for the period of €1.5 million. The net loss includes gains of €5.0 million from the remeasurement of investment properties. If TAG Potsdam had been acquired on 1 January 2012, it would have generated revenues within TAG's consolidated financial statements for the financial year 2012 of €88.8 million and a net loss for the period of €2.3 million assuming the same remeasurement gains.

At 31 October 2011, TAG acquired the majority of the equity interest of arsago wohnen I GmbH, arsago wohnen II GmbH, arsago wohnen IV GmbH, arsago wohnen V GmbH and arsago wohnen VI GmbH which operate since 2011 as TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH and accordingly TAG Wolfsburg-Immobilien GmbH. The profit that has been generated by this consolidation was calculated as follows:

	2011 (audited) <u>€ million</u>
Fair value of the assets acquired	247.1
Fair value of the liabilities assumed	-178.2
Fair value of the net assets attributable to TAG	<u>68.9</u>
Cost of the acquisition	-44.5
Profit on first-time consolidation	<u><u>24.4</u></u>

Following TAG's acquisition of a majority of the shares in Colonia on 15 February 2011, the company was included in TAG's consolidated financial statements as a fully consolidated subsidiary. The consolidation of Colonia generated a profit of €32.4 million in the financial year 2011 which was calculated as follows:

	2011 (audited) <u>€ million</u>
Fair value of the assets acquired	830.0
Fair value of the liabilities assumed	-620.5
Interests of other shareholders in the fair value of the net assets acquired	-86.8
Fair value of the net assets attributable to TAG	<u>122.7</u>
Cost of the acquisition	-90.3
Profit on first-time consolidation	<u><u>32.4</u></u>

### Personnel expenses

Personnel expenses also have an effect on profit or loss. The ongoing property administration activities are more personnel-intensive compared to the disposal of properties. Personnel expenses are affected by the amount of performance-related remuneration for the members of the Management Board of the Company which is in turn dependent on various market and profitability indicators.

### Financing costs

In order to finance the acquisition, construction and development of properties and for the purpose of acquiring companies, TAG raises debt capital in substantial amounts. The terms for the debt financing negotiated with the financing banks when the loans are entered into and which are largely dependent on general developments in the interest rate market are a significant factor for the Company's earnings performance. The interest expenses can be reduced and therefore the Company's earnings can be improved by entering into favourable financing agreements (loans and interest rate swaps). Conversely, unfavourable financing terms can have a negative effect on profit or loss.

Notably, TAG was only slightly affected by short-term fluctuations in the level of interest rates in the financial years and three-month periods analysed in this section. For the majority of the loans the interest rate is fixed, either directly, in the form of a fixed rate of interest on a particular debt, or by hedging a variable-rate debt with an interest rate swap, the economic effect of which is to create a fixed interest rate for TAG.

The net interest result amounted to €-25.7 million in the three months ending 31 March 2013, €-14.2 million in the three months ending 31 March 2012, €-86.8 million in 2012, €-61.6 million in 2011 and €-31.2 million in 2010. TAG's average rate of interest for its bank loans in the financial years 2010 to 2012 amounted to 4.7%, 3.2% and 3.6% (long-term loans) and to 2.3%, 3.7% and 1.4% (short-term loans), disregarding financing costs for swaps. In the three-month period ending 31 March 2013 the average rate of interest was 3.5% for long-term loans and 2.2% for short-term loans.

### Income taxes

In the past, TAG was subject to a reduced level of income tax payments due to its existing tax loss carry-forwards. Tax payments could arise in the future, due to external tax audits. Moreover, changes in tax laws in particular with respect to further restrictions on the ability to offset loss carry-forwards or to deduct interest expenses could have negative consequences for TAG. Deferred taxes, for example in the form of deferred tax assets based on loss carry-forwards, also could have a significant impact on the Group's earnings. Changes in

tax laws or revised projections of the taxable income generated in the future could have material effects on profit or loss.

### 11.5. Analysis of the results of operations

The consolidated income statements for financial years 2010 to 2012 and for the three-month period ended 31 March 2013 (with comparative figures for the three-month period ended 31 March 2012) are presented in condensed form as follows:

	1 Jan. 2013 to 31 Mar. 2013		1 Jan. 2012 to 31 Mar. 2012		2012		2011		2010	
	(unaudited)		(unaudited)		(audited)		(audited)		(audited)	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
	of revenues		(adjusted) of revenues		of revenues		of revenues		of revenues	
Revenues	164.9	100	57.0	100	252.8	100	178.3	100	82.9	100
<i>of which rental revenues</i>	63.2	38	34.4	60	192.5	76	115.3	65	51.8	62
<i>of which revenues from sales<sup>1</sup></i>	101.1	61	21.0	37	52.9	21	54.5	30	29.4	36
<i>of which property management</i>	0.6	0	1.6	3	7.5	3	8.5	5	1.7	2
Cost of sales	-114.6	-69	-30.6	-54	-105.4	-42	-91.5	-51	-42.4	-51
Other operating income	2.2	1	83.9	147	170.7	67	66.8	37	15.7	19
Net gains/losses from the valuation of investment properties	-0.1	0	6.8	12	29.4	12	28.9	16	16.8	20
<b>Gross profit</b>	<b>52.4</b>	<b>32</b>	<b>117.1</b>	<b>205</b>	<b>347.5</b>	<b>137</b>	<b>182.5</b>	<b>102</b>	<b>73.0</b>	<b>88</b>
Personnel expenses	-7.3	-4	-3.2	-6	-23.1	-9	-12.7	-7	-8.8	-10
Depreciation, amortisation and impairment	-1.7	-1	-1.6	-3	-15.2	-6	-4.7	-3	-1.4	-2
Other operating expenses	-4.4	-3	-4.6	-8	-20.1	-8	-20.5	-11	-15.9	-19
<b>EBIT</b>	<b>39.0</b>	<b>24</b>	<b>107.6</b>	<b>189</b>	<b>289.1</b>	<b>114</b>	<b>144.6</b>	<b>81</b>	<b>46.9</b>	<b>57</b>
Income from investments in associated companies and other investments	0.0	0	0.0	0	0.2	0	0.3	0	6.5	8
Net interest result	-25.7	-16	-14.2	-25	-86.8	-34	-61.6	-34	-31.2	-38
<b>EBT</b>	<b>13.3</b>	<b>8</b>	<b>93.4</b>	<b>164</b>	<b>202.6</b>	<b>80</b>	<b>83.3</b>	<b>47</b>	<b>22.2</b>	<b>27</b>

Income taxes	0.8	0	-4.9	-9	-25.1	-10	-17.3	-10	-2.8	-4
Other taxes	0.0	0	0.1	0	0.4	0	-0.1	0	-0.2	0
<b>Consolidated net profit or loss before non-controlling interests</b>	<b>14.1</b>	8	<b>88.6</b>	155	<b>177.9</b>	70	<b>65.9</b>	37	<b>19.2</b>	23
Share of net profit or loss attributable to non-controlling interests	-0.1	0	-0.3	0	1.2	1	1.0	1	-0.7	-1
<b>Consolidated net profit or loss after non-controlling interests</b>	<b>14.0</b>	8	<b>88.3</b>	155	<b>179.1</b>	71	<b>66.9</b>	38	<b>18.5</b>	22

<sup>1</sup>Total revenues from the sale of real estate inventory and investment properties

The key figures used in this table, namely gross profit, EBIT and EBT, do not represent key figures for the purpose of measuring net assets, operating performance or liquidity in accordance with generally accepted accounting principles, in particular IFRS, and therefore do not represent an alternative to the key figures for net assets, results of operations or liquidity determined in accordance with IFRS. In addition there are no standard definitions for gross profit, EBIT or EBT. These key figures or other key figures with similar descriptions published by other companies are therefore not necessarily comparable with the key figures presented by the Company.

## Revenues

TAG's revenues during the individual periods were made up as follows:

	1 Jan. 2013 to 31 Mar. 2013		1 Jan. 2012 to 31 Mar. 2012		2012		2011		2010	
	(unaudited)		(unaudited)		(audited)		(audited)		(audited)	
	€ million	% change to prior year	€ million	% change to prior year	€ million	% change to prior year	€ million	% change to prior year	€ million	% change to prior year
Rental revenues	63.2	84	34.4	-82	192.5	67	115.3	123	51.8	13
Revenues from the sale of real estate inventory	3.0	88	1.6	-89	14.4	89	7.6	-63	20.6	-44
Revenues from the sale of investment properties	98.1	406	19.4	-49,6	38.5	-18	46.9	433	8.8	-75
Revenues from property management	0.6	-63	1.6	-78	7.4	-13	8.5	400	1.7	-6
	<u>164.9</u>	<u>189</u>	<u>57.0</u>	<u>-77</u>	<u>252.8</u>	<u>42</u>	<u>178.3</u>	<u>115</u>	<u>82.9</u>	<u>-38</u>

In financial year 2010 TAG's revenues were primarily determined by revenues from the sale of real estate inventory and investment properties. Real estate inventory comprises properties which are currently being marketed. Investment properties, on the other hand, are held mid-term to long-term and are generally sold only in individual cases, for example in order to optimise portfolios or to take advantage of beneficial developments in the market. However, higher revenues from sales of properties do not necessarily generate higher profits since – as illustrated below in the analysis of gross profit – the contributions to earnings achieved from sales are much less significant than net rental income. This is mainly because investment properties are already recognised at their fair value on the date of sale.

Rental revenues of €51.8 million were generated in financial year 2010, €115.3 in financial year 2011 and €192.5 in financial year 2012. In financial year 2011 rental revenues rose by 123% to €115.3 million. This development was principally attributable to the acquisition of Colonia and its real estate portfolio, thus enhancing the rental revenues of TAG. The inclusion of Colonia was responsible for a single rise in rental income of €52.3 million. The strong increase in 2012 was mainly due to the revenues generated by TAG Potsdam and its real estate portfolio from 31 March 2012 onwards. In addition, revenues in 2012 were significantly affected by the inclusion of the 12-month-revenues of Colonia and other real estate companies acquired in the course of 2011. In the three-month period ended 31 March 2013 TAG generated rental revenues of €63.2 million compared to €34.4 million in the three-month period ended 31 March 2012. This increase of €28.8 million was principally attributable to the first time consolidation of TAG Wohnen (leading to an increase in rental income of €10.7 million in this period), the recognition of rental revenues of TAG Potsdam which was fully consolidated from 31 March 2012 onwards (leading to an increase in rental income of €18.1 million in this period) and other new acquired subsidiaries effective 1 February 2012 and 31 December 2012.

Revenues from the sale of real estate inventory declined from €20.6 million in 2010 to €7.6 million in 2011 (decline of 63%) and increased again to €14.4 million in 2012. This relatively low amount of sales revenue compared to total revenues reflects TAG's focus on long-term property rentals. In the three month-period ended 31 March 2013 revenues from the sale of real estate inventory of €3.0 million were achieved compared to €1.6 million in the three-month period ended 31 March 2012, representing an increase of €1.5 million compared with the prior-year period. The sales in the first quarter of 2013 refer to TAG Potsdam amounting to €1.3 million and TAG Asset Management amounting to €1.3 million whereas in the first quarter of 2012 real estate inventory of TAG Asset Management amounting to €0.9 million and of Bau-Verein amounting to €0.7 million was sold.

In financial year 2010 revenues from the sale of investment properties amounted to €8.8 million which then rose to €46.9 million in 2011 and declined again to €38.5 million in 2012. This growth from 2010 to 2011 is primarily due to sales of commercial property amounting to €38.2 million by TAG Gewerbe. The sales achieved in 2012 mainly resulted from sales at Bau-Verein (residential portfolio) amounting to €30.8 million, TAG Gewerbe amounting to €6.2 million and TAG Potsdam amounting to €1.2 million. In the three-month period ended 31 March 2013 revenues from the sale of investment properties amounted to €98.1 million compared with revenues of €19.4 million in the same period of the prior year (increase of €78.7 million or 406%). The increase mainly resulted from the sale of approximately 1,400 residential units in the Berlin area with a total sales price of €87.0 million effective 31 January 2013.

Revenues from property management have consisted mainly of income from property management services provided to third party clients. Revenues from property management rose from €1.7 million in 2010 to €8.5 million in financial year 2011. This growth in revenues of 400% reflects the first-time consolidation of Colonia and its subsidiary POLARES REAM – providing the service business in Colonia Group – as of 1 February 2011. In 2012, revenues from property management declined to €7.5 million again, following the sale of 100% of the shares in POLARES REAM as of 30 September 2012. As a result, in the three-month period ending 31 March 2013 revenues from property management services amounted to €0.6 million compared with €1.6 million in the prior period.

The following table shows TAG's rental revenues analysed by the individual business segments. The figures are unaudited and were taken from the Company's ongoing accounting systems.

	1 Jan. 2013 to 31 Mar. 2013 (unaudited)	1 Jan. 2012 to 31 Mar. 2012 (unaudited)	2012 (unaudited)	2011 (unaudited)	2010 (unaudited)
	€ million	€ million	€ million	€ million	€ million
Rental revenues Residential – Hamburg	9.5	5.7	29.0	18.3	6.8
Rental revenues Residential – Berlin	11.5	7.4	39.4	22.4	7.7
Rental revenues Residential – North Rhine	4.1	4.1	16.8	15.7	6.8
Rental revenues Residential – Salzgitter	6.8	6.7	27.0	21.9	0.0
Rental revenues Residential – Thuringia / Saxony	24.4	3.0	51.2	7.3	3.2
Rental revenues Residential – Total	56.3	26.9	163.4	85.6	24.5
Rental revenues Commercial	6.6	7.1	27.8	28.1	25.8
Rental revenues Other activities	0.3	0.4	1.3	1.6	1.5
<b>Total revenues</b>	<b>63.2</b>	<b>34.4</b>	<b>192.5</b>	<b>115.3</b>	<b>51.8</b>

In financial years 2011 to 2012 the majority of the rental revenues were generated in the Residential Real Estate business segment, within Bau-Verein, since financial year 2011 also within Colonia and subsequently in 2012 within TAG Potsdam. The increase in rental revenues in financial year 2011 compared to financial year 2010 is mainly due to the first-time consolidation of Colonia in financial year 2011 and the resulting growth of the real estate portfolio. Evenly, the acquisition of all shares in TAG Potsdam at the end of March 2012 is the basis for the further increase in revenues in 2012 compared with 2011. In the three-month period ended 31 March 2013, around 89.1% of total rental revenues amounting to €63.2 million (prior-year period €34.4 million) were achieved in the Residential Real Estate segment. The Commercial Real Estate Segment accounted for around 10.4% (prior-year period around 20.6%) of TAG's rental revenues during this period. The Commercial Real Estate rental revenues consist for the most part of rental revenues generated by TAG Gewerbe.

### Cost of purchased services and sales

The principal components of the cost of purchased services and sales are presented in the following overview:

	1 Jan. 2013 to 31 Mar. 2013 (unaudited)	1 Jan. 2012 to 31 Mar. 2012 (unaudited)	2012 (audited)	2011 (audited)	2010 (audited)
	€ million	€ million	€ million	€ million	€ million
Rental expenses	13.9	8.3	48.0	36.3	11.6
Expenses from the sale of real estate inventory	2.3	1.6	14.0	7.7	20.9
Expenses from the sale of investment properties	98.3	19.4	39.1	39.0	8.7
Expenses from property management	0.0	1.3	4.3	8.5	1.2
<b>Cost of sales</b>	<b>114.5</b>	<b>30.6</b>	<b>105.4</b>	<b>91.5</b>	<b>42.4</b>

The rental expenses mainly consist of operating and ancillary costs that cannot be recharged to the tenant and ongoing maintenance expenses. Rental expenses' development in financial years 2010 to 2012 correlates with revenues, rising from 11.6 million in 2010 to €36.3 million in 2011 and to €48.0 million in 2012. In financial

year 2011, the expenses increased by €24.7 million to €36.3 million compared with financial year 2010. The principal reason for the increase was the inclusion of Colonia in the consolidated financial statements of TAG for the first time. This inclusion of Colonia was responsible for a rise in expenses of €23.6 million in financial year 2011. Likewise, the increase in 2012 was mainly due to the consolidation of TAG Potsdam since the end of the first quarter 2012, leading to a rise in expenses of €11.7 million in financial year 2012. In the three-month period ended 31 March 2013 the expenses rose to €13.9 million compared with €8.3 million in the previous period. This was mainly due to the first time consolidation of TAG Potsdam as of 31 March 2012 (leading to an increase in rental expenses of €3.3 million in this period) and other new acquired subsidiaries after the end of the first quarter of financial year 2012.

The expenses from the sale of real estate inventory and of investment properties mainly reflect derecognition of the carrying amounts of the properties sold and selling costs. The development of the expenses corresponds to the development of the revenues. Accordingly, expenses from the sale of real estate inventory declined from €20.9 million in 2010 to €7.7 million in 2011 and saw an increase to €14.0 million in 2012. In the three-month period ended 31 March 2013, expenses of this nature amounting to €2.3 million (prior-year period €1.6 million) were recorded. The expenses from the sale of investment properties reported in the cost of sales from financial year 2010 onward amounted to €8.7 million in 2010, €39.0 million in 2011, €39.1 million in 2012 and €98.3 million (prior-year period €19.4 million) in the three-month period ended 31 March 2013. This development also reflects the revenues generated in the respective periods. The cost of sales for investment properties in 2011 related to Bau-Verein at an amount of €8.6 million and TAG Gewerbe at an amount of €30.2 million, whereas in 2012 at Bau-Verein €30.8 million were recognized and at TAG Gewerbe €6.6 million. The cost of sales recognised in the first quarter of 2013 mainly refer to the sale of two portfolios of TAG Potsdam with book values of €37.0 million and Bau-Verein of €50.0 million. The cost of sales are mainly identical with the sales revenues, since the investment properties were capitalized at fair value in the Group financial statements as of 31 December 2012.

### Other operating income

Other operating income comprises the following items. The figures are unaudited and were extracted from the Company's ongoing accounting systems.

	1 Jan. 2013 to 31 Mar. 2013 (unaudited) € million	1 Jan. 2012 to 31 Mar. 2012 (unaudited) € million	2012 (unaudited) € million	2011 (unaudited) € million	2010 (unaudited) € million
Net gains from first-time consolidations	0.0	83.1	148.2	56.8	8.4
Net gain deconsolidation POLARES REAM	0.0	0.0	5.4	0.0	0.0
Net gains/losses from changes in the fair value of interest rate swaps	0.0	0.0	0.0	2.0	0.0
Income from the reversal of provisions	0.2	0.0	6.3	2.3	4.3
Net gains from the repurchase of convertible bonds	0.0	0.0	0.0	0.0	1.1
Miscellaneous	2.0	0.8	10.8	5.7	1.9
<b>Other operating income</b>	<b>2.2</b>	<b>83.9</b>	<b>170.7</b>	<b>66.8</b>	<b>15.7</b>

In financial year 2010, net gains from first-time consolidations amounting in total to 8.4 million were realised due to the acquisition of a majority of the shares in TAG Nordimmobilien S.à r.l. (€4.0 million), TAG Sachsenimmobilien GmbH (€0.8million) and TAG NRW-Wohnimmobilien und Beteiligungs GmbH (€3.6 million). In 2011, net gains from first-time consolidations in financial year 2011 amounting in total to €56.8 million resulted from the acquisition of shares in Colonia (€32.4 million) as well as arsago wohnen I GmbH, arsago wohnen II GmbH, arsago wohnen IV GmbH, arsago wohnen V GmbH and arsago wohnen VI GmbH

(€24.4 million) which operate since 2011 as TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH and accordingly TAG Wolfsburg-Immobilien GmbH. In 2012, net gains from first time consolidations were recognized at an amount of €99.2 million relating to the acquisition of all of the shares of TAG Potsdam and at an amount of €49.0 million relating to the purchase of 100% of the shares of TAG Wohnen. The net gain from first-time consolidations arising in the three-month period ended 31 March 2012 was €83.1 million and resulted from the acquisition of TAG Potsdam in March 2012. It was assessed on a preliminary basis for these interim financial statements. Due to subsequent adjustments of the purchase price allocation the gain increased to €99.2 million for the 12-month period ending 31 December 2012.

On 6 September 2012, effective 30 September 2012, TAG's subsidiary Colonia sold all shares in its wholly owned subsidiary POLARES REAM to management team by way of a management buy-out. The deconsolidation of POLARES REAM led to a profit of €5.4 million in 2012.

The net gains from changes in the fair value of interest rate swaps relate to derivatives that no longer qualify as effective within the meaning of the provisions of IFRS. Any change in the fair value of these interest rate swaps is recorded directly in the income statement. The only significant effects resulting from this, however, occurred in financial year 2011 and related to interest rate swaps entered into by Colonia.

Income from the reversal of provisions has experienced a material increase from €2.3 million in 2011 to €6.4 million in 2012 and is mainly based on the release of both provisions for outstanding invoices and provisions recognized in the course of the acquisition of TAG Potsdam.

The income from the repurchase of a convertible bond was realised in financial year 2010. It related to a convertible bond with a nominal amount of €12.5 million which was repurchased at less than its carrying amount. The convertible bond was resold at a later date during the financial year.

The miscellaneous other operating income reported for the period ended 31 March 2013 and in previous years mainly includes income from settlements, retrospectively awarded investment premiums and the derecognition of liabilities, among other items.

### **Net gains/losses from the remeasurement of investment properties**

Investment properties are initially measured at the acquisition costs and costs of construction. In accordance with the fair value model, the properties are remeasured at each subsequent balance sheet date at fair value (market value). The fair value of the investment properties corresponds to the price at which the properties could be exchanged between knowledgeable, willing parties in an arm's length transaction. In particular, fair value excludes estimated prices that are increased or reduced by side agreements or special circumstances, for example unusual methods of financing, sale and leaseback arrangements or special benefits or concessions granted in connection with the sale.

Almost all of TAG's investment properties were valued by independent valuation experts as of 31 December 2010 and 31 December 2011 as well as of 30 September, 30 November 2012 and 31 December 2012 (as a basis for the remeasurement of investment properties as of 31 December 2012 and 31 March 2013). In certain cases experts' valuations were not required, since sales prices already laid down in notarial purchase agreements were used as the basis for the valuation. The valuations made by the valuation experts were then incorporated into the consolidated financial statements. In the course of their work, the valuation experts visited the investment properties, where necessary for purposes of the valuation, and all of the documentation required for their work was made available to them. The method employed by the valuation experts to determine the fair value was in some cases the discounted cash flow method and in others the income capitalisation method prescribed by the regulations for the valuation of real estate (*Verordnung über die Grundsätze für die Ermittlung der Verkehrswerte von Grundstücken*, "ImmoWertV").

The discounted cash flow method is applied in accordance with International Valuation Standards. The model sums up the discounted cash flows from the object during a 10 year detailed planning period and a subsequent terminal value. The resulting gross present value is then reduced by market specific transaction costs a potential

buyer would have to bear. The applied discount rate reflects market related and investment specific risks. Under the income capitalisation method, the value of the property is the total of the value of the land and the capitalised value of the buildings. In addition, other factors affecting the value must be taken into account, in particular if the building is not in a normal condition as a result of the failure to carry out maintenance work or in the event of construction defects or damage to the buildings, unless those factors have already been reflected by using a lower figure for net rental income or a shorter remaining economic life. The capitalised value of the buildings is calculated from the rentable area of the property multiplied by the net rent (excluding charges for utilities and services) achievable on a long-term basis, less management costs incurred for maintenance and administration and allowing for the risk of loss of rent. The net annual income arrived at in this way is capitalised using a market rate of interest for real estate, determined on the basis of expected returns and the estimated remaining economic life of the building (*Liegenschaftszinssatz*); the result is the market value (fair value in accordance with IAS 40) for the relevant property.

The Company appointed the valuation experts CB Richard Ellis GmbH, Berlin, and Otto & Kollegen, Berlin, for the purpose of determining the market values and issuing valuation reports. The valuation reports as of 30 September 2012, 30 November 2012 and 31 December 2012 issued by the expert appraisers are presented in section 30. "*Valuation Reports*". The Company considers the valuation reports issued by the expert appraisers as reasonable. A detailed overview of the individual properties can be found in section 13.6. "*Property, plant and equipment and investment properties*".

The following overview gives a more detailed analysis of the gains and losses arising from the fair value remeasurement of investment properties and the net gains/losses from the first-time consolidation of property companies which together make up the net gains/losses from the remeasurement of investment properties. The figures are unaudited and were extracted from the Company's on-going accounting systems.

	1 Jan. 2013 to 31 Mar. 2013	1 Jan. 2012 to 31 Mar. 2012	2012	2011	2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	€ million	€ million	€ million	€ million	€ million
Fair value valuation and net gains/losses on the first-time consolidation of property companies at Bau-Verein level	-0.1	0.0	28.8	9.1	11.8
Fair value valuation and net gains/losses on the first-time consolidation of property companies at TAG Gewerbe level	0.0	-1.0	-8.9	7.2	4.0
Fair value valuation and net gains/losses on the first-time consolidation of property companies at Colonia level	0.0	0.0	-10.5	2.2	0.0
Fair value valuation and net gains/losses on the first-time consolidation of property companies at TAG Potsdam level	0.0	0.0	5.0	0.0	0.0
Fair value valuation of other investment properties and net gains/losses on the first-time consolidation of other property companies	0.0	7.8	15.0	10.4	1.0
<b>Total net gains/losses from the remeasurement of investment properties</b>	<b>-0.1</b>	<b>6.8</b>	<b>29.4</b>	<b>28.9</b>	<b>16.8</b>

The valuation gain of €16.8 million in financial year 2010 mainly reflects the gains arising from the residential real estate holdings of Bau-Verein amounting to €11.8 million and the real estate holdings of TAG Gewerbe amounting to €4.0 million, as well as the gain arising from the acquisition of TAG Leipzig-Immobilien GmbH of €5.1 million. Valuation losses of €5.0 million in 2010 mostly consisted of the loss of €2.8 million recorded at TAG AM, in particular in the serviced apartments segment.

The main factor generating gains of €28.9 million from the fair value remeasurement of investment properties in financial year 2011 was the valuation of one property within the commercial portfolio. A valuation gain of €9.1 million was achieved in the light of new rental agreements. The initial valuation of the real estate held by Dom Immobilien 14 GmbH, which was acquired in April 2011 and is now trading as TAG Marzahn-Immobilien GmbH, generated a valuation gain of €4.8 million included in other fair value valuation.

The net valuation gain of €29.4 million in 2012 is mainly based on recognized fair value gains at Bau-Verein and TAG Potsdam level due to the sale of investment properties in the first quarter 2013. This gain was partly compensated by fair value losses of investment properties at TAG Gewerbe and Colonia level.

In the three-month period ended 31 March 2013 no significant gain was recognized. Nevertheless, the three-month period ending 31 March 2012 showed a gain of €6.8 million relating to a gain from first-time consolidation of other property companies of €7.8 million partly compensated by a loss of €-1.0 million of investment properties at TAG Gewerbe.

## Gross profit

Gross profit comprises revenues, cost of sales, other operating income and the net gains/losses from the remeasurement of investment properties. The table below breaks gross profit down further into rental income, revenues from the sale of real estate and income from property management and includes other operating income and the net gains/losses from the remeasurement of investment properties to provide a reconciliation with the total gross profit:

	1 Jan. 2013 to 31 Mar. 2013 (unaudited)	1 Jan. 2012 to 31 Mar. 2012 (unaudited)	2012 (audited)	2011 (audited)	2010 (audited)
	€ million	€ million	€ million	€ million	€ million
Net rental income	49.2	26.1	144.5	79.0	40.2
Net gains/losses from the sale of real estate inventory	0.7	0.0	0.4	-0.1	-0.2
Net gains/losses from the sale of investment properties	-0.2	0.0	-0.6	7.9	0.0
Net result from property management	0.6	0.3	3.2	0.0	0.4
Other operating income	2.2	83.9	170.7	66.8	15.7
Net gains/losses from the remeasurement of investment properties	-0.1	6.8	29.4	28.9	16.9
Gross profit	52.4	117.1	347.5	182.5	73.0

In financial years 2010 to 2012, TAG achieved a steady increase in its net rental income from €40.2 million in 2010 to €79.0 million in 2011 and €144.5 million in 2012 as a result of expanding its real estate portfolio. As of 31 March 2013 net rental income amounted to €49.2 million compared to €26.1 million as of 31 March 2012, mainly due to the first time consolidation of TAG Potsdam as of 31 March 2012, TAG Wohnen as of 31 December 2012 and other new acquired real estate companies in the first quarter of financial year 2012. Net rental income exceeded TAG's financing costs in all of the periods presented.

The net interest result, which is analysed and explained in more detail in this section, amounted to €-31.2 million in 2010, €-61.6 million in 2011 and to €-86.8 million in 2012. In the three-month period ended 31 March 2013 a net interest result of €-25.7 million was recorded following €-14.2 million in the comparable period of the previous year as a consequence of the steady growth of TAG's real estate portfolio and the related financing.

The contributions to earnings from the sale of real estate inventory remained constant in the financial years 2010 and 2011 at €-0.2 million and €-0.1 million with a slight increase to €0.4 million in 2012. In the three-month period ended 31 March 2013 net revenues of €0.7 million resulted from the sale of real estate inventory compared to €0.0 million in the comparable period of the previous year. These insignificant contributions to earnings mainly reflected the sell-off of older real estate holdings which had been owned by TAG for a considerable time and which were low margin generating.

Net gains/losses from the sale of investment properties in financial years 2010, 2011 and 2012 amounted to €0.0 million, €7.9 million and €-0.6 million respectively. In the three-month periods ended 31 March 2013 and 31 March 2012 €-0.2 million and €0.0 million were recorded. Significant gains and losses from the sale of investment properties are generally not generated since the investment properties are already carried at their fair value in the consolidated financial statements.

Net result from property management decreased in the financial years 2010 to 2011 from €0.4 million to €0.0 million in 2011 before a significant increase to €3.2 million in 2012 was recognized, mainly due to the preceding sale of low-margin business included in this segment. In the three-month period ended 31 March 2013 a net result of €0.6 million was recorded (prior-year period €0.3 million).

Finally, gross profit was significantly affected by other operating income and gains and losses from the fair value remeasurement of investment properties. In financial year 2011, a substantial increase in gross profit to €182.5 million was achieved, resulting from the improved operating income of €66.8 million (including a gain on the first-time consolidation of Colonia amounting to €32.4 million and arsago wohnen I GmbH, arsago wohnen II GmbH, arsago wohnen IV GmbH, arsago wohnen V GmbH and arsago wohnen VI GmbH amounting to €24.4 million) and the increase in rental revenues following the acquisition of Colonia, as well as to the valuation gain on investment properties of €28.9 million (prior-year period €16.9 million). Gross profit increased further in 2012 mainly due to gains on the first time consolidation of TAG Potsdam amounting to €99.2 million and TAG Wohnen amounting to €49.0. These gains were complemented by gains from remeasurement of investment properties in the financial years 2010, 2011 and 2012 of €16.9 million, €28.9 and €29.4 million respectively leading to gross profits of €73.0 million in 2010, €182.5 million in 2011 and of €347.5 million in 2012 respectively.

As of 31 March 2013 gross profit amounted to €52.4 compared to €117.1 million in the comparable period for the previous year. The main reason for this development was the recognition of the preliminary gain on the first time consolidation of TAG Potsdam as of 31 March 2012 leading to a gain of €83.1 million.

### Personnel expenses

TAG's personnel expenses rose from €8.8 million in 2010 to €12.7 million in 2011 and to €23.1 million in 2012. The higher figure in financial year 2011 mainly reflected the increase in the number of employees following the acquisition of Colonia. The settlement payments to departing members of the management board of Colonia amounting to €2.7 million were not recorded as personnel expenses but as liabilities attributable to the acquisition. The increase of personnel expenses to €23.1 million in 2012 was mainly due to the first-time consolidation of TAG Potsdam.

### Depreciation, amortisation and impairment losses

The following table presents an analysis of depreciation, amortisation and impairment losses:

	1 Mar. 2013 to 31 Mar. 2013 (unaudited) € million	1 Jan. 2012 to 31 Mar. 2012 (unaudited) € million	2012 (audited) € million	2011 (audited) € million	2010 (audited) € million
Depreciation and amortisation	0.5	0.4	1.7	1.2	0.8
Impairment losses on inventories	0.0	0.0	8.5	1.5	0.0
Impairment losses on receivables	1.2	1.2	5.0	2.0	0.6
Total depreciation, amortisation and impairment losses	1.7	1.6	15.2	4.7	1.4

Depreciation and amortisation charged on property, plant and equipment and intangible assets rose from 2010 to 2012 mainly due to the increased size of the Group and the related rise of intangible and fixed assets. Depreciation of fixed assets includes the depreciation of the Steckelhörn property, which is used by the Group and reported in property, plant and equipment. In the three-month period ended 31 March 2013 the depreciation and amortisation amounted to €0.5 million compared to €0.4 million in the comparable period of the prior year.

In financial year 2011 impairment losses on inventories amounting to €1.5 million were recorded mainly due to an undeveloped piece of land in Hamburg, which TAG no longer planned to develop as originally intended and that has been sold for less than its carrying amount. Impairment losses of €8.5 million in 2012 mainly related to impairment losses on inventory real estate owned by TAG Potsdam.

The increased impairment losses on receivables of €5.0 million for financial year 2012, €2.0 million for financial year 2011 and €0.6 million in 2010 were mainly due to the write-off of uncollectible rental receivables at Bau-Verein, TAG NRW-Wohnimmobilien und Beteiligungs GmbH, Colonia and TAG Potsdam. In the three-month periods ended 31 March 2013 and 31 March 2012 impairment losses on receivables amounted to €1.2 million. This was mainly due to impairment losses on receivables by Colonia, TAG Potsdam, TAG Wohnen and TAG Gewerbe from a variety of individual tenants of properties.

### Other operating expenses

The principal items comprising other operating expenses are as follows. The figures are unaudited and were extracted from the Company's on-going accounting systems.

	1 Jan. 2013 to 31 Mar. 2013 (unaudited) € million	1 Jan. 2012 to 31 Mar. 2012 (unaudited) € million	2012 (unaudited) € million	2011 (unaudited) € million	2010 (unaudited) € million
Legal, consulting and audit costs	1.0	1.2	5.4	4.8	3.5
Restructuring costs Colonia	0.0	0.0	0.0	1.3	0.0
Cost of repairs and risks of damages payments for real estate sold	0.2	0.0	1.1	1.1	3.6
Cost of premises	0.5	0.5	2.3	1.2	0.8
Miscellaneous	2.7	2.9	11.3	12.1	8.0
Other operating expenses	4.4	4.6	20.1	20.5	15.9

Other operating expenses rose from €15.9 million in 2010 to €20.5 million in 2011 and decreased slightly to €20.1 million in 2012. The increase in financial year 2011 compared with financial year 2010 mainly reflected the fact that higher legal, consulting and audit costs were recorded in connection with and as a result of the acquisition of the majority of the shares in Colonia, and reflect that Colonia incurred restructuring costs amounting to €1.3 million that were not directly attributable to the acquisition and were required to be charged directly to profit or loss. Additional restructuring costs of €5.1 million were not expensed but offset against the gain on the first-time consolidation of Colonia. In 2012, other operating expenses remained nearly constant. The increase in legal, consulting and audit costs by €0.6 million mainly based on the consolidation of TAG Potsdam and of the cost of premises by €1.0 million compared to 2011 was partly compensated by the decrease in the finalized restructuring of Colonia which was accounted for in 2011 at an amount of €1.3 million. In the three-month period ended 31 March 2013 other operating expenses amounted to €4.4 million compared with €4.6 million in the prior-year period.

### Income from associated companies and equity-accounted investments

The following overview shows the income from associated companies and equity-accounted investments in the individual periods.

	1 Jan. 2013 to 31 Mar. 2013 (unaudited) € million	1 Jan. 2012 to 31 Mar. 2012 (unaudited) € million	2012 (audited) € million	2011 (audited) € million	2010 (audited) € million
Share of profit of associated companies	0.0	0.0	0.0	0.2	6.5
Dividends from investments	0.0	0.0	0.2	0.1	0.0
Income from associated companies and equity-accounted investments	0.0	0.0	0.2	0.3	6.5

In financial year 2010, gains were realised due to the acquisition of associated companies using the equity method for their initial valuation of which €4.0 million related to ESTAVIS AG and €2.9 million to Colonia. In financial year 2011, the share of profits of associated companies reflected the inclusion of Colonia using the equity method following the acquisition of a majority of the shares of Colonia on 15 February 2011 (€2.2 million) and its subsequent consolidation into the 2011 financial statements. Also in financial year 2011, valuation of ESTAVIS AG was done at fair value (€-2.0 million).

The dividends from investments in financial year 2011, 2012 and in the three-month period ended 31 March 2013 relate to non-consolidated companies. In 2012, dividends from investments of €0.2 million relate to an investment fund engaged in real estate and held by Colonia.

### Net interest result

The net interest result is made up as follows:

	1 Jan. 2013 to 31 Mar. 2013 (unaudited) € million	1 Jan. 2012 to 31 Mar. 2012 (unaudited) € million (adjusted)	2012 (audited) € million	2011 (audited) € million	2010 (audited) € million
Interest income	2.5	6.1	10.9	10.1	3.2
Interest expense	-28.2	-20.2	-97.7	-71.7	-34.4
Net interest results	-25.7	-14.2	-86.8	-61.6	-31.2

Interest income consists of interest received on bank balances, interest income from interest rate swaps and interest from receivables from non-consolidated subsidiaries. The interest expense mainly relates to interest paid on bank liabilities and the convertible bonds, and expenses for interest rate swaps.

In financial year 2010 TAG's financing requirements increased, with the result that a net interest result of €-31.2 million was reported. This development was primarily due to assumed bank loans as a result of the acquisition of TAG Nordimmobilien S.à r.l., TAG Sachsenimmobilien GmbH and TAG NRW-Wohnimmobilien und Beteiligungs GmbH, and due also to the issuance of convertible bonds. In financial year 2011, TAG

recorded a net interest result of €-61.6 million. This substantial increase of €30.4 million was almost entirely attributable to the first-time consolidation of Colonia in financial year 2011. This effect generated an increase of €-26.6 million in the net interest result for financial year 2011. In financial year 2012 the negative net interest result increased by €-25.1 million to €-86.8 million compared to prior year and was almost entirely attributable to the first time consolidation of TAG Potsdam.

In the three-month period ended 31 March 2013 the net interest result amounted to €-25.7 million compared with €-14.2 million in the same period of the prior year. The development resulted from the steady growth of TAG's real estate portfolio and the inclusion of the interest expenses of TAG Potsdam and TAG Wohnen in the first quarter of 2013.

Net interest result includes non-cash items (e.g. valuation effects from the accounting for business combinations, for convertible bonds, hedge accounting adjustments) amounting to €2.6 million in 2010, €6.3 million in 2011, €4.6 million in 2012 and €0.4 million in the three-month period ended 31 March 2013.

### **Income taxes**

Income taxes comprise both, current and deferred taxes. Due to the existing loss carry-forwards within TAG, current taxes owed were mainly incurred in prior financial years and mainly resulted from external audits by the tax authorities. Only a limited liability for current taxes owed by the Company has arisen on an on-going basis because up to this date the Company has made use of tax loss carry-forwards. Reported income taxes therefore consist almost entirely of deferred taxes.

Income taxes in financial year 2011 contained current taxes in the amount of €-0.8 million and deferred taxes of €-16.5 million compared to €-0.2 million current taxes and €-2.6 million deferred taxes in financial year 2010. The increase of deferred taxes is primarily attributable to tax loss carry-forwards of €-8.5 million as well as deferred taxes on valuation differences with respect to interest rate hedging transactions of €-3.0 million and of investment properties of €-6.9 million. In financial year 2012, income taxes contained current taxes of €-1.0 million and deferred income tax expenses of €-24.1 million. The increase in deferred income tax expense 2012 is mainly based on a valuation allowance on the deferred tax asset relating to interest carry forwards. In the three-month period ended 31 March 2013 income taxes amounted to €0.8 million compared with €-4.9 million in the same period of the prior year. Against the background of a positive EBT, the tax income is mainly based on the usage of interest carry forward in 2013 which led to a reduction of current tax expenses and an increase in tax loss carry forwards.

### **Other taxes**

Other taxes in the financial years from 2010 onward mainly consist of vehicle tax and additional payments of VAT or reimbursements of VAT for earlier years as a result of external audits by the tax authorities.

### **Share of profit or loss attributable to non-controlling interests**

The share of profit or loss attributable to non-controlling interests represents the shares of external shareholders in the profit or loss of the companies fully consolidated. In financial year 2010 it relates in particular to the external shareholders in Bau-Verein and in financial years 2011 and 2012 mainly to the minority shareholders in Colonia. The share of profit or loss attributable to non-controlling interests amounted €0.7 million (share of profit) in 2010, €-1.0 million (share of loss) in 2011 and €-1.2 million (share of loss) in 2012.

In the three-month period ended 31 March 2013 the share of profit attributable to non-controlling interests amounted to €0.1 million compared to €0.3 million as of 31 March 2012.

### **Consolidated net profit or loss after non-controlling interests**

TAG returned to significant profitability in 2010 with a consolidated net profit after non-controlling interests of €18.5 million. The main reasons for this were above all the greatly improved net gains/losses from the remeasurement of investment properties amounting to €16.8 million and also net gains from first-time

consolidations of €8.4 million following the acquisition of the shares in TAG Nordimmobilien S.à r.l., TAG Sachsenimmobilien GmbH and TAG NRW-Wohnimmobilien und Beteiligungs GmbH.

In financial year 2011, consolidated net profit after non-controlling interests experienced a significant increase of €48.4 million from €18.5 million in 2010 to €66.9 million in 2011. The increase mainly reflected the gain resulting from the first-time consolidation of Colonia amounting to €32.4 million (prior-year period €0.0 million) and higher net gains from the remeasurement of investment properties of €28.9 million (prior-year period €16.8 million). Earnings for financial year 2011 were negatively affected by the €30.4 million increase in the net interest result compared with the previous year following the acquisition of Colonia.

In financial year 2012 consolidated net profit after non-controlling interests amounted to €179.1 million. This development primarily resulted from an increase in TAG's net rental income to €144.5 million (compared with €79.0 million in 2011) and increased gains from the first-time consolidation of newly acquired subsidiaries amounting to €148.2 million (compared with €56.8 million in 2011). Earnings for financial year 2012 were adversely affected by an increase of the negative net interest result to €-86.8 million (compared with €-61.6 million in 2011).

In the three-month period ended 31 March 2013 consolidated net profit after non-controlling interests amounted to €14.0 million compared with €88.3 million in the same period of the prior year. The main reason for this development were the gains from first time consolidation of TAG Potsdam amounting to €83.1 million recognized in the first quarter of 2012 and the increase in rental income in the first quarter 2013 due to the significant rise in income from the higher number of rental units since the first quarter 2012.

## 11.6 Analysis of the asset and capital structure

The asset side of TAG's consolidated balance sheets is presented below in condensed form:

	31 Mar. 2013 (unaudited)		31 Dec. 2012 (audited)		31 Dec. 2011 (audited)		31 Dec. 2010 (audited)	
	€ million	%	€ million	%	€ million	%	€ million	%
<b>Non-current assets</b>								
Investment properties	3,456.4	93	3,455.7	91	1,890.0	92	837.2	70
Property, plant and equipment	10.6	0	10.7	0	12.0	1	12.0	1
Deferred taxes	0	0	1.5	0	0.1	0	4.0	0
Other non-current assets	27.6	1	27.6	1	19.5	1	64.6	5
<b>Current assets</b>								
Land with unfinished and finished buildings (real estate inventory held for sale)	87.4	2	89.6	2	37.4	2	114.0	10
Trade receivables	16.6	0	20.1	1	13.2	1	6.7	1
Cash and cash equivalents	61.2	2	55.8	1	31.7	1	129.4	11
Other current assets	29.1	2	27.4	1	5.5	0	6.4	1
<b>Non-current available for sale assets</b>								
	8.3	0	111.6	3	38.3	2	16.2	1
Total assets	3,697.3	100	3,800.0	100	2,047.7	100	1,190.5	100

### Investment properties

The investment properties reported represent properties required to be measured at their fair value at the respective consolidated balance sheet dates (investment property within the meaning of IAS 40). The changes in investment properties are illustrated in the following table.

	1 Jan. 2013			
	to			
	31 Mar. 2013	2012	2011	2010
	(unaudited)	(audited)	(audited)	(audited)
	€ million	€ million	€ million	€ million
At the beginning of the period	3,455.7	1,890.0	837.2	596.7
Additions to investment properties	0.8	12.3	55.7	41.1
Additions due to business combinations and acquisitions	0.0	1,613.7	960.7	156.4
Fair value remeasurement of investment properties	-0.1	19.2	24.2	12.8
Reclassifications/transfers of real estate and non-current assets held for sale	0.0	-75.4	12.3	35.1
Disposals of investment properties	0.0	-4.2	-0.1	-4.9
At the end of the period	<u>3,456.4</u>	<u>3,455.7</u>	<u>1,890.0</u>	<u>837.2</u>

Significant investments in investment properties were made primarily via business combinations and acquisitions. The additions of €156.5 million as of 31 December 2010 represent the investment properties of the subsidiaries acquired during this period, namely TAG Nordimmobilien S.à r.l., TAG Sachsenimmobilien GmbH and TAG NRW-Wohnimmobilien und Beteiligungs GmbH. The additions resulting from business combinations and acquisitions in financial year 2011 amount to €960.7 million and refer to the investment properties of Colonia as well as arsago wohnen I GmbH, arsago wohnen II GmbH, arsago wohnen IV GmbH, arsago wohnen V GmbH and arsago wohnen VI GmbH which operate since 2011 as TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH and accordingly TAG Wolfsburg-Immobilien GmbH. The additions of €1,613.7 million as of 31 December 2012 mainly represent the investment properties of the newly acquired companies TAG Potsdam and TAG Wohnen GmbH.

The valuation gains of €12.8 million, €24.2 million and €19.2 million recognised as of 31 December 2010, 31 December 2011 and 31 December 2012, respectively, were mainly attributable to valuation gains on the residential real estate of Bau-Verein and related primarily to the residential portfolio in the Hamburg and Berlin region. In the three-month period ending 31 March 2013, a slight valuation loss of €0.1 million was recorded due to some disposals of properties.

TAG's investment properties are distributed between the following companies. The figures are unaudited and were extracted from the Company's ongoing accounting systems:

	31 Mar. 2013 (unaudited) € million	31 Dec. 2012 (unaudited) € million	31 Dec. 2011 (unaudited) € million	31 Dec. 2010 (unaudited) € million
TAG Potsdam	940.3	938.7	0.0	0.0
Colonia	781.0	781.0	789.4	0.0
TAG Wohnen	570.9	570.9	0.0	0.0
TAG Gewerbe	340.2	340.2	343.8	353.3
Bau-Verein	209.8	210.0	225.5	245.2
TAG AM	102.0	101.9	101.5	35.2
Other	512.2	513.0	429.8	203.5
	<u>3,456.4</u>	<u>3,455.7</u>	<u>1,890.0</u>	<u>837.2</u>

The largest share of TAG's investment properties by value is held by TAG Potsdam, Colonia, TAG Wohnen (mainly in the form of residential real estate) and TAG Gewerbe (in the form of commercial real estate). Based on the values as of 31 March 2013 and 31 December 2012, 76% of the total portfolio is reported by these companies/subgroups. At the previous reporting dates, this share, which related only to Colonia (in 2011) and TAG Gewerbe (in 2010 and 2011), amounted to 60% (31 December 2011) and 42% (31 December 2010). The development of the investment properties therefore illustrates TAG's policy of focusing increasingly on residential real estate, e.g. by means of the acquisition in financial year 2010 of the residential real estate portfolios of TAG Nordimmobilien S.à r.l., TAG Sachsenimmobilien GmbH and TAG NRW-Wohnimmobilien und Beteiligungs GmbH, and of Colonia, arsago wohnen I GmbH, arsago wohnen II GmbH, arsago wohnen IV GmbH, arsago wohnen V GmbH and arsago wohnen VI GmbH, which operate since 2011 as TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH and accordingly TAG Wolfsburg-Immobilien GmbH, in 2011. In financial year 2012 TAG Potsdam and TAG Wohnen were consolidated for the first-time leading to an increase in the book value of investment properties of €1,509.6 million as of 31 December 2012.

The following overview shows the regional distribution of TAG's total real estate volume (investment properties, real estate reported under property, plant and equipment, real estate inventory held for sale and real estate under non-current available for sale assets). The figures are unaudited and were extracted from the Company's ongoing accounting systems.

	31 Mar. 2013 (unaudited) € million	31 Dec. 2012 (unaudited) € million	31 Dec. 2011 (unaudited) € million	31 Dec. 2010 (unaudited) € million
Residential - Hamburg region	545.2	545.6	408.0	118.4
Residential - Berlin region	639.1	728.9	395.4	132.6
Residential - North Rhine Westphalia	236.4	243.8	189.1	168.6
Residential - Salzgitter region	353.4	353.4	360.7	0.0
Residential - Thuringia/Saxony	1,325.9	1,325.7	135.5	70.8
Residential - Total	<u>3,100.0</u>	<u>3,197.4</u>	<u>1,488.7</u>	<u>490.4</u>
Commercial	460.0	461.6	475.7	483.4
Other activities and consolidation	0.0	5.9	4.2	4.2
	<u><u>3,560.0</u></u>	<u><u>3,664.9</u></u>	<u><u>1,968.6</u></u>	<u><u>978.0</u></u>

### Property, plant and equipment

The analysis of property, plant and equipment is as follows:

	31 Mar. 2013 (unaudited) € million	31 Dec. 2012 (audited) € million	31 Dec. 2011 (audited) € million	31 Dec. 2010 (audited) € million
Real estate classified as property, plant and equipment	7.9	7.9	10.4	10.6
Other	2.7	2.7	1.6	1.4
	<u>10.6</u>	<u>10.7</u>	<u>12.0</u>	<u>12.0</u>

The real estate classified as property, plant and equipment includes properties that are intended to be held for the long-term but do not fit into the investment property classification within the meaning of IAS 40, because, for example, they are used by the Group internally, such as the property Steckelhörn, Hamburg. Other property, plant and equipment mostly comprise operating and office equipment.

## Deferred taxes

The deferred taxes mostly reflect tax loss carry-forwards and valuation differences with respect to interest rate hedging transactions and the remeasurement of liabilities between the IFRS financial statements and the tax bases. In the consolidated balance sheet, deferred taxes are reported net of deferred tax liabilities, provided that they relate to the same taxable entity. The deferred tax liabilities are mainly attributable to differences between the remeasurement of investment properties in the IFRS financial statements and their tax bases.

## Other non-current assets

The other non-current assets principally comprise shares in associated companies, affiliated companies and non-current loans.

In financial year 2010, TAG invested in ESTAVIS AG with the purchase of a little more than 20% of its voting rights and in Colonia with the purchase of close to 30% of its voting rights. The investments were reported as of 31 December 2010 as associated companies with carrying amounts of €7.5 million and €51.8 million respectively. The remainder of the other non-current assets amounting in total to €64.6 million at that reporting date mainly comprised the intangible assets recognised in connection with the first-time consolidation of Larus as a subsidiary. The intangible assets consisted of goodwill of €2.4 million and the orders in hand for asset management and administration contracts amounting to €1.6 million.

As of 31 December 2011, other non-current assets of €19.5 million were made up principally of other financial assets (mainly non-consolidated investments) of €12.2 million and intangible assets of €7.3 million. The decline of the shares in associated companies is due to the first-time consolidation of Colonia and the reclassification of the shares of ESTAVIS AG to non-current available for sale assets.

As of 31 December 2012 and 31 March 2013, the book value of other non-current assets of €27.6 million and €27.6 million mainly comprises a non-current loan of €11.6 million (31 December 2012 €11.7 million, arising from the sale of POLARES REAM, loans to affiliated companies of €7.5 million (31 December 2012 €7.4 million) and affiliated companies of €5.7 million (31 December 2012 €5.7 million).

## Land with unfinished and finished buildings (real estate inventory held for sale)

The real estate inventory held for sale is allocated between the following Group companies. The figures are unaudited and were extracted from the Company's ongoing accounting systems.

	31 Mar. 2013 (unaudited) € million	31 Dec. 2012 (unaudited) € million	31 Dec. 2011 (unaudited) € million	31 Dec. 2010 (unaudited) € million
TAG Potsdam	74.9	76.1	0.0	0.0
TAG AM	1.5	2.4	3.2	69.8
Bau-Verein	11.0	11.1	30.2	38.5
Other	0.0	0.0	4.0	5.7
	<u>87.4</u>	<u>89.6</u>	<u>37.4</u>	<u>114.0</u>

The predominant share of TAG's real estate held for sale as of 31 December 2010 and 31 December 2011 was held by TAG AM Bau-Verein. In 2011, the properties attributable to TAG AM declined significantly in comparison with 31 December 2010 as a result of the reclassification of the Stuttgart Südtor project, which is intended to be used for long-term rental, into investment properties. As a result of the first-time consolidation

of TAG Potsdam in financial year 2012, TAG's real estate inventory held for sale increased to €89.6 million (31 December 2012) and €87.4 million (31 March 2013).

#### **Trade receivables**

Trade receivables mainly consist of rental receivables and receivables from sales of real estate. The increased volumes of receivables as of 31 March 2013 amounting to €16.6 million (an decrease of €3.5 million compared with 31 December 2012) and as of 31 December 2012 amounting to €20.1 million (an increase of €6.9 million compared with 31 December 2011) is primarily due to the increase in rental receivables resulting from the acquisitions of TAG Potsdam and Colonia. In contrast, there were significantly lower receivables of €13.2 million as of 31 December 2011 and €6.7 million as of 31 December 2010.

#### **Cash and cash equivalents**

The items reported under cash and cash equivalents are mainly short-term notice deposits and day-to-day current account balances with banks. Over the course of the periods presented, cash and cash equivalents amounted to €129.4 million as of 31 December 2010, €31.7 million as of 31 December 2011, €55.8 million as of 31 December 2012 and €61.2 million as of 31 March 2013. For further explanations we refer to section 11.8 "*Capital resources*".

#### **Other current assets**

The other current assets mostly comprise positive fair values of derivative financial instruments, income taxes receivables, receivables from associated companies and joint ventures, VAT receivables and short-term loans. As of 31 December 2010, 31 December 2011, 31 December 2012 and 31 March 2013, other current assets amounted to €6.4 million, €5.5 million, €27.4 million and €29.1 million respectively. The increase in financial year 2012 and in the three-month period ending 31 March 2013 mainly related to increased positive fair values of derivative financial instruments (interest rate swaps).

#### **Non-current available for sale assets**

Non-current available for sale assets were made up at the individual reporting dates mainly from investment properties held for sale. The non-current available for sale assets rose from €16.2 million as of 31 December 2010 to €38.3 million as of 31 December 2011 and to €111.6 million as of 31 December 2012. This increase mainly resulted from the reclassification of former investment properties due to the intended sale and the end of financial year 2012. As of 31 March 2013, after the sales were made, non-current available for sale assets amounted to €8.3 million.

## Capital structure

The equity and liability side of TAG's consolidated balance sheets as of 31 December 2010, 2011, 2012 and as of 31 March 2013 is presented below in condensed form:

	31 Mar. 2013 (unaudited)		31 Dec. 2012 (audited)		31 Dec. 2011 (audited)		31 Dec. 2010 (audited)	
	€ million	%	€ million	%	€ million	%	€ million	%
<b>Equity</b>								
Subscribed capital	130.7	4	130.7	3	74.9	4	58.6	5
Capital reserves	739.9	20	740.0	20	363.0	18	248.6	21
Other reserves	-16.9	-1	-20.2	-1	-16.2	-1	-9.5	-1
Net retained profits	299.7	8	285.7	8	125.7	6	58.8	5
Non-controlling interests	20.3	1	20.3	1	47.2	2	8.8	1
<b>Non-current liabilities</b>								
Bank borrowings (Liabilities to banks)	1,672.3	45	1,804.8	48	1,016.8	50	523.5	44
Deferred tax liabilities	121.5	3	123.4	3	66.9	3	12.9	1
Convertible bonds	173.7	5	173.1	5	93.9	5	101.7	8
Other non-current liabilities	26.1	1	32.5	1	30.1	1	20.2	2
<b>Current liabilities</b>								
Other provisions	28.7	1	33.5	1	17.8	1	15.5	1
Bank borrowings (Liabilities to banks)	441.8	12	411.3	11	172.6	8	110.5	9
Trade payables	17.4	0	13.8	0	16.4	1	7.8	1
Other current liabilities	42.0	1	49.6	1	38.6	2	19.4	2
<b>Liabilities in connection with non-current assets held for sale</b>								
	0.0	0	1.6	0	0.0	0	13.7	1
	3,697.3	100	3,800.0	100	2,047.7	100	1,190.5	100

### Non-current and current liabilities to banks (bank borrowings)

The borrowings due to banks increased from €634.0 million as of 31 December 2010 to €1,189.4 million as of 31 December 2011 and once again to €2,216.1 million as of 31 December 2012. As of 31 March 2013, total liabilities to banks amounted to €2,114.1 million.

A more detailed discussion of TAG's liabilities to banks is presented in section 11.8 "Capital resources".

### Convertible bonds

In financial year 2009 TAG issued its first convertible bond with a nominal amount of €12.5 million, bearing interest at 4.5% p.a. and with an initial conversion price of €5.15. The convertible bond was repurchased by the Company in the first half of financial year 2010 and subsequently resold via the stock exchange. This bond was fully converted in financial year 2012.

Two further convertible bonds were issued during financial year 2010. The convertible bond issued in April 2010 is due on 13 May 2015 and has a nominal amount of €30.0 million and a coupon of 6.375% p.a. The convertible bond issued in November 2010 is due on 10 December 2015 and has a nominal amount of €66.6 million and a coupon of 6.5% p.a.

On 25 June 2012 TAG issued a seven-year term convertible bond with a volume of €85.3 million and a coupon of 5.5% p.a.

TAG intends to use significant parts of the net proceeds from the sale of the Notes for the repurchase of the three outstanding convertible bonds, the interest rate of which exceeds the interest rate of the Notes.

Colonia issued a five-year convertible bond with a volume of €11.4 million and a coupon of 5.875% p.a. on 5 May 2010. As of 31 March 2013 the remaining volume (after several conversions and repayments) amounted to €3.8 million.

The non-current liabilities required to be recognised in respect of these convertible bonds in accordance with IFRS amounted to €101.7 million as of December 2010, €93.9 million as of 31 December 2011 and €173.1 million as of 31 December 2012. As of 31 March 2013 TAG reported non-current liabilities from convertible bonds amounting in total to €173.7 million. The difference from the nominal amount of the convertible bonds is explained by the fact that, under IFRS, the present value of the advantageous interest rate on the convertible bond (as compared with a loan without a conversion option taken out on market terms) is initially deducted from the nominal amount and recorded within equity. This difference is then amortized periodically over the term of the convertible bond, provided that conversion rights have not been exercised.

### Other non-current liabilities

Other non-current liabilities are made up as follows:

	31 Mar. 2013 (unaudited) € million	31 Dec. 2012 (audited) € million	31 Dec. 2011 (audited) € million	31 Dec. 2010 (audited) € million
Negative fair values of interest rate swaps	20.4	23.8	28.2	15.8
Pension provisions	5.1	5.1	1.8	1.8
Miscellaneous	0.6	3.6	0.1	2.6
	<u>26.1</u>	<u>32.5</u>	<u>30.1</u>	<u>20.2</u>

The negative fair values of the interest rate swaps reflect the valuation of the interest rate hedging instruments at their fair value at the balance sheet date. The pension provisions comprise pension commitments from prior years for former members of the Management Board and employees of Bau-Verein and their dependants and of TAG Potsdam.

## Other provisions

The composition of the other provisions is shown in the following:

	31 Mar. 2013 (unaudited) € million	31 Dec. 2012 (audited) € million	31 Dec. 2011 (audited) € million	31 Dec. 2010 (audited) € million
Subsequent purchase price payments	3.5	3.5	3.0	3.0
Risks from damages payments and work required for real estate already sold	1.3	1.4	2.2	2.9
Repairs	1.0	1.1	1.7	1.9
Legal, consulting and audit costs	0.9	1.9	1.3	0.9
Outstanding construction costs	0.7	1.2	1.4	2.1
Outstanding invoices	11.2	18.2	3.6	1.4
Miscellaneous (e.g. bonuses and restructuring costs for newly acquired companies)	10.1	6.3	4.6	3.3
	<u>28.7</u>	<u>33.5</u>	<u>17.8</u>	<u>15.5</u>

Retroactive to 31 December 2011, TAG Gewerbe lost its pre-REIT-Status in May 2012. As a pre-REIT, TAG Gewerbe has taken advantage of a beneficial tax provision (the “exit tax”) in favour of the vendors of land and buildings, which no longer applies. Accordingly, provisions of €3.0 million for purchase price payments were recognised in this connection until 31 December 2010 and 31 December 2011. This provision was totally utilised in 2012. As of 31 December 2012 and 31 March 2013, the provision for subsequent purchase price payments contains possible obligations in connection with real estate purchases in earlier years.

The provisions for risks from damages payments and work required for real estate previously sold mainly comprise risks arising from claims for damages asserted by purchasers of properties against TAG in respect of tax benefits that have not come into and construction work required to be carried out on properties previously sold because of contractual obligations.

The provision for repairs comprises obligations arising from defects that occurred in buildings that have been sold. The obligations from legal, consulting and audit costs mainly relate to the expected costs of preparing tax returns and auditing the annual and consolidated financial statements of the companies consolidated. The provision for outstanding construction costs comprises expected obligations from construction costs not invoiced by the reporting date. Provisions for outstanding invoices mainly relate to maintenance and renovation

## Trade payables

Trade payables basically consist of liabilities from advance payments received from tenants in respect of operating and ancillary costs as well as purchase price liabilities arising from the acquisition of real estate and companies. At the 31 December 2010, 31 December 2011, 31 December 2012 and 31 March 2013 reporting dates, trade payables amounted to €7.8 million, €16.4 million, €13.8 million and €17.4 million, respectively.

### Other current liabilities

The composition of the other current liabilities is as follows:

	31 Mar. 2013 (unaudited) € million	31 Dec. 2012 (audited) € million	31 Dec. 2011 (audited) € million	31 Dec. 2010 (audited) € million
Negative fair values of interest rate swaps	20.6	29.4	11.4	9.5
Current interest liabilities from convertible bonds	4.3	1.5	13.9	1.8
VAT liabilities	0.2	0.4	1.2	0.9
Income tax liabilities	9.0	9.0	1.8	1.7
Miscellaneous	7.9	9.2	10.3	5.5
	<u>42.0</u>	<u>49.5</u>	<u>38.6</u>	<u>19.4</u>

The negative fair values of the interest rate swaps reflect the valuation of the interest rate hedging instruments at their fair value at the balance sheet date. The current interest liabilities from convertible bonds relate to convertible bonds issued by TAG AG and Colonia. The VAT liabilities are mainly attributable to the rental and sale of commercial real estate. Income tax liabilities comprise anticipated payments in respect of corporation tax and the solidarity surcharge and also business tax of the companies consolidated.

### Liabilities in connection with non-current available for sale assets

Where liabilities to banks (bank borrowings) are directly attributable to investment properties held for sale, they are reported under liabilities in connection with non-current available for sale assets. These liabilities amounted to €13.7 million as of 31 December 2010, €0.0 million as of 31 December 2011, €1.6 million as of 31 December 2012 and €0.0 million as of 31 March 2013.

## 11.7 Analysis of cash flows

The consolidated cash flow statements for financial years 2010 to 2012 and for the three-month periods ended 31 March 2013 and 31 March 2012 are presented below:

	1 Jan. 2013 – 31 Mar. 2013 (unaudited) € million	1 Jan. 2012 – 31 Mar. 2012 (unaudited) € million	2012 (audited) € million	2011 (audited) € million	2010 (audited) € million
Consolidated net profit or loss (financial years 2010 and 2011 and three-month period ended 31 March 2012 after non- controlling interests)	14.1	88.3	177.9	66.9	18.5
Depreciation, amortisation and impairment	0.5	0.4	1.8	1.3	0.8
Net gains/losses on financial assets and associated companies	0.0	0.0	0.0	0.0	-0.7
Share of profit of associated companies	0.0	0.0	0.0	-0.3	-6.5
Net gains/losses from the remeasurement of investment properties	0.1	-6.8	-29.4	-28.9	-16.8
Net gains from first-time consolidations	0.0	-83.1	-148.2	-56.8	-8.4
Net losses from deconsolidations	0.0	0.0	-5.4	0.4	0.0
Impairment losses on inventories and receivables	1.2	1.3	13.5	3.5	0.6
Gains from the disposal of property, plant and equipment	0.0	0.0	-0.8	0.0	0.0
Gains/losses from the disposal of investment properties	0.2	0.0	0.6	-7.9	-0.1
Change in deferred taxes	-0.4	4.3	21.2	12.7	4.6
Change in provisions	-4.8	0.1	-3.1	1.6	-0.9
Change in receivables and other assets (financial year 2012 including net interest income and current income taxes less/plus interests and income taxes paid/received)	7.9	15.6	-58.2	82.3	2.0
Change in payables and other liabilities	-8.1	-1.6	47.5	-82.1	-10.1
<b>Cash flow from operating activities</b>	<b>10.7</b>	<b>18.5</b>	<b>17.5</b>	<b>-7.3</b>	<b>-17.0</b>

Payments for investments in investment properties	-0.8	-62.9	-12.3	-55.6	-37.9
Proceeds from disposals of investment properties	98.0	19.4	38.5	46.9	8.8
Payments for investments in intangible assets/property, plant and equipment	-0.5	-0.1	-3.2	-0.7	-0.6
Proceeds from disposals of property, plant and equipment	0.0	0.0	1.5	0.0	0.0
Payments for investments in other financial assets and associated companies	0.0	-0.1	-5.3	-4.8	-40.1
Proceeds from disposals of other non-current assets	0.0	0.0	0.0	3.5	1.7
Net cash flow from acquisitions and disposals of consolidated companies	0.0	-64.2	-372.5	-28.6	-5.3
Net cash flow from acquisitions and disposals of real estate companies and joint ventures	0.0	0.0	-0.2	0.0	-2.3
<b>Cash flow from investing activities</b>	<b>96.7</b>	<b>-107.9</b>	<b>-353.4</b>	<b>-39.3</b>	<b>-75.7</b>
Proceeds from capital increases	0.0	127.1	397.1	71.5	87.4
Expenses for raising equity capital	0.0	-3.2	-11.6	-2.8	-1.9
Distribution to shareholders	0.0	0.0	-19.1	0.0	0
Proceeds from issue of convertible bonds	0.0	0.0	85.3	0.0	109.1
Payments for the repurchase of convertible bonds	0.0	0.0	-1.4	0.0	-11.4
Redemptions of convertible bonds	0.0	0.0	0.0	-60.5	0.0
Proceeds of new bank loans	21.6	42.3	3.5	79.0	84.3
Repayments of bank loans	-104.2	-38.5	-99.8	-113.6	-51.5
Net payments from acquisitions and disposals of consolidated companies	0.0	-3.3	-8.0	-27.2	-0.9
<b>Cash flow from financing activities</b>	<b>-82.6</b>	<b>124.4</b>	<b>346.0</b>	<b>-53.6</b>	<b>215.1</b>
Change in cash and cash equivalents	24.9	35.0	10.1	-100.2	122.4
Cash and cash equivalents at the beginning of the period	31.7	21.6	21.6	121.8	-0.6
<b>Cash and cash equivalents at the end of the period</b>	<b>56.6</b>	<b>56.6</b>	<b>31.7</b>	<b>21.6</b>	<b>121.8</b>

### **Cash flow from operating activities**

In financial year 2010 a negative cash flow of €17.0 million was caused firstly by the reduction of €10.1 million in liabilities. An additional factor was that a major contribution to the consolidated net profit for financial year 2010 was made by non-cash valuation gains such as net gains from the remeasurement of investment properties of €16.8 million and gains from first-time consolidations of €8.4 million. In financial year 2011 cash flow from operating activities improved to €-7.3 million mainly due to gains from the disposal of investment properties amounting to €-7.9 million. This cash outflow was mainly caused by increased net gains from remeasurement of investment properties of €28.9 million and increased net gains from first-time consolidations of €56.8 million contained in TAG's consolidated net profit after non-controlling interests for financial year 2011 of €66.9 million. In 2012 cash flow from operating activities increased to €17.5 million. This development mainly resulted from TAG's FFO in 2012 of €39.6 million compared to €-4.7 million in 2011.

In the three-month period ended 31 March 2013 cash flow from operating activities amounted to €10.7 million compared with €18.5 million in the comparable period for the previous year. This development is mainly due to increased cash inflows from receivables and other assets in the three-month period ended 31 March 2012 of €15.6 million compared to €7.9 million in the three-month period ended 31 March 2013.

### **Cash flow from investing activities**

Cash flow from investing activities amounted to €-75.7 million in 2010, €-39.3 million in 2011 and €-353.4 million in 2012. The cash flow from investing activities is largely determined by acquisitions and direct investments in investment properties. In this respect, substantial investments amounting to €5.3 million in 2010, €28.6 million in 2011 and €372.5 million in 2012 were made relating to acquisitions (primarily the acquisitions of TAG Potsdam and TAG Wohnen in 2012). Direct investments in investment properties of €37.9 million, €55.6 million and €12.3 million were made in financial years 2010, 2011 and 2012 respectively. Significant sales of investment properties occurred in 2011 amounting to €46.9 million and in 2012 amounting to €38.5 million. In contrast, sales in financial year 2010 were much lower at €8.8 million.

In the three-month period ended 31 March 2013 cash flow from investing activities amounted to €96.7 million compared with €-107.9 million in the same period of the previous year. This development was primarily attributable to proceeds from disposals of investment properties (shown under the balance sheet item "non-current assets available for sale" as of 31 December 2012) of €98.0 million. In the three-month period ended 31 March 2012 these proceeds amounted to €19.4 million and further investments in investment properties of €62.9 million and acquisitions of €64.2 million were made.

### **Cash flow from financing activities**

Cash flow from financing activities consisted mainly of cash flows from new bank borrowings, repayments of bank borrowings, from convertible bonds issued and from cash capital increases. In 2010 new bank borrowings amounted to €84.3 million while €51.5 million was repaid to banks. In 2011 bank loans of €79.0 million were raised while repayments in the same year amounted to €113.6 million. In financial year 2012 repayments for bank loans amounting to €99.8 million and proceeds of only €3.5 million from new bank loans were recognised. In financial years 2010 and 2012 cash inflows of €109.1 million and €85.3 million were received from the issuance of convertible bonds. Capital increases generated proceeds of €87.4 million in 2010, €71.5 million in 2011 and €397.1 million in 2012. In the three-month period ended 31 March 2013, cash flow from financing activities amounted to €-82.6 million compared to €124.4 million in the same period of the prior year. The principal factors responsible for this development were proceeds from capital increases amounting to €0.0 million (comparable period of the prior year €127.1 million) and increased repayments of bank loans to €104.2 million (comparable period of the prior year €38.5 million).

## 11.8 Capital resources

For the three-month period ended 31 March 2013 and for the financial years ended 31 December 2010, 2011 and 2012, TAG's principal sources of capital were various bank loans, issue proceeds from capital increases against cash contribution and proceeds from the issuance of convertible bonds.

### Available liquidity

The following table provides an overview of TAG's available liquidity at the end of the respective periods in terms of cash and cash equivalents as reported in the respective cash flow statements:

	31 Mar. 2013 (unaudited) € million	31 Mar. 2012 (unaudited) € million	31 Dec. 2012 (audited) € million	31 Dec. 2011 (audited) € million	31 Dec. 2010 (audited) € million
Cash and cash equivalents as per balance sheet	61.2	55.8	55.8	31.7	129.4
Bank overdrafts and other bank balances	-4.6	0.8	-24.1	-10.1	-7.6
	<u>56.6</u>	<u>56.6</u>	<u>31.7</u>	<u>21.6</u>	<u>121.8</u>

## Financial debt

### Overview

As of 31 March 2013, TAG had obtained financing from approximately 50 German banks. The major liabilities to banks as of 31 March 2013 are presented in the following (for detailed information see section 20 "Description of Other Indebtedness"):

- a loan granted to TAG Gewerbe by UniCredit Bank AG in the principal amount of €95 million under a loan agreement dated 10 June 2010 (the "Siemens Package Loan");
- a loan granted to TAG Gewerbe by Nord LB in the principal amount of €58.8 million under a loan agreement dated 17/26 June 2008 with the last amendment dated 14/17 November 2011 (the "South Package Loan");
- a loan granted to TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG by UniCredit Bank AG in the principal amount of €47 million under a loan agreement dated 26 May 2011 with the last amendment dated 30 November / 13 December 2012 (the "Stuttgart-Südtor Loan");
- loans granted on 22 December 2006 and 14 September 2006, as last amended on 5 May 2009 to Colonia Portfolio Berlin GmbH and CRE Wohnen GmbH by Deutsche Bank AG, London Branch, in the principal amounts of €67.5 million and €66.56 million (the "Nauen/Marzahn Financing");
- term loan agreement by Quokka Finance plc in the aggregate principal amount of €221.3 million under a loan agreement dated 14 August 2006 to certain companies of the Colonia sub-group (the "Quokka Financing");
- a loan granted to certain companies of TAG by Deutsche Pfandbriefbank AG in the principal amount of €99.6 million under a loan agreement dated 23 September 2011;
- several loans granted to companies of the TAG Potsdam sub-group by Deutsche Kreditbank AG ("DKB") in the aggregate principal amount of approximately €556.7 million (as of 31 March 2013) under a master agreement dated 27 June 2012.

The terms and conditions of the contractual arrangements of the financing arrangements described above are summarized in section 20 “*Description of other Indebtedness*”.

As of 31 December 2012, TAG AG had current liabilities to banks of €19.1 million and non-current liabilities to banks of €42.6 million (a portion amounting to €16.9 million with a remaining maturity of more than five years).

In addition, TAG AG has issued a total of three convertible bonds which are still outstanding:

- A convertible bond issued in April 2010 which is due on 13 May 2015 and has a nominal amount of €30.0 million, a coupon of 6.375% p.a. and an initial conversion price of €5.47 which amounted to €5.0263 as of the date of this Prospectus;
- A further convertible bond issued in November 2010 which is due on 10 December 2015 and has a nominal amount of €66.6 million, a coupon of 6.5% p.a. and an initial conversion price of €7.40 which amounted to €6.9289 as of the date of this Prospectus;
- A third convertible bond issued in June 2012 which is due on 28 June 2019 and has a nominal amount of €85.3 million, a coupon of 5.5% p.a. and an initial conversion price of €8.85 which amounted to €8.5132 as of the date of this Prospectus.

The Company intends to use significant parts of the net proceeds from the sale of the Notes for the repurchase of the three outstanding convertible bonds, the interest rate of which exceeds the interest rate of the Notes.

Colonia issued a further convertible bond in May 2010 with a coupon of 5.875% p.a. which is due on 11 May 2015. The remaining volume of the convertible bond as of 31 March 2013 amounted to €3.8 million. The initial conversion price was €6.0078 per Colonia-share and amounted to €4.7909 per Colonia-share as of 31 March 2013.

## Financing structure

The following table provides an overview of TAG's liabilities to banks and under the convertible bonds as of 31 March 2013 as well as the interest rate payable under and the maturity dates of the major financing arrangements entered into by TAG.

	As of 31 March 2013 (unaudited)			
	<b>Book value</b>	<b>Outstanding amount</b>	<b>Interest</b>	<b>Maturity</b>
	(€ million)	(€ million)		
<b>Liabilities to banks</b>	<b>2,114.1</b>	<b>2,103.6</b>	-	-
Siemens Package Loan	89.6	89.7	5.35%	June 2017
South Package Loan	43.8	43.8	2.85%	June 2014
Stuttgart-Südtor Loan	45.3	45.5	4.62%	June 2016
Nauen/Marzahn Financing	129.4	129.5	5.1%	January 2014
Quokka Financing	213.9	214.0	4.31%	August 2013
Deutsche Pfandbriefbank AG (September 2011)	95.9	96.5	3.74%	September 2016
Deutsche Kreditbank AG (June 2012)	717.3	712.1	4.56%	several dates
Other liabilities to banks	778.9	770.5	-	-
<b>Convertible bonds</b>	<b>173.7</b>	<b>181.9</b>	-	-
Convertible Bond April 2010 (TAG AG)	28.8	30.0	6.375%	May 2015
Convertible Bond November 2010 (TAG AG)	64.1	66.6	6.5%	Dec 2015
Convertible Bond June 2012 (TAG AG)	78.0	85.3	5.5%	June 2019
Convertible Bond May 2010 (Colonia)	2.8	3.8	5.875%	May 2015
<b>Total liabilities to banks and convertible bonds</b>	<b>2,287.8</b>	<b>2,285.5</b>		

The Company intends to use significant parts of the net proceeds from the sale of the Notes for the repurchase of the three outstanding TAG convertible bonds, the interest rate of which exceeds the interest rate of the Notes.

## Maturity profile

The following table shows a break down of TAG's liabilities to banks as of 31 December 2012 and 2011 in accordance with their maturity.

Maturity	As of 31 December 2012 (audited)		As of 31 December 2011 (audited)	
	Nominal amount	Percentage	Nominal amount	Percentage
	€ million	%	€ million	%
2012	0	14,72%	156	13,12%
2013	326	10,16%	247	20,77%
2014	225	4,47%	180	15,14%
2015	99	9,98%	56	4,71%
2016	221	11,20%	216	18,17%
2017	248	0,90%	143	12,03%
2018	20	5,06%	15	1,26%
2019	112	1,35%	0	0,00%
2020	30	3,30%	34	2,86%
2021	73	38,87%	142	11,94%
2022 and beyond	861	14,72%	0	0,00%
	<b>2,215</b>	<b>100%</b>	<b>1,189</b>	<b>100%</b>

## Contingent liabilities and other financial obligations

As of 31 December 2012 and 31 March 2013 TAG has incurred contingent liabilities in the amount of €0.5 million all of which relate to a guarantee obligation in favour of the investee GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG (see also the information provided in section 18.2. "Transactions with affiliates"). TAG AG has incurred contingent liabilities in the amount of €116.1 million as of 31 December 2012 and of €97.6 million as of 31 March 2013 relating to guarantee obligations in favour of its subsidiaries.

TAG has other financial obligations in the amount of €19.9 million as of 31 March 2013 (compared to €20.1 million as of 31 December 2012) which primarily results from rental and leasing agreements, property management agreements and rental guarantees.

## Off-balance sheet arrangements

There are no material off-balance sheet arrangements in place for the periods presented.

## 11.9 Investments

The following table provides an overview of the investments in non-current assets of TAG in financial years 2010 to 2012 and in the three-month period from 1 January to 31 March 2013 with comparable figures as at 31 March 2012 as also contained in the cash flow statements in the audited consolidated financial statements and the unaudited consolidated interim financial statements for these periods:

	1 Jan. 2013 – 31 Mar. 2013	1 Jan. 2012 – 31 Mar. 2012	2012	2011	2010
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	€ million	€ million	€ million	€ million	€ million
Investments in investment properties	0.9	62.8	12.3	55.6	37.9
Investments in intangible assets and property, plant and equipment	0.4	0.2	3.2	0.7	0.6
Investments in affiliates and subsidiaries (less cash acquired)	0.0	64.2	377.8	33.4	47.7
	1.3	127.2	393.3	89.7	86.2

Investments in investment properties in financial year 2010 amounted to €37.9 million, in financial year 2011 to €55.6 million, in financial year 2012 to €12.3 million and in the first three months of financial year 2013 to €0.9 million. The investments of €37.9 million in 2010 relate chiefly to the Lübeck-Moisling real estate portfolio in the amount of €6.6 million, the ESTAVIS Portfolio in the amount of €10.4 million, and the properties of TAG Immobilien-Leipzig GmbH in the amount of €15.7 million. The investments of €55.6 million in 2011 mainly relate to the properties of DOM Immobilien 14 GmbH totalling approximately €4.9 million (now TAG Marzahn-Immobilien GmbH), the Tangermünder Strasse real estate holdings in Berlin-Hellersdorf totalling around €17.6 million, the Gubener Strasse real estate holdings in Dresden in the amount of approximately €7.4 million and the acquisition of the property companies acquired under the project Theta. In 2011, investments further included the acquisition of 94% of the shares of each of five companies as part of the Theta project in the course of a capital increase against contributions in-kind as consideration for the issuance of 5,476,924 new shares of TAG AG and a cash payment totalling €11.7 million. Furthermore, investments were made with respect to the acquisition of 94% of the shares of Jokasa Immo Invest I GmbH, which now operates as TAG Chemnitz-Immobilien GmbH and which holds a housing estate in Chemnitz, by way of a capital increase against contributions in-kind as consideration for the issuance of 859,339 new shares of TAG AG, and the acquisition of 94% of the shares of Eberswalde Verwaltungs GmbH, which holds a housing estate in Eberswalde, for a total purchase price of €30.4 million. Another 6% of the shares of these companies were acquired by TAG Beteiligungs- GmbH & Co. KG (“TAG KG”). Investments in investment properties were financed largely by raising debt capital.

In the Group’s view, the investments in intangible assets (software) and operating and office equipment in financial years 2010 to 2012 and the three-month period from 1 January 2013 to 31 March 2013 were insignificant. These investments were financed using the Company’s own funds.

The investments in affiliates and subsidiaries in financial year 2012 amounting to €377.8 million mainly relate to the acquisitions of TAG Potsdam and TAG Wohnen. Details on these investments are presented in section 15.1 “Material Agreements – Acquisitions”. Furthermore, TAG Administration GmbH acquired 94% of the shares of Eberswalde Verwaltungs GmbH by way of a notarial sales contract dated 11 January 2012 for a purchase price of €30.4 million. A further 6% of the shares were acquired by TAG KG. The investments in affiliates and subsidiaries in financial year 2011 amounting to €33.4 million mainly relate to the acquisition of Colonia. Furthermore, TAG acquired 94% of the shares of five other property companies as part of the Theta project in return for the issue of 5,476,924 new shares and a payment totalling €11.7 million. The investments in affiliates and subsidiaries in financial year 2010 amounting to €47.7 million relate primarily to Colonia

(€35.2 million), ESTAVIS AG (€3.5 million) and Westgrund AG (€1.3 million). The investments in affiliates and subsidiaries were financed largely by capital increases against cash and by issuance of convertible bonds.

Apart from non-current assets, investments by TAG were made mainly in real estate held as inventories by raising debt capital. These investments amounted to approximately €31.9 million in financial year 2010. By contrast, the investments completed in financial years 2011 and 2012 and in the three-month period from 1 January 2013 to 31 March 2013 were not of material importance.

There were no ongoing, not yet fully completed investment projects that led to capitalisable expenses at the Company in financial years 2010, 2011 and 2012 to date. Moreover, TAG plans to make additional investments going forward.

In the period from 1 April 2013 to the date of this Prospectus, TAG had made investments in its ERP software amounting to approximately €2 million. Further investments for the implementation of the software of approximately up to €4 million within the next three years are planned. Beside this investment, TAG has not made any binding decisions on further material investments.

The aim of TAG is to further expand its portfolio of residential properties by acquiring individual properties, real estate portfolios or real estate companies in Germany. To the extent that properties or equity investments suitable for TAG are identified in the specific regions favoured by TAG, the Company will decide on and make the respective investments quickly. TAG also aims to finance such future investments in properties, real estate portfolios or real estate companies principally by raising debt capital and only secondarily with its own funds. Since 31 March 2013, TAG reviewed a number of smaller potential acquisitions in order to further improve its existing portfolio, one of which is in an advanced stage and described in more detail in section 16 “*Recent Developments*”. TAG has not made any binding decisions on such investment and there are no other principal future investments, on which TAG’s management bodies have already made firm commitments.

#### **11.10 Qualitative disclosure on market risk**

TAG is exposed to a number of financial risks arising from the ordinary course of business, such as liquidity risks and interest rate risks.

##### **Liquidity risks**

TAG understands liquidity risk as the risk that it will be unable to meet its payment obligations at the contractually agreed date. To ensure its liquidity, extensive liquidity planning instruments are used in both the short and medium-term segments at the level of the individual operating subsidiary and the Group as a whole to ensure that business transactions are based on forecast data. Extensive liquidity reports are regularly submitted to the Management Board.

Moreover, TAG is dependent on raising debt on reasonable terms to fund its ongoing business and acquisitions. In the event of any renewed deterioration of the crisis in the international financial markets, TAG could find it substantially more difficult to raise the necessary funding and thus experience liquidity problems. If this results in any problems in servicing ongoing loans, lenders could institute foreclosure proceedings, with such distress sales leading to considerable financial disadvantages for TAG. TAG is making use of current market conditions to restructure key loan agreements on a long-term basis in order to mitigate this risk.

In addition, bank loans in the amount of around €1,125 million as of 31 March 2013 (31 December 2012: around €1,393 million) provides for financial covenants requiring compliance with certain capital service ratios and equity / debt ratios. If any of these covenants are breached, premature loan repayments may be necessary. As of the date of this prospectus, the financial covenants stipulated in loan contracts were complied with. Similarly, the convertible bonds are subject to certain terms and conditions which, if breached, e.g. in the event of a failure to fulfill any present or future payment obligation in respect of certain financial indebtedness, may give rise to a right of the bondholders to premature termination resulting in a further liquidity risk.

In 2013, finance worth a total of €214.2 million (as of 31 December 2012) for two TAG subsidiaries will be due for refinancing or renewal. The Company currently assumes that the refinancing / renewal negotiations can be successfully completed.

### **Interest risks**

TAG understands interest risks as the risks associated with floating interest rates agreed with its financing counterparties. Such risks arise from changes in interest rates. TAG uses derivative financial instruments for managing existing interest risks. These instruments include interest swaps to minimise exposure in the event of rising interest rates. In addition, TAG uses derivatives based on hedged assets to actively manage and reduce interest risks. Currently 96% of TAG's financial debt is either at a fixed interest rate or hedged.

As of 31 December 2012, Group companies had interest derivatives (mainly payer swaps) of roughly €687.8 million (as of 31 December 2011: €671.9 million). As of 31 March 2013 TAG used interest derivatives amounting to €655.5 million. Payer swaps constitute synthetic fixed-rate agreements in connection with a variable underlying. In this way, TAG is able to reduce its exposure to changes in the money market and also facilitate the planning of debt servicing with respect to the hedged tranches.

TAG's interest management works actively with credit management and group planning. As a result, it is possible to structure derivatives in such a way that they generate the greatest possible benefits and maximum stability for the Group's current and future status. Future changes in market interest rates may cause the derivatives to exert adverse effects on the hedge accounting reserve in equity or consolidated net earnings.

## 12. INDUSTRY

### 12.1. Introduction

TAG AG and its subsidiaries and affiliates operate in the residential and commercial real estate markets. TAG's business activities are solely restricted to the Federal Republic of Germany with a regional focus on the Berlin, Hamburg, North Rhine-Westphalia, Thuringia/Saxony and Salzgitter regions for the residential property segment as well as the cities of Munich, Nuremberg, Stuttgart, Mannheim and Dusseldorf for the commercial property segment.

The business activities of TAG are influenced by numerous factors, including the macro-economic developments of Germany as well as demographic and political factors. The development of the residential and commercial property markets in Germany is extremely important for the development of TAG. These markets play a decisive role in the future development of purchase prices and rents.

### 12.2. Macro situation

#### 12.2.1 Significance of property industry in Germany

The real estate industry is one of the most important economic sectors in the country employing approx. 434,000 people. Furthermore, the real estate industry contributed €266 billion to the German economy in 2011 or around 12% of GVP (*Bruttowertschöpfungsprodukt*) (Source: Federal Government (*Bundesregierung*), "*Bericht über die Wohnungs- und Immobilienwirtschaft in Deutschland*" as per 17 October 2012, Bundestags-Drucksache, 17/11200, p. 8).

#### 12.2.2 German economic data

Germany is the largest country in the European Union based on population and economy, encompassing a total population of approximately 80.2 million inhabitants and a gross domestic product ("GDP") of approximately €2.6 trillion in 2011 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 3, 23, 319; German Federal Statistical Office (*Statistisches Bundesamt*), [https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/Bevoelkerung/\\_Doorpage/Zensus\\_AktuellBevoelkerung.html;jsessionid=1F9810DB0BFA1ABA5E5794180B945B33.cae3?nn=142234](https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/Bevoelkerung/_Doorpage/Zensus_AktuellBevoelkerung.html;jsessionid=1F9810DB0BFA1ABA5E5794180B945B33.cae3?nn=142234)). Following the sharp decline in real GDP by 5.1% in 2009 due to the impacts of the financial and economic crisis, marking the most serious recession since World War II, Germany's economy significantly recovered during 2010 and 2011. Real GDP increased by 3.7% in 2010 (the largest increase recorded since the German reunification in 1990) and 3.0% in 2011. The 2011 increase in GDP on a price-adjusted basis was mainly driven by net exports, which increased by 11.2% (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 325, 333). In 2012, the GDP only increased slowly by 0.7 %, due to a weak fourth quarter (Source German Federal Statistical Office (*Statistisches Bundesamt*), database, press release no. 57/13 dated 14 February 2013). Despite the difficult economic situation in some euro-area countries and the dip in global economic activity, the German economy continued to expand in the first quarter of 2013, albeit at a slower pace due to wintery weather. The Federal Statistical Office's estimates point to quarter-on-quarter GDP growth of 0.1% in the first quarter of 2013 (after seasonal and calendar adjustment), compared with 0.5% in the first quarter of 2012 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), database, press release no. 163/13 dated 15 May 2013).

Although the uncertainty triggered by the debt crisis is weighing on households' purchasing decisions, the underlying domestic setting for private consumption remains positive. Due to the favourable labour market situation and strong wage growth, consumer spending rose in the second quarter of 2012 and in seasonally adjusted terms. The weakening of inflation pressure likely bolstered consumer confidence, whilst households' real spending capacity was boosted by falling petrol and heating oil prices. Wage growth and the perceived low risk of redundancy, together with financing conditions that continue to be very favourable, have led to more and more households being confident enough to buy their own home. The improved income prospects are also giving impetus to the buy-to-let market. Given rising house prices, there is a need for a substantial expansion of

the housing stock in order to satisfy the major private and commercial demand for residential property (Source: Deutsche Bundesbank, Monthly Report, August 2012, p. 6-9).

In spite of a start in 2013 that did not meet the economical expectations, the Ifo (Leibniz Institute for Economic Research at the University of Munich) business survey indicates a further improvement in the business climate. Export expectations, in particular, are clearly pointing upwards again. Output expectations are also signalling an expansion of activity. In line with this, imports went up substantially in January after two months of extremely weak growth, and firms are continuing to hire more workers. Consumers have also maintained their optimism in light of positive developments in the labour market. There are still no signs of any significant improvement in business investment, however (Source: Deutsche Bundesbank, Monthly Report, March 2013, p. 5).

The International Monetary Fund forecasts real GDP growth in Germany amount to 0.6% in 2013 and 1.4% in 2014 (Source: International Monetary Fund, World Economic Outlook Update, 23 January 2013). The robust growth of economic output has been reflected by a considerable reduction in unemployment. The unemployment rate in Germany was 6.0% in August 2011 and declined down to 5.4% in March 2013 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), database, press release no. 151/13 dated 30 April 2013).

In April 2013, the increase in the seasonally adjusted consumer price index ("CPI") in Germany was 1.2% compared to April 2012. The slower increase was mainly caused by decreasing energy prices (6.3% vs. prior year) and more generally by a 3.8% decrease in the price of health care due to the abolition of the mandatory practice fee (Source: German Federal Statistical Office (*Statistisches Bundesamt*), database, press release no. 161/13; dated 30 April 2013). The current increase in inflationary pressures has been acknowledged by the European Central Bank, which has decided on 2 May 2013 to lower the interest rate on the main refinancing operations of the Eurosystem by 25 basis points to 0.50% and the rate on the marginal lending facility by 50 basis points to 1.00%. These decisions are consistent with low underlying price pressure over the medium term. Inflation expectations for the euro area continue to be firmly anchored in line with the Governing Council's aim of maintaining inflation rates below, but close to 2% over the medium term (Source: European Central Bank, Monthly Bulletin, May 2013, p. 5).

The overall positive economic situation was clearly reflected in employees' earnings. In the fourth quarter of 2012, gross wages and salaries per employee continued to rise (total 2011+4.7%) at 3.7%. The primary reason for this was higher collective wage agreements with higher scheduled increases in rates of pay. Another reason was that employers made extraordinary payments on a voluntary basis. Households' disposable income increased 1.9% in the fourth quarter of 2012 while households' saving ratio decreased slightly to 8.8% (Source: Deutsche Bundesbank, Monthly Report, March 2013, Statistical Section, p. 67\*). The market researcher GfK GeoMarketing predicts an increase of 3% in the purchasing power to €20,621 per German citizen in 2013. This corresponds to an increase of the purchasing power in 2012 of 2.9% (Source: GfK GeoMarketing, press release dated 12 December 2012, <http://www.gfk.com/de/news-und-events/presse/pressemitteilungen/seiten/kaufkraft-2013-deutsche-haben-554-euro-mehr.aspx>).

In light of TAG's presence within East Germany a brief overview of East and West Germany has been provided. The historic general trend has been that East Germany is closing the gap with West Germany in terms of macro-economic factors such as gross wages per employee, real GDP growth per capita and unemployment:

- Gross wage increase per month and employee from €2,489 in 2010 to €2,547 in 2011 (+2.3%) in East Germany versus an increase from €3,250 in 2010 to €3,350 in 2011 (+3.1%) in West Germany highlighting continued growth in East German gross wages (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2011, p. 532; Statistical Yearbook 2012, p. 378);
- Real GDP growth rate year-on-year in East Germany (including Berlin) of approx. +0.85% in 2011 (+2.8% in 2010) versus approx. +3.25% in 2011 (+4.5% in 2010) in West Germany (excluding Berlin) (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2011, p. 654; Statistical Yearbook 2012, p. 336);

- Unemployment in East Germany has declined from approx. +19.0% in 2005 to approx. +9.8% in 2011, whilst unemployment in West Germany during the same time period declined from approx. +9% to just over +5% in 2011. It is important to note that the trend between both regions is the same (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 355),

### 12.2.3 Demographic development in Germany

Based on the latest census, Germany had a population of approximately 80.2 million on 9 May 2011 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), [https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/Bevoelkerung/\\_Doorpage/Zensus\\_AktuellBevoelkerung.html;jsessionid=1F9810DB0BFA1ABA5E5794180B945B33.cae3?nn=142234](https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/Bevoelkerung/_Doorpage/Zensus_AktuellBevoelkerung.html;jsessionid=1F9810DB0BFA1ABA5E5794180B945B33.cae3?nn=142234)). The Federal Republic of Germany is a densely populated country. Its population density, measured by the number of inhabitants per square kilometre, was approximately 229 persons per square kilometre as of 31 December 2011, though with large disparities among the 16 German Bundesländer. The Länder of Berlin (3,945), Hamburg (2,382) and Bremen (1,577) are the most densely populated while Brandenburg (85) and Mecklenburg-Vorpommern (70) are the least densely populated (Source: German Federal Statistical Office (*Statistisches Bundesamt*), <http://de.statista.com/statistik/daten/studie/1242/umfrage/bevoelkerungsdichte-in-deutschland-nach-bundeslaendern/>).

The aging of the German population is a result of decreasing birth rates in combination with increased life expectancy. While in 2010 677,947 births were recorded, 858,768 deaths occurred (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 33). Net migration added to the German population. In 2012, 1,081,000 people immigrated to Germany, an increase of 13% in comparison to 2011 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), database, press release no. 156/13, 7 May 2013, [https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2013/05/PD13\\_156\\_12711.html](https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2013/05/PD13_156_12711.html)). In total, according to the latest census as of May 2011, 6.2 mio foreign residents lived in Germany (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Zensus 2011, Bevölkerung Bundesrepublik Deutschland, p. 12).

It needs to be pointed out, however, that this development is not uniform for the entire country, but differs by region. This could result in positive effects from migration movements for individual regions and cities in the future. For instance, the Rhine-Ruhr region, which is by far the largest German metropolitan area, is forecasted to have a declining population until 2030, while populations in the Munich, Rhine-Main and Rhine-Neckar regions are expected to increase strongly (Source: Initiativkreis Europäische Metropolregionen in Deutschland (IKM), Regionales Monitoring 2012, p. 10). The Eastern and Western parts of the country further reinforce the regional differences within population data. East German population development was around 0.5% lower than West Germany (2001-2005 year-on-year growth of -0.5% versus 0%), whereas in 2010 the gap narrowed (-0.3% versus 0.0% for East and West Germany respectively) (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 26). Moreover, key regions within East Germany have shown impressive population growth such as Berlin (+1.9% 5-year population development), Dresden (+5.6% 5-year population development), Erfurt (+1.1% 5-year population development) and Leipzig (+4.0% 5-year population development) (Source: Regional Database Germany (*Regionaldatenbank*), Result 173-01-4).

## 12.3. Residential property market in Germany

### 12.3.1 Residential property stock and home ownership rates

There were approximately 41.3 million apartments in Germany in May 2011 from which 39.48 million apartments were occupied. Source: Statistisches Bundesamt, [https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/EinkommenKonsumLebensbedingungen/\\_Doorpage/Zensus\\_AktuellWohnungen.html?nn=142234](https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/EinkommenKonsumLebensbedingungen/_Doorpage/Zensus_AktuellWohnungen.html?nn=142234)) The number of apartments in newly constructed buildings completed in Germany declined by approximately 42% from 236,088 in 2003 to 136,518 in 2009 but inclined to 164,178 in 2011. The number of building permits issued for new residential construction also decreased by 42% from 263,317 in 2003 to 153,736 in 2009 but inclined to 200,061 in 2011 (Source: German Federal Statistical

Office (*Statistisches Bundesamt*), Statistical Yearbook 2011, p. 288, 289; Statistical Yearbook 2012, p. 566, 567). In addition, the amount of building permits granted revealed a decrease in the amount of residential floor space to be constructed by 43.2% from 31.1 million square meters in 2003 to 17.6 million square meters in 2009 but increased to 18.6 million square meters in 2011 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2011, p. 288; Statistical Yearbook 2012, p. 567). The total decline in the construction of new residential housing units was largely attributable to high construction costs, the scarcity of land available for construction, low risk-adjusted returns for developers and strict regulations, particularly regarding building construction. The incline in 2011 may not be misinterpreted as the beginning of a general turnaround. In the important top sites in agglomeration areas, the number of newly constructed residential buildings partly declined in comparison to 2011. Hence, the demand of payable space could not be satisfied (Source: German Real Estate Society (Deutscher Immobilien Verband), <http://www.ivd.net/der-bundesverband/nachrichtendetail/archive/2012/june/article/2011-wurden-mehr-wohnungen-fertig-gestellt-aber-nicht-an-den-top-standorten.html>).

To underline this development, the number of households in Germany increased by 6.1% from 38.9 million in 2003 to approximately 41.3 million in 2011 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Zensus 2011, Gebäude und Wohnungen, Bundesrepublik Deutschland, p. 14). One reason is the general reduction in household sizes underlined by the general growth in the number of one-person households. By 2030, it is expected that the number of single-occupier households will increase to 17.8 million and the number of two-person households will increase to 15.5 million (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 50). Expectations are that from 2010 onwards the number of households will increase, particularly in cities and densely populated areas. Residential floor space demand per capita is also expected to continue its growth by 9% to 41 square meters in 2025 from expected 2010 levels due to an increased desire for more living space and the ageing population (Source: BBR, Residential Market 2010, p. 5).

Latest home ownership data for 2011 indicates that approximately 42.35% of the apartments in Germany were owner-occupied, up from 41.6% in 2006. (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Zensus 2011, Gebäude und Wohnungen, Bundesrepublik Deutschland, p. 14). Home ownership rates range for 2010 from 15% in Berlin and 23% in Hamburg to 58% and 64% in Rheinland-Pfalz and Saarland respectively (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 155). In comparison to other European countries, home ownership in Germany is relatively low; total German residential ownership in 2011 was 44% compared to 70% and 56% for the UK and France (Source: Ben Shlomo, Differences in ownership rates of residential properties (*Unterschiede in den Eigentumsquoten von Wohnimmobilien*), Schriften der wissenschaftlichen Hochschule Lahr Nr. 26, 2011, p. 9)). This is mainly due to the low rents, which create a strong incentive for renting instead of owning a home. In response to the housing shortage after World War II and the strong housing demand resulting from the recovery of the German economy in the 1950s and 1960s, the German government and German corporations built a high proportion of subsidized or low price rental accommodations.

Germany has ample quality of residential properties. In 2009, of the 40.4 million residential units, about half (20.8 million) are located in the 3.4 million buildings with three or more dwellings. Therefore, the majority of Germans live in storey flats; however, a large part is privately owned. German dwellings have an average size of 43 square meters per capita (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2011, p. 291, 292; Statistical Yearbook 2012, p. 565). Owner-occupied dwellings are becoming a more and more attractive alternative to one-family houses, especially in cities. Owner-occupied dwellings are especially in demand in places where land for one/two family homes is scarce or expensive, e.g., in larger cities.

In 2012, 239,465 residential building permits were issued by the authorities. This is a total increase of 11,000 permits or 4.8% in comparison to 2011. The amount of new residential multi-family building permits came in total to approximately 96,000 (Source: <http://www.presseportal.de/pm/33001/2433501/baugewerbe-zu-baugenehmigungen-2012-baugenehmigungszahlen-immer-noch-unter-dem-eigentlichen-bedarf>).

### 12.3.2 Price trends for condominium sales

Residential property prices in Germany, compared to other European countries, have remained relatively stable since the early 1990s and have not experienced any major cyclical fluctuations. The prices of apartments have increased steadily in Germany since 2003, and in the second quarter of 2012 they were 11.8% higher than in the second quarter of 2003 (source: Verband Deutscher Pfandbriefbanken, Residential Property Price Index, available on [http://pfandbrief.de/cms/\\_internet.nsf/tindex/de\\_86.htm](http://pfandbrief.de/cms/_internet.nsf/tindex/de_86.htm) at the date of this Prospectus). In the first quarter of 2013, the prices for residential property were 3.5 % higher than in the first quarter of 2012 (Source: Verband Deutscher Pfandbriefbanken, Report 7, 15 May 2013), which indicates an accelerating increase in the recent past. Interest rates for medium- and long-term mortgage loans, which remain low compared to the past, have not influenced residential property sales in Germany to the same extent as they have in other European real estate markets. As of March 2013, the interest rates for housing loans to households with a term of 5 to 10 years had dropped to 2.77% from 4.10% as of March 2011 (Source: Deutsche Bundesbank, Interest Rate Statistic, 2 May 2013).

### 12.3.3 Recent portfolio transactions

With regard to the purchase of additional residential property portfolios, the low price level compared to other European countries has made the German market interesting for portfolio investors, especially because of the wide range of large-volume residential property portfolios. However, it cannot be foreseen if this trend will continue in the secondary market through the sale of large-volume residential property portfolios.

In the past, large stocks of residential property were sold due to the government's fiscal constraints as well as the increasing focus of German corporate groups on core business activities: these included the sale of GAGFAH with approximately 82,000 residential units by the Bundesversicherungsanstalt für Angestellte (BfA) in 2004; the sale of GSW with approximately 66,000 residential units by the State of Berlin in 2004; the sale of approximately 48,000 residential units by ThyssenKrupp to MSREF in 2004, which was subsequently sold on to Fonciere des Region in 2010; NILEG's sale of approximately 30,000 residential units by NORD/LB in 2005; the sale of Viterra with approximately 137,700 residential units by E.ON AG to TerraFirma in 2005; the sale of BauBeCon Immobilien with approximately 27,000 residential units to a consortium of RREEF and Pirelli RE in 2007; the sale of WOBA DRESDEN GmbH with approximately 49,100 residential units by the City of Dresden in 2007; and the sale of LEG Nordrhein-Westfalen's residential property portfolio of approximately 93,000 residential units to a Whitehall Real Estate Funds/Goldman Sachs in 2008 (Source: CB Richard Ellis, Residential Real Estate Market & Portfolio Transaction, (*Wohnimmobilienmarkt & Portfoliotransaktionen Deutschland*), 2010/2011, p. 24).

The wave of large residential portfolio transactions subsided in 2008 due to unfavourable market conditions driven by the financial crisis as well as some public resistance, in particular relating to disposals by the government. The number of property portfolio transactions in 2008 dropped to the level of 2002 with 16 transactions, although the trend towards sales of smaller property portfolios continued to increase (Source: BBR, Report on the sharp decline in transactions involving large residential property portfolios in Germany (*BBR-Bericht Kompakt: Starker Rückgang der Transaktionen großer Wohnungsportfolios*), January 2009). In line with this development governmental related entities have, for the first time in 2009, embarked as net buyers of residential real estate, representing the second largest group of buyers. The difficult financial situation of several municipalities, however, led to municipal property portfolio sales of €173 million in 2010 again. This trend has prevailed leading to increasing disposals from state related entities amounting to €249 million in the first quarter of 2011 (Source: CB Richard Ellis, Special Report, Residential Market Germany, 2010/2011, p. 21). The restraint on the German investment market in the years 2008-2011 was not a sign of a lack of appeal of German properties. Difficult circumstances in the capital markets with regard to the availability of credit were responsible for the slowdown in revenue flow. Since 2009 the investment market has gradually improved, mainly driven by the fast economic upswing in Germany.

In 2012, a high level of market activity has been observed for large residential portfolio transactions: In February 2012, Landesbank Baden-Württemberg (LBBW) sold approximately 21,000 residential units for a consideration of approximately €1.4 billion to a consortium of institutional investors led by Patrizia Immobilien

AG, a listed real estate company. In April 2012, the Bavarian Landesbank Bayern LB sold its real estate operations bundled in DKB Immobilien AG with approximately 25,000 residential units for approximately €960 million to TAG. In May 2012 Cerberus bought the Speymill German portfolio of approximately 22,000 residential units out of receivership for approximately €950 million (Source: CB Richard Ellis, Market View – Residential Portfolio Investment, Q2 2012, p. 1). In August 2012, Barclays Capital completed the sale of the BauBeCon portfolio with approximately 23,500 residential units to Deutsche Wohnen AG for approximately €1.2 billion. In November 2012, TAG acquired the TAG Wohnen (at that time “TLG Wohnen GmbH”) with approximately 11,000 units for €218 million.

In April 2013, the Bavarian Landesbank Bayern LB sold their 92% stake in GBW AG to Patrizia Immobilien AG for approximately €2.45 bn. The portfolio was consistent of approximately 32,000 units. In April 2013, in addition, Deutsche Wohnen AG acquired a portfolio composing of 6,900 units for €369 million from Blackstone Real Estate Partners Europe III (Source: <http://www.deutsche-wohnen.com/html/4306.php>).

#### **12.3.4 Development of residential rents**

In-place rent is the rent per square meter excluding service charges and ancillary costs which are allocated to the tenant such as the costs for heating and warm water. The average net rent (cold excluding service charges) includes all rents paid (including the rent for apartments that have been rented out for many years). Average net rent in Germany increased by 7.1% between 2005 and 2011 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 402). In the same period, German’s CPI increased by 10.7% from 100points in 2005 to 110.7 points in 2011 (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 402). The available residential floor area has increased by 7.75% since 2000 from 3,245 million square meters to 3,496 million square meters in 2010, and the average residential floor area per capita has thereby increased by 7.7% to 43 square meters per inhabitant (Source: German Federal Statistical Office (*Statistisches Bundesamt*), Statistical Yearbook 2012, p. 565). Both historically and forecasted the general trend is an increase in residential rents. This has been due to demand for residential space exceeding house building volumes and a disproportionate increase in the number of households as units of demand in German cities. The shortage in housing combined with more or less stable employment and high levels of income have therefore resulted in an increase in rents (Source: Real Estate Market Germany 2012/2013, Deutsche Genossenschafts-Hypothekenbank, p. 30).

#### **12.3.5 Selected residential real estate markets by region**

##### **Berlin region**

Berlin is the capital of Germany and the seat of the German government. The city’s average household size is 1.8 versus a national average of 2.0. Berlin numbered just under 2 million households at the end of 2011, of which 54.1% are single person households. Furthermore, there are a total of 318,260 residential buildings and approx. 1.9 million apartments (2006-2011 compound annual growth rate (CAGR) of 1.0%) in Berlin of which 44.9% are multi-residential buildings. In 2011, total migration into Berlin was 40,000 people, yet only 3,517 new residential units were completed, a long way short of demand of around 10,000 to 15,000 units. Strong population growth and migration have resulted in falling vacancy rates from 5.6% in 2005 to 3.3% in 2009. Despite this and falling vacancy rates, rents throughout large parts of the city remain too low to enable economically viable building projects (Source: Jones Lang Lasalle, Report Berlin H1 2012, p. 2, 3, 4). In the second half of 2012, rents reached a median of €7.60 per m<sup>2</sup>, which was an increase by 2.76 % in comparison to the first half of 2012, while in the year-to-year shift (1<sup>st</sup> half of 2011 to 1<sup>st</sup> half of 2012), the rents increased by 13 %. Furthermore, rents are forecasted to continue to increase obviously higher than the inflation rate (Source: Jones Lang Lasalle, Report Berlin H2 2012, p. 5, 6, 7). Based on the official rent table of Berlin (Berlin Mietspiegel 2013, based on data dated September 2012), the rents increased from 2011 to 2013 from €5.21 to €5.54 per m<sup>2</sup>, a 6.3% increase ([http://www.rbb-online.de/nachrichten/wirtschaft/2013\\_05/Berliner\\_Mietspiegel\\_fuer\\_2013\\_vorgestellt.html](http://www.rbb-online.de/nachrichten/wirtschaft/2013_05/Berliner_Mietspiegel_fuer_2013_vorgestellt.html)). However, the official rental table might not reflect the actual market situation.

### **Salzgitter region**

The Salzgitter region is located in the northern part of Germany, more specifically in the southeast of the federal state of Lower Saxony in the metropolitan area of Hanover-Braunschweig-Göttingen-Wolfsburg. This metropolitan region is home to approx. 4 million people spread across a total area of 19,000 square kilometers (Source: <http://www.metropolregion.de/pages/index.html>). The city of Salzgitter had a population of 100,541 people in July 2012 (Source: [http://www.salzgitter.de/rathaus/presse\\_news/2012/126010100000065632.php](http://www.salzgitter.de/rathaus/presse_news/2012/126010100000065632.php)). A number of large and international companies have operations located in the Salzgitter including Salzgitter AG, Volkswagen, Alstom, MAN, Bosch and IKEA (Source: <http://www.salzgitter.de/wirtschaft/wirtschaftsstandort/index.php>). Hanover, the capital of Lower Saxony, and its surrounding communities form the fourth-largest concentration of large German cities (Source: Engel & Völkers, Report Hanover 2012). Braunschweig is the second largest city in Lower Saxony and one of the regional centres of the state (Source: Engel & Völkers, Report Braunschweig 2012). Hanover hosts the world's largest and one of the most important exhibition centers. Large industrial companies like Continental or Commercial Vehicles unit of Volkswagen are headquartered in Hanover (Source: Engel & Völkers, Report Hanover 2012). Braunschweig also features a strong industry with an excellent position in engineering and technology.

### **Hamburg region**

The Free and Hanseatic City of Hamburg is the economic and cultural centre of Northern Germany. In the last five years the population in Hamburg has been growing at an average of 0.5% per year, exceeding 1.7 million on 9 May 2011 (Source: federal Statistical Office (Statistisches Bundesamt), [https://ergebnisse.zensus2011.de/#StaticContent:02,BEV\\_1\\_4\\_1\\_0,m,table](https://ergebnisse.zensus2011.de/#StaticContent:02,BEV_1_4_1_0,m,table)). Until 2030, the city is expected to house 1.9 million people. This makes Hamburg the second largest city in Germany (Source: Jones Lang Lasalle, Report Hamburg H2 2012, p. 3). There are a total of 3.5 million people living in the 755 square kilometres metropolitan region of greater Hamburg. Hamburg's average household size in 2011 was 1.8 versus a national average of 2.0. At the end of 2011 the number of private households totaled approx. 985,000 of which 53.6% were single persons households (2006A-2011A growth CAGR of 8.8%) compared to a national figure of 40.4% (2006A-2011A growth CAGR of 11.2%). The total number of residential buildings at the end of 2011 was 240,841 of which 32.5% were multi-residential buildings (Source: Jones Lang Lasalle, Report Hamburg H2 2012, p. 2, 4). Hamburg's high household growth and low construction activity combined with low vacancy rates (1.4% in 2009) resulted in an increase in rents during the second half of 2012. The median rent per m<sup>2</sup> in H2 2012 was €10.7 across the Hamburg region representing a 5.0% increase versus H2 2011.

### **North Rhine-Westphalia**

With a population of approximately 17.5 million and four of the country's ten largest cities, North Rhine-Westphalia is the most populous state of the 16 German states (Source: <https://webshop.it.nrw.de/gratis/Z969%20201251.pdf>). There are 29 cities with more than 100,000 residents and 523 residents per square kilometer in 2011 (Source: <http://www.bpb.de/nachschlagen/zahlen-und-fakten/soziale-situation-in-deutschland/61535/bevoelkerung-nach-laendern>). With 37 out of Germany's top 100 corporations, North Rhine-Westphalia is Germany's prime industrial region (Source: <http://www.nrw.de/en/north-rhine-westphalia/economy/>). In 2011, the average household size in North Rhine-Westphalia was approximately 2.1 persons per household versus a national average of 2.0. Of the private households, approximately 39.2% were single-person households (Source: [http://www.statistik-portal.de/statistik-portal/de\\_jb01\\_jahrtab4.asp](http://www.statistik-portal.de/statistik-portal/de_jb01_jahrtab4.asp)).

### **Thuringia-Saxony region**

Thuringia and Saxony are both East German federal states. Thuringia had a population of approx. 2.18 million in 2011, with approx. 1.1 million households of which 38.4% were single person households. The unemployment rate in Thuringia was 8.8% in 2011. In comparison, Saxony had a population of circa 4.0 million in 2011, with approx. 2.2 million households of which 43.3% were single person households. Unemployment in Saxony was 10.6% in 2011 (Source: German Federal Statistical Office (Statistisches

Bundesamt), Statistical Yearbook 2012, p. 32, 51, 363). The capital of Saxony is Dresden and has approx. 512,000 inhabitants (2006-2010 growth CAGR 1.3%) and 287,000 households. The average household in Dresden consists of 1.8 persons in 2010 versus a national average of 2.0 persons. Falling vacancy rates (6.4% in 2006 to 3.4% in 2009) have resulted in an increased number of residential buildings (286,500 in 2010 up from 285,800 in 2008). Furthermore, this has also resulted in rising median rents up 6% from 2007 to €6.00 per m<sup>2</sup> at the end of 2010. The trend continued in 2011, with median rents at the end of the year of approx. €6.25 per m<sup>2</sup> (Source: Jones Lang Lasalle, Dresden – Residential Market Profile, p. 1, 2). The second major city in Saxony is Leipzig which had 517,831 inhabitants in 2011 (2006-2010 growth CAGR 4.7%) and 294,810 households, consisting of 50.7% single person households and average size of 1.8 versus a national average of 2.0 (Source: Jones Lang Lasalle, Residential City Report Leipzig, H2 2012, p. 2, 3). For the third half year in a row there was little movement in rents; the median rent per m<sup>2</sup> in H2 2012 was €5.05 across Leipzig representing a 1.6% increase versus H1 2011 (average rent of 5.30 per m<sup>2</sup> in H2 2012, a + 4.2% increase versus H2 2011). Erfurt is the capital of Thuringia and is the largest city of the federal state with approx. 200,000 inhabitants as per 2011 (Source: German Federal Statistical Office (Statistisches Bundesamt), Zensus 2011, <https://ergebnisse.zensus2011.de/#StaticContent:16051000000,ROOT,ROOT,>). Alongside a positive inhabitant trend the Erfurt rental market is benefiting from a positive economic sentiment in the region. This translates into residential rents for medium to high-quality locations ranged from €6.00 to €8.60 per m<sup>2</sup> in 2011 (Source: Engel & Völkers, Report Erfurt 2012, p. 4).

#### **12.4. Commercial real estate market**

The German commercial real estate market continued its robust performance over the last 18 months. Overall take-up for commercial property was strong in 2011, absorbing new supply and reducing overall vacancy levels across the major cities (Source: Business Monitor International Ltd. (BMI), Germany Real Estate Report Q3 2012, p. 5), and figures from the first half of 2012 show that the commercial real estate market remains resilient to the challenging macroeconomic environment.

Alongside a regional breakdown, the German commercial real estate market can be further differentiated by type of use into office, retail, services and other “commercial” real estate such as logistics and manufacturing, and each of these sectors has its own characteristics and development trends. As TAG primarily focuses on long-term-lease office properties in sought-after business locations, the following pages of this prospectus will highlight major characteristics and trends in the German office market with a particular focus on the “Big 7” locations (Berlin, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart).

In 2010 and 2011, the German office markets showed an improved performance, both in prime city centre locations and in regional centres, against a backdrop of sustained economic recovery (Source: Deutsche Genossenschafts-Hypothekenbank, Real Estate Market Germany, (*Immobilienmarkt Deutschland*) 2012/2013, p. 21). While these growth dynamics affected different market sectors and locations to varying degrees, renewed turbulence in the financial markets, primarily caused by the European sovereign debt crisis and the resulting subdued global economic growth prospects, caused a visible slowdown of most of these upward trends in the second half of 2011 and the first half of 2012 (Source: DIP Deutsche Immobilien-Partner, Market and Facts, (*Markt und Fakten*) 2012, pp. 29-32). The vacancy rate continued to decline for Germany’s top markets and regional centres in 2012, although rental activities were down from the prior year due to the economic downturn. An analysis of the top seven locations showed that decreased demand and take-up affected almost exclusively the peripheral locations, while the reduction of vacancy rates took mainly place in the inner-city locations. In 2013, supply and demand on the rental markets will remain largely in balance, because the moderate completion volume is already more than two-thirds pre-let. Rent increases will be more of an exception due to the weak economic conditions. (Source: IVG Research, Market Report Germany 2013, p. 3).

Noticeably, office take-up in the “Big 7” continued to be strong until the end of 2011 without showing the negative effects of the economic slow-down. In the beginning of 2012, the rental activities weakened but the rental take-up of about 3.1 million m<sup>2</sup> in the end 2012 was only 8 % lower than in 2011 due to a final run (Source: BMI, Germany Real Estate Report Q3 2012, p. 13; IVG Research, Market Report Germany 2013, p. 8).

Acting as a headquarter for many major corporations and niche technology providers, Munich remains the country's strongest metropolitan economy with low unemployment and high standards of living (Sources: CB Richard Ellis, Office Market Munich Q2 2012, p. 1; Immobilien Manager, Erst aufwärts, dann abwärts, available on: <http://www.immobiliengenerator.de/immobilienmegatrends/bueroimmobilien.html> at the date of this prospectus, p. 1). With a turnover of available space of approximately 850,000 m<sup>2</sup> in 2011, the office market in the southern economic centre – where 50% of TAG's commercial property is located – experienced its highest annual take-up since the new economy boom (Sources: Colliers, City Survey Office and Investment Markets – An Overview Q1 and Q2 2012, p. 18; Savills, Germany Office Markets 2011, p. 4). This demand was driven by new lettings and space expansions by some of the large resident companies such as BMW (68,000 m<sup>2</sup>), MAN (20,500 m<sup>2</sup>), Osram (47,200 m<sup>2</sup>), Linde (14,700 m<sup>2</sup>), Bosch (12,800 m<sup>2</sup>) and Allianz (13,000 m<sup>2</sup>), which alone accounted for 20% of take-up in Munich for 2011 (Source: IVG Research, Market Report Germany 2012, p. 7). In 2012, the 800,000 m<sup>2</sup>-marker was not reached (Source: Jones Long LaSalle, Office Market Overview, (*Büromarktüberblick*) Q4 2012, p. 2). The turn-up of the beginning of 2013 (approx. 155,000 m<sup>2</sup>) was just a little better than the Q1 turn-up of 2008-2012 but was 19 % above Q1 2012's turn-up (Source: CB Richard Ellis, Office Market Munich Q1 2013, p. 1).

During the economic recovery, and despite the worsening Euro and debt crisis, the additional need for space has pushed levels to a 10 year high, with an additional 1.7 million m<sup>2</sup> achieved in 2011 (Source: DIP Deutsche Immobilien-Partner, Market and Facts, (Markt und Fakten) 2012, p. 28). The space turnover fell in 2012 by 340,000 m<sup>2</sup>, or around 9%, to a total of 3.57 million m<sup>2</sup>. This current turnover value is nevertheless still around 9% above the average for the past ten years (2002 to 2011: 3.28 million m<sup>2</sup> per annum) (Source: DIP Deutsche Immobilien-Partner, Market and Facts, (Markt und Fakten) 2013, p. 24). Against a background of generally healthy demand for space and simultaneous low level of completions, vacancy rates declined in all markets. Berlin recorded the lowest vacancy rate at the end of the first quarter with 5.5%, while Frankfurt saw the highest rate of 13.5%. By way of comparison, the average vacancy rate for the last ten years in the Top six cities stands at 9.9% (Source: Savills, Market Report Germany Offices, Q1 2012, p. 4). At the end of March 2013, the average office vacancy rate across all locations stood at 8.6%, equating to 6.4m sq m. This compares to 8.7% at the end of last year and 9.3% at the end of the first quarter of 2012 (Source: Savills, Market Report Germany Offices, May 2013, p. 4).

The favourable development in respect of the vacancy rate has also had a positive impact on rental levels (Jones Long LaSalle, Office Market Overview, (*Büromarktüberblick*) Q2 2012, 2012, p. 4). Office rents, which came under increasing pressure in 2008 and 2009, stabilised in 2010 and rose across the board in 2011. The rents reached the highest level since 2002 in 2012 (+ 2.9 %). In 2013 the rents are expected to increase further, especially because of a strong demand for exclusive office space in central areas, but at a lower level (+ 1%) (Jones Long LaSalle, Office Market Overview, (*Büromarktüberblick*) Q4 2012, p.4). However, the situation looks less positive for office areas that do not meet tenants' requirements with respect to quality and location. Since the available short-term supply of such space will continue to rise, the downward pressure on rents in this sector is set to increase during the current year (Source: IVG Research, Market Report Germany 2012, p. 8).

According to the most recent forecasts from German economic research institutes (Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Institut für Weltwirtschaft) the considerable upswing in the German labour market will last into 2013. Basing the assessment on the preceding years, a significant part of the additional jobs will be created in office-related economic sectors, for example business services.

Stable development of the German office rental market for the current year is still supported by a low level in the completion of new Space. Around 940,000 sq m of office space is expected to be completed this year in the six biggest markets (Berlin, Dusseldorf, Munich, Frankfurt, Hamburg, Cologne). This is only slightly more than the figure for Frankfurt alone in 2003. While the expected completion volume is 40% higher than last year, it remains somewhat below the ten-year average. Moreover, in view of the situation in the financing markets, the low completion figures are not expected to change in the medium term (Source: Savills, Market Report Germany Offices, May 2013, p. 4).

These trends have translated into a stable performance in the investment market for commercial properties and development sites for future commercial use in Germany, which saw a total investment volume of €25,410,000 in 2012, which is in accordance with the 10-year average investment volume (€25,653,000) and distinctly above the 2011's investment volume (€23,171,000) (Source: Colliers, City Survey Office and Investment Markets 2013, p. 5). In the first quarter of 2013, the investment market for commercial properties showed a strong growth with a volume of €6.7 bn, a plus of 32 % or €1.7 bn in comparison to the first quarter of 2012 (Source: CB Richard Ellis, Investment Quarterly Germany, Q1 2013, p. 1). The first quarter of 2012's trend of investing in single objects changed so that a growing interest in portfolio transactions can be seen in the first quarter of 2013. With a volume of €2.3 bn, portfolio transactions took 32 % of the total investment volume. The main deals were the acquisition of two portfolios in Frankfurt and Berlin by IVG Institutional Funds GmbH for a special fund (Spezialfonds) and the partly take-over of a portfolio from SEB by Dundee International Reit and the acquisition of the Xanadu-portfolio by Apollo Real Estate. The five biggest centres of investment (Frankfurt, Berlin, Hamburg, Munich and Dusseldorf) took the main part of the investments, contributing a rate of 53 % to the total investment volume (Source: CB Richard Ellis, Investment Quarterly Germany, Q1 2013, p. 1)

The largest transactions of commercial property in 2012 took place in the end of December and were the acquisition of KaDeWe's and Karstadt's, stores (owned by the Highstreet-Consortium) with a volume of €1,100 million by Signa (Source: [http://www.focus.de/finanzen/news/signa-zahlt-1-1-milliarden-euro-oesterreichischer-investor-uebernimmt-luxuskaufhaus-kadewe\\_aid\\_887038.html](http://www.focus.de/finanzen/news/signa-zahlt-1-1-milliarden-euro-oesterreichischer-investor-uebernimmt-luxuskaufhaus-kadewe_aid_887038.html)) and Lone Stars's acquisition of TLG Immobilien (€1,100 million) (Source: <http://www.juve.de/nachrichten/deals/2012/12/tlg-voll-privatisiert-white-case-und-noerr-begleiten-milliarden-verkauf-an-lone-star>).

## 12.5. Competition

Owing to the size and fragmentation of the German real estate market, TAG competes against a large and diverse group of market players ranging from institutional investors and family offices over integrated property companies to financial investors with a more opportunistic investment approach. TAG's primary competitors are other large real estate companies, both listed and unlisted, that buy, sell and develop residential and commercial real estate and manage residential and commercial properties. TAG ranks the following companies among its major competitors:

- **conwert Immobilien Invest SE:** conwert Immobilien Invest SE ("conwert") is a fully integrated listed Central European residential property company headquartered in Vienna, Austria. The company is focused on residential properties primarily in Austria and Germany complemented by a commercial property portfolio. conwert's strategy is to buy, develop, sell and let older high quality properties in inner city locations across rapidly growing regions. conwert is present in Germany, the Czech Republic, Hungary and Slovakia as well Luxembourg and Ukraine. conwert's property portfolio comprises of approximately 1,500 commercial properties with a total usable space of 1,9 million m<sup>2</sup>. conwert is listed in the prime market of the Vienna Stock Exchange with a market capitalisation of €724.70 million (28 March 2013) and a total asset value (*Bilanzsumme*) of €2,849.8 million (31 December 2012) (Comment Noerr: No new data/figures available), thereof €1,288 million located in Germany. (Source: company information)
- **Deutsche Annington Immobilien SE:** The Deutsche Annington Immobilien Group ("Deutsche Annington") is one of the largest property companies in Germany, headquartered in Bochum, Germany. The Company is focused on letting and managing approximately 210,000 residential units in Germany spread across 600 locations with a total asset value of €10,696.9 million (as of 31 December 2011). The corporate group was founded in 2001 in the course of the takeover of government-owned railroad housing companies, and consolidated into its present form in summer 2005 due to the acquisition of the Viterra residential property portfolio. The principal shareholder is Terra Firma Capital Partners Limited, London. The legal form of the holding vehicle has recently been changed into a stock corporation ("Aktiengesellschaft"). Deutsche Annington has recently completed its floatation and listing on the Frankfurt Stock Exchange. (Source: company information)

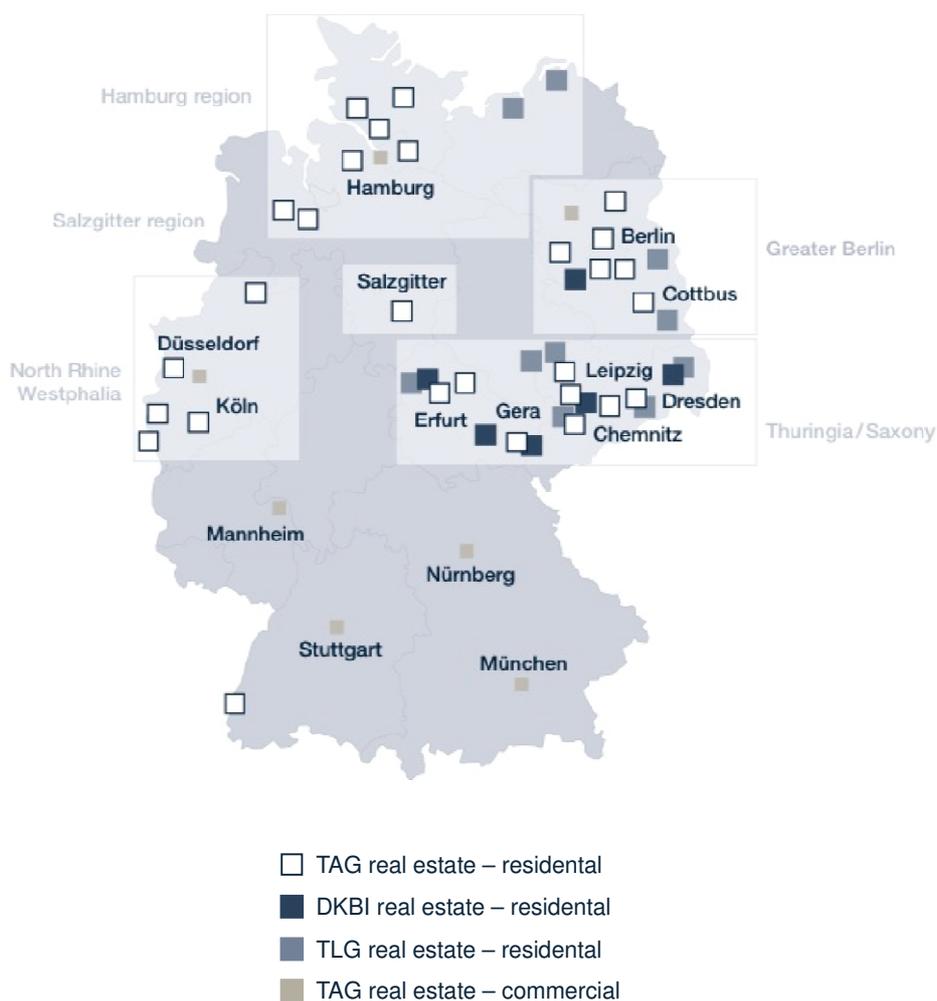
- **Deutsche Wohnen AG:** Deutsche Wohnen AG (“Deutsche Wohnen”) is one of Germany’s largest listed real estate companies based in Frankfurt/Main with its head office in Berlin. Deutsche Wohnen’s operations are geared around managing and developing its own residential property portfolio, with a focus on Berlin, Rhine-Main and other core regions. The company and its subsidiaries and affiliates hold more than 82,000 residential units totalling around 5 million m<sup>2</sup> in Germany, as well as around 1,000 commercial properties. Deutsche Wohnen is listed on the Frankfurt stock exchange with a market capitalisation of €2,300 million (as of 31 March 2013) and a total asset value of €5,266.5 million. (Source: company information)
- **GAGFAH S.A.:** GAGFAH S.A. (“Gagfah”) is the largest listed residential property firm in Germany. Gagfah is focused on its home market in Germany with a nationwide portfolio covering approximately 145,000 core residential units totalling nearly 9.1 million m<sup>2</sup>. Gagfah’s residential property portfolio is spread across Germany with a major concentration in Berlin, Hamburg, Dresden and Hanover/Braunschweig. Gagfah has been publicly traded on the Frankfurt Stock Exchange in Germany since 2006 and had a market capitalisation of €1,871 million (as of 31 March 2013) and a total asset value of €8,103.5 million. (Source: company information)
- **GSW Immobilien AG:** GSW Immobilien AG (“GSW”) lets and manages one of Berlin’s largest real estate portfolios. GSW holds around 58,600 residential units totalling approximately 3.5 million m<sup>2</sup>. Furthermore, the Company lets and manages around 1,000 commercial units located in Berlin. It also provides real estate services through managing residential real estate for third parties, handling around a further 17,700 residential units. GSW has been listed on the Frankfurt stock exchange since April 2011 with a market capitalisation of €1,539.5 million (as of 30 April 2013) and a total asset value of €3,558.1 million (as of 31 March 2013). (Source: company information)
- **LEG Immobilien AG:** LEG Immobilien AG (“LEG”) is one of the largest listed real estate companies in Germany. LEG holds approximately 90,000 residential units in North-Rhine-Westphalia with around 5.9 million m<sup>2</sup>. LEG has been listed on the Frankfurt stock exchange since 1 February 2013 with an issue volume of €1,165 million which made it one of the largest issuances in Germany since 2008. The total asset volume is €5,251 (31 March 2013). (Source: company information)

Like TAG, all of these players operate predominantly at pan-regional level across Germany. However, in view of the Company’s focus on selected regions in Germany, TAG also competes with real estate companies that focus on a given region, such as municipal housing companies. In the commercial real estate segment, TAG competes with major listed German commercial property companies, such as DIC Asset AG, alstria office AG, Hamborner REIT AG, IVG Immobilien AG, IVG REIT AG and Polis AG. Furthermore, TAG also competes with open- and closed-ended property funds as well as private investment vehicles.

## 13. BUSINESS

### 13.1. Overview

TAG is an integrated and diversified real estate group that is incorporated, listed and active in Germany, pursuing a strategy of long-term growth and value creation. TAG's business operations focus on acquisition, management and to a lesser extent development of residential real estate. In addition, TAG holds a diversified portfolio of commercial properties. The geographic footprint of the real estate portfolio is characterized by concentrated investment exposure in the Hamburg region, Berlin region, North Rhine-Westphalia, Salzgitter region and Thuringia/Saxony. The following map shows the major locations of TAG's portfolio:



Following the acquisitions in 2011 and 2012, the growth strategy in the short- to midterm shall be focused on acquisitions that increase depth in existing regions in order to capitalize on the expertise and organisational infrastructure in place to maximize value accretion.

TAG AG's history relates back to Munich-based Eisenbahn Actiengesellschaft Schaftlach-Gmund-Tegernsee, which was founded in 1882. The Company started as a railway transportation company, but has developed into

a diversified real estate group since the end of the 1990s. Key stages in this process were the acquisition of JUS Aktiengesellschaft für Grundbesitz (now TAG Asset Management GmbH) in 2000 and Bau-Verein GmbH in 2001. In recent years, the Company increased its commercial real estate activities by acquiring the Maximilian Portfolio, located mainly in Bavaria, in 2006 with a volume of approximately €129 million and the Siemens Portfolio in 2007 with a volume of around €171 million. In 2010, the Company undertook a major expansion of its residential real estate portfolio through various transactions in which TAG acquired approximately 2,800 units, mostly in Berlin, North Rhine-Westphalia and selected locations in Saxony. Based on the acquisition of a majority stake in the listed Colonia Real Estate AG (“Colonia”) at the beginning of 2011, TAG more than tripled the number of residential units in its real estate portfolio. In addition, TAG added a further approximately 4,300 residential units to its portfolio through various transactions in 2011. In the first half of the financial year 2012, TAG extended its real estate portfolio through the acquisition of DKB Immobilien AG (now TAG Potsdam) with real estate properties primarily located in Saxony, Thuringia and the Berlin area. Furthermore, TAG broadened its portfolio in Berlin and Chemnitz through various business transactions in the first nine months of 2012. In November 2012, TAG acquired TAG Wohnen which holds a residential real estate portfolio that includes approximately 11,350 residential and 140 commercial units and which to a substantial extent overlaps geographically with TAG’s previous residential real estate portfolio.

The following are TAG’s most important business segments:

- **Residential real estate** – i.e. the acquisition, management and to a lesser extent development of residential properties. As of 31 March 2013, TAG held approximately 67,280 residential units with a total floor area of some 4,112,000 m<sup>2</sup>. These residential units are primarily located in the following regions: Thuringia/Saxony (44% of the total floor area), Hamburg region (17%), Berlin region (20%), Salzgitter region (14%) and North Rhine-Westphalia (5%). The focus on specific regions allows TAG to centralise administration and management of large segments of the portfolio in a small number of offices. Since the concentration of administration in a few offices creates economies of scale, the existing offices’ ability to manage a potential property is an important criterion in every decision concerning the acquisition of additional properties and real estate portfolios. This business segment also oversees the selective sale of residential properties for the purpose of generating profit and optimising the portfolio in addition to the acquisition, development and management of residential real estate.
- **Commercial real estate** – i.e. the acquisition, management and development of commercial properties. TAG’s commercial real estate portfolio comprises 30 of its own commercial properties most of which are held by TAG Gewerbe and for which administration and management services are obtained from a third party. These have a total rental space measuring some 347,000 m<sup>2</sup> (as of 31 March 2013) and mainly comprise office buildings in the Berlin region (16% of the total floor area), Hamburg region (14%), North Rhine-Westphalia (27%), in the Munich metropolitan area (41%) and in Thuringia/Saxony (2%). In addition, TAG also holds numerous other, mostly small-scale commercial spaces located e.g. in mixed-use residential and commercial buildings. These are administered and managed along with the corresponding residential spaces. This business segment also oversees the sale of commercial real estate for the purpose of reducing the investments in commercial real estate, generating profits and optimising the portfolio.

TAG’s primary objective is to increase the value of the Company by sustainably expanding and increasing the value of its residential real estate portfolio. To that end, TAG continues to explore promising opportunities to expand its residential real estate portfolio. The Company intends to increase TAG’s profitability by combining property management resources and creating greater economies of scale. Pursuant to the growth strategy, TAG acquired the majority of the shares in Colonia at the beginning of 2011, and thereby more than tripled its residential real estate portfolio by adding approximately 18,900 residential units. In addition, it grew its portfolio further in 2011, acquiring approximately 4,300 residential units by way of various smaller transactions. In 2012, TAG continued its expansion strategy by acquiring TAG Potsdam with a portfolio of approximately 26,900 real estate properties, 25,000 of which were residential units, and TAG Wohnen with a portfolio of approximately 11,350 residential and 140 commercial units.

In contrast, expanding the commercial real estate portfolio held principally by TAG Gewerbe is not currently a main priority. TAG is more likely to reduce its commercial real estate portfolio through selected sales, for example by the sale and purchase agreement regarding the commercial property Königstorgraben in Nuremberg, which was concluded in April 2013. In May 2012, TAG Gewerbe lost its pre-REIT-Status retroactively to 31 December 2011.

Since 2011, TAG's activities in its former business segments building development, project development and residential housing privatization have been discontinued so that TAG may concentrate on its core competencies i.e. the acquisition, management and to a lesser extent development of residential properties. Likewise, TAG discontinued most activities in the business segment real estate services for third parties by selling all shares in POLARES REAM, in which most parts of this business segment were concentrated, in October 2012. In addition, TAG sold the railway infrastructure business in December 2012.

### 13.2. Competitive strengths

Based on the size and quality of its residential and commercial real estate portfolio as well as its management's and employees' expertise in the German real estate market, TAG believes that it is favourably positioned to continue expanding and optimising its portfolio with residential properties and generating sustained growth and cash-flows. In the Company's estimation, TAG's individual strengths can be described as follows:

- **Diversified residential real estate portfolio with strong rental income.** TAG holds a diversified portfolio of residential real estate which is situated largely in attractive locations in the Berlin region, Hamburg region, North Rhine-Westphalia, Thuringia/Saxony and the Salzgitter region. The residential real estate portfolio consists of approximately 67,280 residential units with a total area of some 4,112,000 m<sup>2</sup> (as at 31 March 2013) and generates annualised actual rent of approximately €221.0 million. The Company believes that its residential real estate holdings constitute a solid and attractive portfolio which generates a strong rental income and stable cash flow due to a low volatility of rental and capital values and a high diversification of tenants sustained by sizable rental market due to a low ownership rate in Germany. The Company further believes that the Berlin region, the Hamburg region, North Rhine-Westphalia and to a minor extent Thuringia/Saxony will benefit in the coming years from population growth, a rising number of households and an above-average percentage of highly qualified workers earning an above-average income, which is expected to lead to a steady, strong demand for apartments and in the long term to rising rents. With respect to the real estate in these regions, the Company anticipates being able to generate rising returns in the future and being less affected by real estate market crises. To the extent that it holds real estate outside of major metropolitan areas, TAG believes based on the condition and location of the properties that it can realise their potential for appreciation and that it can position the properties as preferred rental properties in the respective region. As a result, it would also be less vulnerable to future real estate market crises.

In TAG's view, the Berlin region, the Hamburg region, North Rhine-Westphalia and to a minor extent Thuringia/Saxony will benefit from future economic growth. Moreover, the Company believes that an increasing number of tenants and potential tenants value a well-developed infrastructure which these regions provide. In TAG's opinion, continual demand for high-quality apartments in these regions will as a result increase further, thus increasing both the value of TAG's portfolio properties and the obtainable rents, while vacancies will decrease further or remain at a low level. This will, in TAG's view, further strengthen its rental income.

- **Strong management team.** TAG's management has many years of experience and an extensive network of real estate market contacts. The management team of TAG is familiar not only with the specific features of the German residential and commercial real estate market, but also possesses the necessary knowledge of the regional markets in which TAG operates. The management team is experienced in operating a very lean and efficient structure and has a strong track record in the integration of acquisitions. TAG benefits from this experience in the management and development of its portfolio, in the acquisition of property companies and real estate portfolios as well as in the selective sale of properties.

- **Effective asset and property management.** Through the effective operational management of its real estate portfolio, TAG has since 2009 largely succeeded in substantially reducing vacancies in its existing portfolio of residential and commercial real estate. In order to reduce vacancies in residential properties, TAG did not primarily rely on elaborate renovations and the associated large investments, but instead strengthened its sales operations by setting up its own sales department. Reducing vacancies allowed TAG to increase rental cash flow and at the same time to increase the attractiveness of its residential real estate portfolio. TAG also sees considerable potential for increasing profitability in the Colonia portfolio acquired in 2011, since some of these properties have high vacancy rates. For instance, lowering the vacancy rate of the Salzgitter portfolio, which was around 24% regarding the major part of this portfolio at the time of the acquisition of the majority stake in Colonia in the first quarter of 2011, could generate significant additional rental income and appreciation.

The Company is also of the opinion that its asset and property management activities are set up such that even an expanded real estate portfolio can be managed without TAG incurring major additional fixed costs. For example, the management of the approximately 3,200 residential units acquired in the course of the Theta project in the second half of 2011 could be integrated to a large extent into existing structures. After expiration of the last third-party management contracts in mid-2012 this would result in lower management costs while keeping non-real estate-related costs the same. Furthermore, the third-party management contract for the residential real estate portfolio in Salzgitter was terminated prematurely with effect from 30 June 2011, with the result that TAG itself increasingly took over asset and property management of this portfolio in the course of 2011. TAG also took on some of the employees of the third-party management company. The other third-party management contracts, all of which are applicable to the portfolios belonging to the Colonia sub-group, have already been terminated or are expected to be terminated soon. After their termination, the operational management can be assumed by the asset and property management offices of TAG in an economically viable manner.

Furthermore, TAG has implemented a decentralised asset and property management structure in ten locations across Germany, whereby local management is empowered to undertake modernisation, renovation and service procedures to allow fast and efficient on-site decision-making, subject to minimum returns determined in cost-benefit analyses and absolute monetary limits (so-called “LIM-areas” – “*Bereiche d. Leiter/in Immobilienmanagement*”, i.e. areas of the real estate management director). Due to its sizable portfolio, TAG has a critical mass in all these regional markets. As a result, the local portfolios are managed efficiently by a competent team on the basis of the information required for the specific the portfolio and the local markets. With its local coverage TAG is not only focussed on a single geographic area but has its own real estate management structure in five major German regions. This gives TAG opportunities to evaluate and acquire portfolios across Germany, due to greater local know-how and the ability to integrate new acquisitions into its existing portfolios and management structures, thus providing increased potential synergies. As a result, TAG has a broader potential to make use of acquisition opportunities for attractive portfolios in various locations. Thus, TAG can continue its expansion though the price levels for portfolios in certain regions become unattractively high.

- **Expertise for capital market-oriented growth.** TAG’s management succeeded in expanding the real estate portfolio and increasing its value through specific acquisitions in numerous transactions between 2009 and 2012. By repeatedly resolving on the creation of authorised capital, the Company’s General Meetings enabled the Company’s management to issue new shares both, against contribution in cash and in kind, i.e. for the acquisition of real estate portfolios or real estate companies against issuance of new shares. The Company thus was and is in a position to continue to pursue its growth strategy even in a capital market environment unfavourable to real estate companies. In addition, the Company issued convertible bonds totalling €194 million in December 2009, May 2010, December 2010 and June 2012 despite an adverse capital market environment, thereby gaining access to additional sources of financing. The authorisations granted by the Annual General Meeting in June 2012 for the issue of additional convertible and warrant bonds as well as profit-participation rights give TAG an extensive range of further options for financing growth using the capital markets. In the course of future capital market

financing, TAG will continue to strive to generally prevent dilution of its shareholders' equity interests and negative effects on its share price performance.

- **Solid commercial real estate portfolio with attractive lease maturity profile.** TAG's commercial real estate portfolio consists of 30 properties with a total rental area of some 347,000 m<sup>2</sup> (as at 31 March 2013) and annualised actual rent of approximately €26.4 million. These properties are mainly office properties in regional conurbations and medium-sized cities. In conceptual terms, the portfolio is composed of properties in "B locations in A cities", i.e., good locations in cities such as Berlin, Munich, Hamburg, Düsseldorf and Cologne, and "A locations in B cities", i.e., prime locations in cities such as Duisburg and Nuremberg. TAG sees strong performance and return potential here. In the case of some commercial properties, the Company also sees considerable potential for rent increases when the properties are newly leased. The vacancy rate of the commercial real estate portfolio is around 16.4% (as at 31 March 2013). The excellent credit ratings of certain tenants (around 29.7% of the annualised annual target rent is accounted for by Siemens AG) also ensure stable cash flow.

### 13.3. Corporate strategy

TAG's primary objective is to increase the value of the Company by sustainably expanding and increasing the value of its residential real estate portfolio in order to offer investors an attractive investment due to the profitability of the portfolios and their development. In this context, TAG plans to leverage economies of scale by focusing on further expanding the residential real estate portfolio, realising existing growth potential and potential for appreciation. In addition, the Company plans to continually increasing the value of the Company and its long term profitability by actively managing portfolio rents and assets.

In order to implement its strategic goals, TAG plans to take the following steps:

- **Concentrating on the residential real estate business.** TAG's focus going forward will primarily be on the residential real estate segment. In the Company's view, this business segment has a lower risk profile in the medium and long term than commercial real estate and ensures stable rental income. In the long term, TAG therefore intends to reduce its commercial real estate portfolio through selective sales of the properties.
- **Increasing the value of the Company through acquisitions.** TAG pursues a strategy that aims for sustainable, profitable growth and a steady rise in the value of the Company through the acquisition of properties, real estate portfolios and majority investments in other real estate companies. By making acquisitions like these, TAG also intends to enhance the Company's attractiveness to the capital market: due to its size and income growth, TAG believes that it will become increasingly attractive to international investors. Ultimately, the Company believes that its strategy of sustainable, profitable growth can improve its financial profile, thereby allowing it to finance future acquisitions at more favourable terms.
- **Achieving economies of scale by way of further targeted expansion of the residential real estate portfolio.** TAG intends to continue to grow its portfolio of residential real estate in a focused and sustainable manner by acquiring real estate portfolios and real estate companies. In geographical terms, TAG concentrates on its five core regions, the Berlin region, the Hamburg region, North Rhine-Westphalia, Thuringia/Saxony as well as the Salzgitter region. The Company aims to further reinforce this approach with the acquisition of real estate portfolios whose regional weighting overlaps with TAG's current regional focus as much as possible. In this way, TAG is specifically pursuing the goal of leveraging economies of scale by using its existing asset and property management resources for the newly acquired properties, if possible without increasing costs. This approach is intended to contribute to increased profitability while keeping personnel and other administrative costs fundamentally the same. When purchasing larger-scale portfolios, TAG will also acquire properties that are located outside of the regions it has focused on to date as long as the majority of the properties in the portfolio acquired are located in these regions and the other properties can be managed or sold profitably. As it searches for properties, TAG regularly seeks properties in a good, well-kept condition with few outstanding

maintenance projects. Especially when the terms of acquisition are favourable, identifiable development opportunities (for example, potential rent increases and potential for modernisation projects) are a relevant factor. For instance, TAG believes that the vacancy rate in its Salzgitter Portfolio can be decreased by tapping into the area's considerable demand for senior-friendly apartments without having to undertake major renovations. In addition, TAG sees substantial potential for rent increases in a part of the Salzgitter Portfolio, which it believes can be achieved through more active marketing of one-room and attic apartments. According to the Company, the Salzgitter Portfolio also holds considerable potential for development in other respects resulting, for example, from the extensive possibilities for reducing costs by providing real estate services formerly outsourced to third parties and by increasing its direct marketing of residential units. To the extent that real estate companies or entire portfolios are acquired, TAG will try to complete these acquisitions while protecting its liquidity by performing further capital increases against cash contributions, against contribution in-kind (contribution of real estate companies or portfolios) or by issuing convertible bonds.

- **Increasing cash flow from operations by utilising the potential for rent increases and optimising costs.** The Company intends to continually increase its income from the current real estate portfolio by increasing actual rents. A further reduction in vacancies (particularly in the Salzgitter Portfolio), renovation and modernisation projects in selected properties, maintenance and further improvement of the tenant structure, and a targeted increase in actual rents in the course of tenant turnover or as part of an adjustment to the current market level will contribute to achieving this aim. On the cost side, the plans are to increase profitability through greater efficiency in managing residential properties, including increased use of the Company's own technicians and managers and expansion of the Company's own sales system for its own housing stock.
- **Realisation of the potential for appreciation by means of specific portfolio development measures.** TAG pursues the aim of unlocking potential value in its real estate portfolio by undertaking specific renovation and modernisation projects in selected properties. The goal of these portfolio development measures is to maintain or restore the buildings to a condition in line with current market demands in order to guarantee long-term rentability and therefore a sustainable flow of rental income. Typical renovation and modernisation measures include creating more marketable apartment sizes by combining apartments or expanding attic stories into new apartments. TAG also considers opportunities for adding new balconies, renovating bathrooms or improving energy efficiency by adding insulation. After the relevant renovation or modernisation projects are completed, higher actual rents can usually be obtained, or in single cases where portfolio optimisation is the aim, the Company can sell the property to third parties at a higher market price. TAG believes that based on the expertise it has acquired in this field, the Company is in a good position to leverage the potential of renovation or modernisation, taking into account the individual characteristics of each property.
- **Actively managing the portfolio.** The fundamental growth strategy does not preclude measures intended to optimise the existing portfolio, and therefore does not rule out the sale of individual properties or smaller portfolios. In this regard, the Company plans to take advantage of such market opportunities and to selectively sell individual properties. On the one hand, this cuts administrative costs. On the other hand, it allows the Company to generate profits and cash proceeds for additional development and modernisation projects and to acquire new properties with greater income opportunities. The criteria for selling properties include reducing real estate holdings in marginal locations and avoiding investments that from the Company's perspective are not justified by adequate increases in returns from the respective properties. In some locations, for example, real estate prices have reached a high level. In such cases, a sale of properties allows TAG to gain profits and enables it to allocate the generated liquidity to more attractive investment opportunities.
- **Optimization of the financing structure.** TAG intends to continuously optimize its financing structure. To achieve this goal, TAG intends to repay financial liabilities that become due by entering into refinancings under more favourable terms to reduce interest payments on the one hand and to optimize

the debt service and financing structure on the other. Part of this strategy is to find the appropriate leverage ratio for the various parts of the portfolio and to use the attractive terms currently available on the financial markets in order to reduce interest expenses by entering into favourable financing agreements (loans and interest rate swaps). As a result, TAG intends to achieve a mid term LTV ratio (including liabilities from the convertible bonds) of below 60%. TAG believes that the stability of residential real estate as an asset class, the access to lowcost, long-term fixed-rate debt financing, and the access to funding from the capital markets together provide attractive opportunities to optimize its financing structure and its cash flow.

### 13.4. Business segments

TAG's business segments are Residential real estate, Commercial real estate and Other activities. The following table illustrates the distribution of revenues and of real estate assets in TAG's business segments. The figures are unaudited and were extracted from the Company's ongoing accounting systems:

	31 March 2013 (unaudited) € million	31 March 2012 (unaudited) € million	31 Dec 2012 (unaudited) € million	31 Dec 2011 (unaudited) € million	31 Dec 2010 (unaudited) € million
<b>Rental revenues by business segment</b>					
Residential real estate	56.3	26.9	163.4	85.6	24.5
Commercial real estate	6.6	7.1	27.8	28.1	25.8
Other activities and consolidation	0.3	0.4	1.3	1.6	1.5
<b>Total rental revenues, TAG</b>	<b>63.2</b>	<b>34.4</b>	<b>192.5</b>	<b>115.3</b>	<b>51.8</b>
<b>Real estate assets by business segment</b>					
Residential real estate	3,100.0	-	3,197.4	1,488.7	490.4
Commercial real estate	460.0	-	461.6	475.7	483.4
Other activities and consolidation	0.0	-	4.1	4.2	4.2
<b>Total real estate assets, TAG</b>	<b>3,560.0</b>	<b>-</b>	<b>3,663.1</b>	<b>1,968.6</b>	<b>978.0</b>

TAG's former building development and project development activities are assigned to the "Residential" and "Commercial" business segments, respectively. TAG discontinued these activities in the course of its restructuring in 2009/2010. Furthermore, TAG sold the railway infrastructure segment in December 2012.

#### 13.4.1 Residential real estate

The following activities in particular comprise the residential real estate business segment:

- **Asset and portfolio management.** TAG continuously analyses the opportunities for realising potential for appreciation and rent increases by modernising and renovating its portfolio properties. Modernisation activities include all activities to improve the fittings in apartments in order to update them, such as insulation work and other work that may reduce the energy consumption of apartments, as well as the replacement of elements of fittings in apartments which are outdated, such as installing new plumbing fixtures and new heating systems. Renovation activities include all activities intended to fundamentally improve the building stock and during which vacant apartments are deliberately accepted. In contrast to modernisation work, which is primarily intended to increase actual rent potential, renovation activities aim to improve future rentability and therefore to increase target rents. In preparation for all modernisation and renovation activities, TAG performs detailed cost-benefit analyses in order to determine whether the required investments can be recovered with a profit from the realisable increases

in value. For modernisation and renovation work, TAG exclusively commissions third-party contractors who provide high-quality services and exhibit a favourable price-performance ratio. In this context, TAG limits its involvement to coordinating and monitoring the modernisation and renovation activities.

- **Property management.** Property management primarily includes letting and administering the real estate portfolio; this comprises letting of apartments that have been vacated as well as entering into and managing leases. Letting and management also include active rent and receivables management, particularly the continuous monitoring and auditing of incoming payments to rent and security deposit accounts and collecting outstanding receivables using payment reminders and legal action, as well as billing operating costs and bookkeeping. Finally, leases are terminated in some cases if this step is required to ensure the quality and profitability of the leased objects through a constant flow of rental income. Housing management also includes repairs and maintenance, some of which are performed by TAG's own workmen. In the case of more comprehensive works, this work is performed by third-party contractors who are commissioned and supervised by TAG. Furthermore, TAG's activities in the property management comprise regular analyses of the regional rental markets in which its portfolio properties are located for the purpose of identifying potential for rent increases and carrying out rent increases.
- **Acquisitions.** TAG continuously monitors the regional real estate markets in which it operates for opportunities to enhance its portfolio by purchasing individual properties, real estate portfolios or sub-portfolios, and particularly by acquiring real estate companies. In this context, the Company analyses the real estate portfolios of other market participants for added value and appreciation potential and, in suitable cases, enters into contractual negotiations with these parties to acquire financially worthwhile additional properties. The following are the main criteria here:
  - **Location of a property:** Analysis of the property's location, its development and traffic connections as well as its placement in a region with a constant or expanding population or regional demand for living space;
  - **Condition and construction year of a property:** Determining the condition of the property involves evaluating its structural condition and, if necessary, determining and pricing required modernisation and renovation projects and estimating the costs associated with urgent renovation needs;
  - **Letting status and tenant structure:** As part of the analysis, the rental income and tenant structure are evaluated and the prospects for reducing the number of vacancies and for increasing rent are determined;
  - **Share of space used for commercial purposes:** In the case of portfolios and portfolio properties, the share of commercially used space is a decision-making criterion; in order not to compromise the strategy of focusing on residential real estate, the possibilities for using commercial space are evaluated separately;
  - **Compatibility of the new stock:** It is crucial whether the portfolio to be acquired can be integrated into the existing portfolio and the existing management structures, particularly with regard to the possibility of managing the properties from the locations in which TAG already operates. The point is to generate synergies and to limit the establishment of (new) management units to instances when doing so is the only way to be efficient and maintain profitability at the same time.

In addition to these criteria, the profitability calculations determined as part of business plans and forecasts are a key criterion for purchase decisions.

- **Selected targeted sales to optimise the portfolio and to take advantage from market opportunities.** TAG continually analyses whether in certain cases properties can be sold to optimise the portfolio. For instance, this can be the case if pending renovation and modernisation activities do not bode well for

sustained growth in the value of the property, or if properties are located in marginal locations or regions whose chances for development are assessed as negative by TAG, and the properties' minimal economies of scale are associated with comparatively high administration costs. Furthermore, in single cases, TAG intends to take advantage of market opportunities and may sell residential real estate for the purposes of maximising value. In some locations, for example, real estate prices have reached a high level. In such cases, a sale of properties allows TAG to gain profits and enables it to allocate the generated liquidity to more attractive investment opportunities.

### 13.4.2 Commercial real estate

In the commercial real estate segment, TAG is not only active in office properties leased for the long term, but also in retail and logistics properties. TAG Gewerbe properties are situated in good locations ("B locations") in metropolitan regions (major metropolitan areas of A cities such as Hamburg, Munich, Berlin, Cologne and Düsseldorf, Germany) or in excellent locations ("A locations") in medium-sized major cities (such as Duisburg and Nuremberg, Germany). In total, TAG holds 30 commercial properties with a total area of some 347,000 m<sup>2</sup>. The quality of the commercial real estate portfolio is largely due to the maturity structure of the leases. As at the date of this Prospectus the maturity structure was as follows:

TAG's commercial real estate activities can be characterised in a way comparable to its residential real estate activities (see section 13.4.1, "Business – Business segments – Residential real estate"), whereby the main focus is on commercial real estate management and portfolio development.

- **Commercial real estate management.** The management of commercial properties also comprises letting and administering the real estate portfolio, entering into and managing rental and lease agreements, active rent and receivables management, billing of operating costs and bookkeeping. In contrast to the residential real estate portfolio, repairs and maintenance are generally performed by third-party contractors who are commissioned and supervised by TAG. For the most part, TAG's management services for the commercial real estate portfolio are tailored to the distinctive features of each individual property and the respective tenant.
- **Portfolio development activities.** Portfolio development and redevelopment activities involve exploiting the potential for rents and rent increases and reducing operating costs by means of professional rent and property management. For this reason, larger-scale construction activities cannot be ruled out, which may include modernisation and maintenance in line with market requirements, expansion of and additions of floors to commercial properties, as well as construction of underground garages and parking lots and, in individual cases, even new construction. In actively developing the portfolio, TAG strives to maintain and further increase the value of the building stock, either in order to ensure the attractiveness and value of the portfolio or to market properties at a maximum profit.

There is currently no plan to grow the commercial real estate portfolio by making further acquisitions. TAG currently rather intends to reduce its commercial real estate portfolio over the long term, in order to increasingly focus on the expansion of the residential real estate portfolio.

### 13.4.3 Other business activities

Until 30 September 2012, TAG offered third parties a comprehensive range of real estate administration, development and management services, mainly via its POLARES REAM subsidiary. By selling all shares in POLARES REAM with effect of 1 October 2012, TAG has discontinued most parts of the business segment of real estate-related services. After the sale of POLARES REAM, TAG only handles third-party management, including managing homeowners' associations (*WEG*), for approximately 3,000 residential properties. This only represents a minor business activity of TAG and is not considered an independent business segment any more.

Upon completing the remaining "Stuttgart-Südtor" and "An den Obstgärten" projects, TAG discontinued its project development activities and building development business. The "Stuttgart-Südtor" development project, which involved building a mixed-use urban district, was finished with the completion of all buildings. TAG

included some of the commercial buildings constructed as part of this project in its real estate portfolio for the purpose of letting. These properties are therefore accounted for as part of the commercial real estate letting business. TAG is no longer involved in completing the “An den Obstgärten” construction project, which was part of a joint venture, because it sold its shares in the joint venture in January 2011.

Finally, TAG was through its former subsidiary Tegernsee-Bahn Betriebsgesellschaft mbH (“TBG”) involved in managing railway infrastructure between Schaftlach and Tegernsee. Since discontinuing its own transport operations at the end of 1998, TBG as the railway infrastructure company provides the railway segment from Schaftlach to Tegernsee used for public short- and long-distance passenger transport to Bayerische Oberlandbahn GmbH, Holzkirchen, Germany, (“BOB”) as the respective railway transport company. By notarial deed dated 20 December 2012, TAG transferred the shares in TBG and ownership of the properties in the Tegernsee area to a local investor. With this transfer, TAG conclusively discontinued its activities in this business segment.

### **13.5. Customers and sales**

The principal customers of the residential real estate portfolio business segment are the approximately 70,000 households which are tenants of the respective properties. Contact with these customers is established both by the Company’s own letting department as well as third-party real estate agents. In the commercial real estate business segment, Siemens AG is the only key account for TAG, generating annualised annual target rent of €7.8 million in 2012 (29.7% of the total target rent for 2012 from the commercial portfolio).

Apart from the commercial real estate, there is no dependence on key accounts.

### **13.6. Property, plant and equipment and investment properties**

The scope of the property, plant and equipment that TAG holds is immaterial. The majority of its non-current assets are investment property.

As real estate companies, TAG AG and its subsidiaries and affiliates hold an extensive portfolio of properties. The vast majority of the investment properties are encumbered with mortgages in favour of the financing credit institutions. The following table provides an overview of the real estate assets held as investment properties directly or indirectly by TAG AG and by the main subsidiaries involved in its business operations. As at 31 March 2013, the non-current assets comprised 2,392 residential properties with a total of 65,257 residential units and 30 commercial properties, three serviced apartments and 109 undeveloped properties. The current assets comprised 214 residential and commercial properties with a total of 2,025 units. The valuation of these properties was carried out by two independent experts. The real estate portfolio held by TAG Gewerbe and TAG Logistik Immobilien GmbH & Co. KG was appraised by Otto & Kollegen, Berlin, as at 30 September 2012. The remaining real estate portfolio of TAG was appraised by CB Richard Ellis GmbH, Berlin, as at 30 September 2012, with respect to Stadthaus am Anger GmbH as at 30 November 2012, and with respect to TAG Wohnen as at 31 December 2012. The Company confirms that no material changes with regard to the value of the real estate reported in the valuation reports have occurred since the respective appraisal dates, i.e. with respect to the real estate portfolio held by TAG Gewerbe and TAG Logistik Immobilien GmbH & Co. KG since 30 September 2012, with respect to Stadthaus am Anger GmbH since 30 November 2012, with respect to TAG Wohnen as at 31 December 2012 and with respect to the remaining real estate portfolio of TAG since 30 September 2012. For detailed information on the valuation, see the discussions in section 11, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the valuation reports on pages W-1 *et seq.*

Certain individual properties accounted for by TAG were not included in the valuation reports since they were sold as of 31 March 2013, but transfer of title has not taken place yet, or the sale of these properties is planned in the foreseeable future.

Region/Segment	Plot area (unimproved plots only) in m <sup>2</sup>	No. of properties	Units	Lettable area in m <sup>2</sup>	Vacancies in m <sup>2</sup>	Vacancies in %	Annualised actual rent in €'000	Net actual rent in €/ m <sup>2</sup> / per month	Target rent in €'000 per year	Carrying amount in € million as at 31 March 2013 (unaudited)	Encumbrances as at 31 March 2013 in € million
<b>NON-CURRENT ASSETS</b>											
<b>Residential portfolio</b>		2,392	65,257	3,981,638	381,602	9.6%	215,311	4.98	235,028	2,988	1,712
Hamburg region		375	11,061	669,567	58,516	8.7%	37,366	5.10	40,234	528	285
Berlin region		359	12,967	790,493	42,379	5.4%	44,105	4.91	46,306	630	385
Thuringia/Saxony		1,096	28,206	1,700,720	148,962	8.8%	90,325	4.85	97,612	1,240	698
North Rhine-Westphalia		175	3,820	255,916	12,421	4.9%	16,131	5.52	17,031	236	143
Salzgitter region		387	9,203	564,942	119,323	21.1%	27,384	5.12	33,845	353	201
<b>Commercial portfolio</b>		30	717	346,887	56,739	16.4%	26,385	7.58	30,791	458	253
<b>Portfolio sub-total</b>		2,422	65,974	4,328,525	438,341	10.1%	241,697	5.18	265,819	3,445	1,965
Serviced apartments		3	106	8,066	0.0	0.0%	1,817	18.77	1,926	18	8
Undeveloped plots	432,966	109	0	0	0	/	3.4	/	3.4	10	0.4
<b>Other sub-total</b>	432,996	112	106	8,066	0	0.0%	1,820	18,81	2,000	27	9
<b>Total non-current assets as at 31 March 2013</b>	432,966	2,534	66,080	4,336,591	438,341	10.1%	243,517	5.21	267,819	3,473	1,974
<b>CURRENT ASSETS</b>	25,956	214	2,024	130,574	33,141	25.4%	5,706	4.88	6,806	87	57
<b>Total assets as at 30 March 2013</b>	458,922	2,748	68,104	4,467,166	471,483	10.6%	249,223	5.20	274,625	3,560	2,031

The aggregate value in the valuation reports of €3.655 million is in total €95 million higher than the total carrying amount of €3.560 million as indicated above. This difference predominantly results from the sales of properties in the period after the date of the valuation reports until 31 March 2013. This mainly concerns the properties Bärenpark in Berlin and certain properties of Aufbaugesellschaft Bayern GmbH. For further details see section 15.2, “Material Agreements – Sales”. Accordingly, certain other figures indicated above, e.g. the aggregate lettable area, the number of properties and the annualised actual rent, deviate from the figures provided by the valuation reports.

### 13.7. Employees

The following table provides an overview of the changes in the number of full-time employees of TAG as at the relevant reporting dates with the exception of Management Board members and managing directors:

	31 March 2013	31 Dec. 2012	31 Dec. 2011	31 Dec. 2010
<b>Number of employees by company</b>				
TAG AG	375	170	134	92
Bau-Verein	11	11	10	10
TAG AM	2	51	55	0
TBG	--	12	10	10
TAG Sachsenimmobilien GmbH	0	0	0	6
TAG NRW-Immobilien GmbH	0	0	0	9
Colonia and subsidiaries	0	0	6	-
TAG Potsdam and subsidiaries	35	176	-	-
TAG Wohnen	63	64	--	--
Aufbau Bayern GmbH	2	2	--	--
POLARES REAM	--	--	66	42
	488	486	281	169

TAG had 488 employees as at 31 March 2013 (including TAG's Management Board this figure amounted to 492). This figure includes full-time employees, as well as part-time employees, but it does not include trainees, maintenance supervisors or cleaning staff. The substantial increase in the number of employees since 2010 resulted on the one hand from TAG's acquisition of a further 49.79% of the shares in Larus with effect of 30 September 2010. As a result, this company became a wholly owned subsidiary of TAG, and the 39 employees of Larus at that time became employees of TAG. The further increase in the number of employees as at 31 December 2011 resulted from the acquisition of a majority of the shares in Colonia, which added another 98 employees to TAG's headcount. Some of these have since then left the TAG Group in the course of the merger of the two workforces or are employed at TAG AG. The further increase in the number of employees in 2012 was caused by the purchase of TAG Potsdam (previously DKB Immobilien AG), which as at 31 March 2013 employed 35 employees, and TAG Wohnen (previously TLG Immobilien GmbH), which as at 31 March 2013 employed 63 employees. Finally, after 31 March 2013, the number of employees decreased by one employee. TAG therefore had a total of 487 employees as at the date of this Prospectus.

Within TAG, the majority of staff have been employed directly by TAG AG since 1 January 2010. This is the result of a restructuring of TAG in 2009/2010. As at the date of this Prospectus, 374 persons are employed directly by TAG AG.

In all other respects, the number of TAG employees remained constant since 31 March 2013.

### 13.8. Litigation

With the exception of the cases described below, TAG is not and was not party to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware) that in the period of at least the last 12 months existed/were resolved or that have or recently have had a material effect on the financial condition or profitability of the Company or TAG. The scope and number of legal disputes are considerable, but also typical for real estate companies in TAG's view.

### 13.8.1 Categories of cases

The majority of the proceedings still relate to building development projects which have since been completed or discontinued. The majority of the proceedings fall into the categories discussed below:

- With regard to the building development projects already completed, disputes and litigation involving claims of construction and planning deficiencies are still ongoing because such proceedings are often protracted, lasting years. The owners and owners' associations strive in particular to suspend limitations on the warranty claims asserted by initiating independent evidentiary proceedings (*selbständiges Beweisverfahren*) in court. Since numerous parties take part in these proceedings, the litigation often lasts for long periods of time. In addition, experience has also shown, that due to new developments and the use of new products and detection methods, a design still considered technically correct at the time a particular building was constructed can in the meanwhile be deemed problematic and prove to be non-conforming with generally accepted engineering standards. In these cases, TAG is subject in particular to the risk that it may no longer be possible to take recourse against the designers and companies that carried out the work (see also the explanations in section 6, "Risk Factors"). Risks also arise from the fact that acceptance of the respective common property, which in the past was performed by third-party experts for owners and buyers' groups, has been deemed invalid in court decisions. As a result, the beginning of the warranty periods often cannot be determined precisely. The acceptance of common property is therefore an area where there is little legal certainty. The companies that formerly conducted building development activities, in particular Bau-Verein, therefore continue to be exposed to the risk that claims may be asserted against them arising from past projects due to a *de facto* extension of the warranty periods.
- Another category of cases arises from buildings developed by TAG Asset Management GmbH ("TAG AM"), which were sold in Leipzig with a special depreciation allowance for buildings with historic preservation status (*Denkmalschutzsonderabschreibung*) pursuant to section 7 German Income Tax Act (*Einkommensteuergesetz*, "EStG"). After having conducted several tax audits, the tax authorities are denying the buyers the special depreciation allowance they claimed. The authorities base their decision either on the argument that the construction costs to which the special depreciation allowance was applied did not arise after the contract was signed as stipulated in section 7 EStG, and therefore must be reduced, or on the argument that the building did not qualify for historic preservation status. In both cases, the buyers claim that they did not have sufficient information about the tax risks. They are demanding either damages for the tax disadvantages they incurred, or rescission of the sales contracts, many of which were signed many years ago. In some cases, they are claiming that the purchase price was excessive or that the sales contract was unconscionable. Courts that have dealt with these scenarios have in some cases upheld the rescission claims of the buyers. In other cases, the proceedings have been stayed in order to give the buyers time to clarify with the tax authorities in proceedings before the tax court whether properties can be classified as worthy of historic preservation. Because in some cases larger owners' associations are affected, the buyers (= investors) sometimes bring test cases to demonstrate that their view will prevail over TAG AM's. In addition to proceedings already pending, the owners of various properties have asserted out-of-court rescission claims against TAG AM.

In this connection, under IFRS TAG made specific provisions for the aforementioned categories of €1.3 million (for remedying defects) as at 31 March 2013. However, TAG cannot set a specific figure for total possible warranty claims, which could considerably exceed the provisions made.

### 13.8.2 Individual cases

According to TAG, the following proceedings are or were of material importance:

- **"Ottobrunn" project.** This building development project completed years ago in the municipality of Ottobrunn, which was realised by Wohnanlage Ottobrunn GmbH ("WAO"), a project company of Bau-Verein GmbH, gave rise to a dispute with the general contractor that is still ongoing. The general contractor completed the project in several construction phases. In 2001, a complex construction defect

occurred as the result of heating and plumbing lines that proved to have leaks after they were installed. The general contractor demands the refund of the contractual penalty of €0.5 million paid by it. The general contractor based his claims on an interim settlement, because in independent evidentiary proceedings, the expert determined that WAO was jointly liable as principal, even if only to a minimal extent. To date, no court has found a design defect or construction supervision error by WAO. Whether the findings by the expert to date will be upheld remains open. The expert has not yet made a conclusive statement on the matter. Provisions have been made in the financial statements.

Furthermore, disputes involving alleged defects in the property are still underway with owners' associations. The total amount in dispute here is €0.6 million. WAO estimates the remaining expenses at approximately €0.6 million, approximately €0.45 million of which are attributable directly to TAG and around €0.15 million of which are attributable to the general contractor. However, the general contractor has informed TAG that it will offset this amount against the alleged repayment claims.

- **“Sandtorkai” project (Hamburg).** In the autumn of 2009, Sandtorkai homeowners' association (*WEG*) initiated independent evidentiary proceedings shortly before the end of the warranty period to examine the structural engineering, the underground garage and the electric system. It is asserting various claims for damages. The general contractor is also involved. Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH (“BVEI”) holds guarantees and reached a settlement with Sandtorkai homeowners' association (*WEG*) in June 2012 regarding the underground garage and the electric system in exchange for a payment of €0.1 million. Insofar, no risk of (further) recourse is currently expected. Nonetheless, TAG cannot rule out that expenses for correcting defects could exceed €100 thousand and that BVEI could be found jointly liable as the building developer.
- **“Museumstrasse” project.** In 2000, TAG Gewerbe sold a property located on Museumstrasse in Hamburg. The last purchase price instalment totalling €1.3 million was deposited in a notary's escrow account, but was not disbursed because the buyer gave notice of defects. Various evidentiary proceedings and actions before the District Court of Hamburg have been conducted since 2002 as to whether the claims are justified. The expert opinions received to date indicate that there is an obligation to correct the defects, the costs of which are secured by holdbacks imposed on the general contractor, who has since become insolvent, and guarantees of the general contractor, although not all expert opinions have been prepared yet. TAG Gewerbe has recognised provisions in the amount of €0.7 million for the performance of activities to correct the defects and the remaining compensation for the work done by the general contractor. On 15 October 2010, TAG was served with notice of a contingent counterclaim in this matter in an amount of approximately €2.5 million, which has been brought in addition to the defendant's principal pursuit of compensation. In the contingent counterclaim, the defendant demands compensation from TAG for the costs of the defect remediation undertaken by the defendant by way of substitute performance. Settlement negotiations held since April 2012 have not been successful so far.
- **Puchheim construction project.** In 2005, Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH as seller entered into a notarial sales contract for land with an investment company stipulating the obligation to build on a plot located in Puchheim near Munich. In this contract, the seller agreed, among other things, to build a supermarket and to core redevelop the existing office and warehouse building. A claim was asserted against TAG Gewerbe as legal successor to Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH for construction defects. The buyer of the piece of land filed a suit against TAG Gewerbe before the District Court of Munich II for payment of an advance to correct the defects in the amount of €0.2 million.
- **Berliner Landstraße project (Wentorf).** Two owners' associations are asserting claims for numerous defects against Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, a subsidiary of Bau-Verein zu Hamburg Immobilien GmbH (formerly Bau-Verein AG), by means of two independent lawsuits. The preliminary amount in dispute for these proceedings is €135 thousand each. Court-appointed expert opinions are not yet been arranged.

- **“Holbeinstrasse” and “Nonnenstrasse” properties in Leipzig.** The old housing stock rehabilitation project on Holbeinstrasse is the source of disputes between TAG AM and some buyers in which rescission and/or damages due to unfulfilled tax advantages were being asserted by way of legal action and withholding of the purchase price. Several settlement agreements providing for a waiver of the residual purchase price plus taking over of proportional costs of the legal procedure were reached in the legal disputes in 2012 and 2013. One buyer has not accepted the suggested settlement agreement yet. Six legal disputes are currently pending or were resolved regarding the Nonnenstrasse property: In one case TAG AM filed a complaint against denial of leave to appeal with the German Federal Court of Justice (*Bundesgerichtshof*, “*BGH*”). In four cases, the judgment ordered rescission of the sales contracts, in each case stipulating repayment of the purchase price (in total approximately €355 thousand) simultaneously with a re-transfer of ownership of the respective apartment. Taking into account the value of the apartments, the financial loss from these four rescission disputes amounts in total to around €200 thousand. Another seven proceedings are pending in court relating to the Schwäggrichenstrasse, Cunnersdorfer Strasse, Gräfestrasse and Ehrensteinstrasse properties, which involve similar claims.

In addition to the tax issues, allegations of defects in the old housing stock rehabilitated and sold and of an excessive purchase price have also been made in some cases.

- **“Poetenweg” property homeowners’ association in Leipzig.** The Poetenweg homeowners’ association filed a claim with the court in July 2010 for an advance on costs of around €360 thousand due to defects in the common property. The expert opinion prepared by the court-appointed expert was received in September 2011. In his expert opinion, the expert has estimated the costs of the removal of the defects to be approx. €115 thousand. TAG has served notice on the general contractor in this legal dispute and simultaneously conducted settlement negotiations based on the aforementioned estimation of expected costs. The Poetenweg homeowners’ association rejected the current offers; instead, it challenged the impartiality of the expert which was rejected by the first instance court.
- **“Schwäggrichenstrasse” property homeowners’ association in Leipzig.** The Schwäggrichenstrasse homeowners’ association and a buyer have asserted claims out of court for serious defects in individual property and common property (roof, basement). Negotiations on compensation and settlement are currently being conducted out of court. To date, a payment amounting to €150 thousand has been agreed to settle some of the disputed issues. So far, no other out-of-court settlement has been reached.
- **“Parsifalstrasse” and “Wodanstrasse” properties in Nuremberg.** The owner of a complex of three buildings in Nuremberg initiated independent evidentiary proceedings in December 2011 against Wohnanlage Ottobrunn GmbH, from which it had acquired these buildings in 2008, and against Bau-Verein GmbH, which issued a comfort letter with regard to the fulfilment of obligations arising from the sales contract. The purpose of the independent evidentiary proceedings is to determine whether there are defects in the fire safety systems and the cost of correcting them. The preliminary amount in dispute for these proceedings is €200 thousand.
- **Heidelberg Villages project.** Two owners’ associations are asserting claims for numerous defects against Bau-Verein zu Hamburg Junges Wohnen GmbH, a subsidiary of Bau-Verein AG, by means of independent evidentiary proceedings and a lawsuit. The preliminary amount in dispute for these proceedings is €430 thousand. In the independent evidentiary proceedings, the court-appointed expert estimated the removal costs to be €18.6 thousand. In the pending lawsuit, Bau-Verein zu Hamburg Junges Wohnen GmbH has served notice on the contractor; the expert opinion ordered by the court has not been delivered yet.
- **Claims for damages against a former member of the Management Board of TAG AM.** TAG AM is currently pursuing a claim for damages in the amount of €1.6 million against a former member of its Management Board. In 2005, TAG AM (formerly operating under the name JUS Aktiengesellschaft für Grundbesitz) prepared a real estate appraisal on behalf of a real estate company. The client asserted a claim for damages against TAG AM for errors contained in the due diligence mandate. In order to avoid

a lawsuit, TAG AM reached a settlement in the amount of €1.6 million with the client. It is the opinion of TAG AM that the former Management Board member, who was responsible for directing the project, had breached his duties of care and is therefore liable for damages. TAG AM initially pursued its claim through a default action and later initiated legal proceedings before the District Court (*Landgericht*) of Frankfurt am Main. The District Court has rejected the claim. TAG AM has filed an appeal with the Higher Regional Court (*Oberlandesgericht*) of Frankfurt am Main against this judgement. The appeal was however rejected on 18 July 2013. TAG considers filing a complaint against denial of leave to appeal (*Nichtzulassungsbeschwerde*) with the German Federal Court of Justice (*Bundesgerichtshof*, “BGH”).

- **Legal dispute with Resolution Beteiligungs GmbH.** Resolution Beteiligungs GmbH is requesting payment of €1 million from Colonia from a contribution agreement plus interest of 8 percentage points above the reference rate since 29 January 2010. The complaint was dismissed by the trial court. The plaintiff filed an appeal with the Higher Regional Court (*Oberlandesgericht*) of Cologne, before insolvency proceedings were filed against the plaintiff. According to a decision dated 29 November 2011, the court intends to reject the appeal and has offered the parties the opportunity to take a position on this issue. However, proceedings are currently stayed due to the filing for insolvency of Resolution Beteiligungs GmbH.
- **Terradomo complaint.** A claim asserting entitlement to a commission in the amount of €262 thousand was filed against Colonia before the Cologne District Court by a broker. The matter concerns brokerage of a housing development in Geilenkirchen. By decision of 5 April 2012, the Cologne District Court ruled in favour of the plaintiff. Colonia appealed against the judgment to the Cologne Higher Regional Court. The appeal was however rejected. TAG AM has filed a complaint against denial of leave to appeal with the German Federal Court of Justice (Bundesgerichtshof, “BGH”).
- **Colonia office rent settlement.** Colonia filed a complaint against the landlord of its offices. The background is POLARES REAM’s unsettled receivable of approximately €300 thousand from the landlord based on a service agreement. This issue and negotiations between Colonia and the landlord concerning an early release from the ten-year lease have been resolved by a settlement providing for a payment by Colonia of €900 thousand and an early termination of the lease agreement.
- **Restitution proceedings regarding two properties in Perwenitz and Pessin.** In 2006, CRE Wohnen Dritte GmbH, a subsidiary of Colonia Real Estate AG, purchased a real estate portfolio with properties in Nauen and other locations in the state of Brandenburg from a municipal housing construction company. Currently, restitution proceedings are pending with regard to two of the properties in this portfolio: One of these properties is in Perwenitz and the other in Pessin. The restitution claim asserted with regard to the Perwenitz property was dismissed by the Federal Administrative Court of Germany (*Bundesverwaltungsgericht*). The restitution claim with regard to Pessin was settled by an out-of-court settlement, pursuant to which the heirs of the former owners of the property received compensation in accordance to the Act Settling Legal Relationships regarding Real Estate (*Sachenrechtsbereinigungsgesetz*) in a low five-digit amount, and CRE Wohnen Dritte GmbH stays owner of the property.
- **Apollo complaint.** In February 2012, Apollo real estate AG & Co. KG was claiming a broker’s fee (preliminary estimation: approx. €323 thousand) from TAG regarding the purchase of a residential housing complex in Berlin-Lankwitz. By an action by stages (*Stufenklage*) the plaintiff requested disclosure of the purchase price in order to lodge a claim for payment of the broker’s fee afterwards. The court considered the claim for the broker’s fee to be likely to succeed and therefore issued a partial preliminary judgment in favour of the claimant to the effect that TAG has to disclose the actual purchase price. The parties are also still negotiating a settlement.
- **WEG Südtiroler Strasse.** The owners’ association (*WEG*) Südtiroler Strasse demanded compensation for constructional defects from GbR Südtiroler Strasse consisting of Aufbaugesellschaft Bayern GmbH, a

subsidiary of TAG Potsdam, and Baywobau Bauträger AG. By virtue of a settlement agreement, GbR Südtiroler Strasse agreed to pay a compensation of €1.3 million. Internally (within the GbR) Aufbaugesellschaft Bayern GmbH agreed to bear 50% of these costs (i. e. €650 thousand) whereas the liability towards the owners' association by law is unlimited. The exposure of TAG resulting from this issue, to the extent it exceeds the relevant provisions in the balance sheet of Aufbaugesellschaft Bayern GmbH and subject to certain (further) conditions, is covered by an indemnity of the seller under the share purchase agreement relating to TAG Potsdam. TAG has also lodged a claim for damages amounting to €148 thousand against its contractor to take recourse because of the defects regarding the fire protection and, simultaneously, is conducting settlement negotiations with the contractors. Settlement negotiations with the planners are expected to be completed in the second half of 2013.

- **Aufbaugesellschaft Bayern GmbH.** At the beginning of 2012, an engineer asserted a claim of €400 thousand against Aufbaugesellschaft Bayern GmbH arguing that his planning works regarding the property Stiftsbogen, Munich, have to be compensated with a higher payment than provided for in the contract. By way of an action for a part of the asserted claim (*Teilklage*), the engineer claims €161.2 thousand with respect to the underground garage and because of a mistake in the calculation of his invoice. In the first hearing on 23 March 2012, the court suggested a settlement providing for a payment of €260 thousand by Aufbaugesellschaft Bayern GmbH. In the second hearing on 28 June 2013, the court again suggested a settlement, but did not make a specific proposal. Therefore, the parties are currently in out-of-court negotiation, but so far no settlement has been reached.
- **WEG Haidelweg.** Following independent evidentiary proceedings (*selbständiges Beweisverfahren*) regarding constructional defects, a civil law partnership (*GbR*) consisting of Aufbaugesellschaft Bayern GmbH, a subsidiary of TAG Potsdam, and Baywobau Bauträger AG in 2006 agreed a settlement to pay a compensation for constructional defects amounting to €440 thousand to the WEG. In turn, Aufbaugesellschaft Bayern GmbH and Baywobau Bauträger AG lodged a claim in 2008 for damages amounting to €183.2 thousand against a contractor. On 7 November 2012, the court ordered the contractor to pay an amount of approximately €127 thousand plus interest since 31 October 2007 to Aufbaugesellschaft Bayern GmbH and Baywobau Bauträger AG. Subsequently, the contractor filed an appeal against this order, which the appellation court allowed in June 2013. The claimants are currently considering to file an application for leave to further appeal to the German Federal Court of Justice.
- **Acquisition of Eberswalde Verwaltungs GmbH.** A broker demands the payment of a broker's fee amounting to €1 million from TAG because of TAG's acquisition of Eberswalde Verwaltungs GmbH. The broker asserts that he has offered and shown a residential portfolio in Eberswalde to TAG. The portfolio was bought later by Eberswalde Verwaltungs GmbH the shares of which were acquired afterwards by TAG Administration GmbH (94%) and TAG KG (6%). The broker has not initiated legal proceedings yet but has sent a draft statement of claim to TAG and requests the payment of the abovementioned sum until 9 November 2012. TAG has not accepted the claim and will defend itself in a potential lawsuit.
- **Strausberg "Am See".** An association of public providers of water services (*Wasserverbände*) issued 14 administrative orders (*Verwaltungsakte*) demanding infrastructure provisions (*Erschließungsbeiträge*) for 14 objects amounting in total to €670,400. TAG Wohnen challenged the administrative orders. A lawsuit is pending before the administrative court in Frankfurt (Oder). The court decided to abate legal proceedings since a higher court deals with a comparable matter at present. The result of that matter might have implications on the pending proceedings.
- **Wohnanlage Lutherhof.** TAG Wohnen asserted warranty claims against three contractors regarding defects of winter gardens. There are two lawsuits pending at the regional court in Halle amounting in total to approx. €313 thousand. The sum that could be awarded to TAG Wohnen as damages depends on the amount of rent reductions by the tenants of TAG Wohnen due to the defective winter gardens. Therefore, the court visited the site. A recent opinion of an official expert confirmed that the amount granted to the tenants was appropriate.

- **Wohnanlage Strehlen.** TAG Wohnen filed a lawsuit against a property manager regarding rental payments that were made to him by the tenants. The lawsuit is pending at the regional court in Dresden. A judicial hearing is scheduled in order to discover the total sum of payments of rent that were made to the administrator. Even if TAG Wohnen would win the case, it is uncertain if the sum can be collected, since it is not unlikely that the defendant will file for insolvency. The value in dispute is €140 thousand.
- **Wohnanlage Strehlen.** TAG Wohnen initiated independent evidentiary proceedings (*selbständiges Beweisverfahren*) at the regional court in Dresden in connection with potential fraudulently concealed deficiencies concerning fire protection measurements regarding a property TAG Wohnen has acquired. Once the expenditures necessary to remedy the defects are quantifiable, the lawsuit will be converted into an action for damages. The sum is anticipated to amount to approximately €368 thousand.
- **Wohnanlage Strehlen.** TAG Wohnen is sued for €202 thousand in connection with – allegedly – unsatisfied payments for caretaker’s services. The regional court in Dresden decided in a parallel proceeding that the contracts regarding the caretaker’s work had been legally terminated. Therefore, the parallel lawsuit was dismissed. However, the claimant has appealed against this decision. This might have an implication on the pending matter.
- **Wohnanlage Strehlen.** TAG Wohnen instituted a lawsuit before the regional court in Dresden in connection with a failure to file for insolvency in a timely manner. The lawsuit’s value is €149 thousand. The defendant was originally obliged to release rents that had been paid to him before. Undisputed is that rents in the amount of approximately €136 thousand were to the disposition of the defendant. However, due to the illiquidity of the defendant, it is uncertain if the sum is recoverable.
- **Hans-Böckler-Ring Salzgitter.** Emersion, an indirect subsidiary of the Company, is sued for €378 thousand in connection with demolition work at three of Emersion’s objects in Salzgitter. The demolition contractor claims payment for demolition costs that allegedly were agreed as supplement to the contract due to unexpected difficulties concerning the demolition work. On the other hand, Emersion submits a right to set-off claims with regard to deficiencies of the demolition contractor’s work. The lawsuit is pending at the regional court in Cologne since 2012.

TAG has made provisions for all legal disputes amounting to a total of approximately €1.1 million as at 31 March 2013. However, TAG cannot anticipate a specific figure for total possible risk, which could considerably exceed the provisions made (see section 6.3 “*Risk Factors – Financial Reporting, Legal and Tax Risks*”, in particular “TAG is a party to numerous legal disputes, the outcome of which is uncertain.” and “There is a risk that tenants could claim that the decorative repairs clauses in leases are invalid, and might not perform the decorative repairs on rental properties as transferred to them under the leases.”).

### 13.9. Insurance

TAG has taken out the following insurance policies to limit the risks arising from its business operations:

- Building insurance against fire, mains water and storm/hail damage for all of the Group’s own properties;
- Homeowner and landowner liability insurance for the majority of all properties;
- Insurance against environmental damage and water damage for some properties;
- Construction liability, business liability and electronics insurance;
- Directors and officers liability insurance for the Management Board, the Supervisory Board and executives of the Group (D&O insurance).

The insurance policies are managed uniformly by a third-party insurance broker. The insurance is generally not unlimited. Some of the policies are subject to limitations of liability and exclusions of liability (see also section 6.2, “*Company-specific risks*”).

TAG believes that this insurance is adequate, but cannot rule out a situation in which losses are incurred that are not covered by its insurance policies or which exceed the coverage limits of its insurance policies.

#### **13.10. Research and development, patents and licences**

Due to the nature of its business activities, TAG has no research and development department and no activities in this area. Furthermore, it is not dependent on patent rights, licences or manufacturing processes that are of material importance to its business activities.

TAG is the owner of the word/figurative mark “Seit 1892 BAU-VEREIN ZU HAMBURG Räume zum Leben”, as well as of the word marks “TAG AG”, “TAG” and “TAG Wohnen”, which are entered in the register of the German Patent and Trademark Office. Moreover, other subsidiaries such as Colonia hold their own registered trademarks. These primarily comprise word and image marks in connection with the logo used by Colonia.

TAG has registered various domain names with the respective registration authorities, particularly <http://www.tag-ag.com>, <http://www.bau-verein.de>, <http://www.tag-am.com>, <http://www.colonia.ag> and <http://www.TAGPotsdam.de>.

## 14. REGULATORY FRAMEWORK

In connection with its business operations, TAG is subject to numerous public building regulations and construction planning laws (*öffentliches Bauordnungs- und Bauplanungsrecht*), as well as civil building and planning laws and laws on tenancy (*privates Bau- und Mietrecht*). In that respect, any planned building activities are subject to official permitting procedures. In view of TAG's focus on letting real estate, German laws on tenancy, particularly German laws on residential tenancy (*Wohnraummietrecht*), are at the centre of TAG's regulatory environment. In addition, German environmental law is also of concern to TAG.

### 14.1. Laws on tenancy

German residential tenancy laws are to a great extent focussing on the social protection of tenants, particularly with regard to restrictions on landlords when terminating leases and increasing rents.

#### 14.1.1 Statutory limitation of termination rights

By mandatory German law, an ordinary termination of a residential lease is, as a matter of principle, only possible if the landlord has a justified interest in terminating the landlord-tenant relationship. This applies, e. g., if there has been a significant breach of contract by the tenant, if the landlord needs the property as apartment for his own use or the use by his family members or members of his household, or if the landlord would otherwise be prevented from reasonable economic use of the rental property and would suffer considerable disadvantages as a result. Such "reasonable economic use" of the landlord is prevented e. g. if the lease prevents a refurbishment (*Sanierung*) necessary to maintain the substance of the property or if the expenses of the landlord significantly exceed the income achieved with the property. However, "reasonable economic use" does not, pursuant to express statutory provisions, include the landlord's interest in obtaining a higher rent by renting out the property to another tenant or the landlord's intention to convert residential living space into condominiums.

Furthermore it has to be noted that, even if the termination of a lease is based on a legitimate interest and valid, a court may grant the tenant a certain period of time (maximum of one year after final judgment) before the tenant has to give up possession of the property (*Räumungsfrist*). In that case, the return of an apartment will be delayed even though the termination was valid, thus preventing the landlord to use or rent out the apartment again.

#### 14.1.2 Special rules regarding the conversion of residential space into condominiums or the sale of residential space to partnerships or multiple acquirers

Further statutory rules apply if residential living space has been converted into condominiums. If occupied (i.e. rented out) residential space has been converted into condominiums or if such conversion is planned and the condominium is now to be sold, the German Civil Code (*Bürgerliches Gesetzbuch*, "BGB") as a rule grants the tenant a statutory pre-emption right (*Vorkaufsrecht*), meaning the tenant may acquire it under the same conditions as the third party. This may, under certain circumstances, also be the case if the condominium is transferred to a third party by means other than sale. However, there is no statutory right of pre-emption if the condominium already existed at the time the apartment was handed over to the tenant.

Also, the buyer of an apartment is prevented from terminating an existing lease for the abovementioned reasons of personal use or reasonable economic use for a period of three years after the transfer of title. The same applies in the event that occupied (i.e. rented out) living space is (i) sold to a partnership (*Personengesellschaft*) or multiple acquirers (*mehrere Erwerber*) or (ii) encumbered with a right in favour of a partnership or multiple acquirers the exercise of which would deprive the tenant from the use of the lease object, irrespective whether the property is divided into condominiums or not.

The governments of the German federal states (*Bundesländer*) may extend this prohibition by statutory order to up to ten years if the government considers the region to be insufficiently provided with apartments let for rent.

### 14.1.3 Statutory limitations of rent increases

If the landlord wishes to increase the rent, he is basically free under leases that are not subject to rent control to request an adjustment of the lease to the customary comparable rent (*ortsübliche Vergleichsmiete*) for that location if he complies with statutory and contractual provisions and if the rent has remained unchanged during the 15 months preceding the intended increase. However, the rent may not be increased by more than 20% within a three-year period. The governments of the German federal states (*Bundesländer*) may limit this rate to 15% by ordinance valid for five years if the government considers the region to be insufficiently provided with apartments let for rent.

After a modernisation measure (as described below), the landlord may – unless the respective lease agreement provides otherwise in favour of the tenant – allocate costs for such modernization measures to tenants by way of an increase in the annual rent in the amount of up to 11% of the cost accrued (less the costs which would have accrued for maintenance measures anyway). Construction works only qualify as modernisation measures which entitle the landlord to increase the rent if by them (i) ultimate energy (*Endenergie*) is saved with regard to the lease object, (ii) the water consumption is reduced sustainably, (iii) the practical value (*Gebrauchswert*) of the lease object is increased sustainably, (iv) the general living conditions are improved permanently or (v) if they are carried out due to circumstances the landlord is not responsible for and they are not to be considered as maintenance measure. The landlord is not entitled to increase the rent if, even when taking into account the estimated operating costs after modernisation, the increase would constitute an unjustified rigour for the tenant.

Following the rent increase, the tenant has a special termination right, exercisable within two months as from the receipt of the landlord's notification regarding the rent increase, which makes the rent increase invalid for the remaining time of the lease.

### 14.1.4 Obligation of the owner to carry out maintenance and repair

Under German law, it is the obligation of the owner to carry out all maintenance and repair of the building (structure as well as interior of the apartments). It is common for the landlord to pass on the obligation to carry out decorative repairs (*Schönheitsreparaturen*) to the tenant by virtue of a clause in the lease agreement. If a professional landlord uses standardised contracts such clause must comply with the strict requirements for general terms and conditions (*Allgemeine Geschäftsbedingungen*). According to the jurisprudence of the German Federal Court of Justice (*Bundesgerichtshof*), such clauses are invalid if they contain an obligation to carry out decorative repairs irrespective of the actual condition of the apartment (e. g. fixed schedule for tenant's decorative repairs). If the clause used by the landlord is invalid the landlord is responsible for all maintenance and repairs and has to pay a compensation for all measures carried out by the tenant without valid contractual obligation to perform repairs.

### 14.1.5 Recent changes in tenancy law

With effect of 1 May 2013 the Tenancy Law Amendment Act (*Mietrechtsänderungsgesetz*) came into force, which, in part, is motivated by the aim to reduce Germany's primary energy demand (*Primärenergiebedarf*) in 2050 by 80% (compared to 1990). The main changes to the previous tenancy law are that (i) tenants shall have to endure energetic modernization measures by the landlord without being entitled to rent reductions for a period of three months; tenants are not obliged to endure such measures if the measures would constitute an unjustified rigour for the tenant, his family or a member of his household; (ii) landlords shall be entitled to refer to acknowledged fixed values (*anerkannte Pauschalwerte*) when announcing modernization measures in order to substantiate energy savings; following the announcement of such modernization measures, tenants have a special termination right (*Sonderkündigungsrecht*) to terminate the lease with effect to the end of a calendar month with two months' notice; (iii) landlords shall be entitled to allocate costs for such modernization measures to tenants (for details see section 14.1.3, "Regulatory Framework – Laws on tenancy – Statutory limitations on rent increases"); (iv) instead of operating a heating and warm water supply system on its own, the landlord may choose commercial heat contracting (*gewerbliche Wärmelieferung*) and allocate the respective costs to the tenants as part of the service charges provided that, *inter alia*, the costs of the heat contracting do not exceed the previous costs; (v) an alternative to the classical eviction procedure is imposed

which gives the landlord the cost-effective option to limit the eviction procedure to the procurement of possession (so-called “*Berliner Räumung*”); (vi) eviction procedures against third parties which are in possession of the lease object but not subject to the executory title (*Vollstreckungstitel*) can be accelerated under certain circumstances; (vii) the scope of existing restrictions regarding the termination of lease agreements after a sale of occupied living space is extended to the acquisition of living space by partnerships and multiple acquirers (for details see above under 14.1.1, “Regulatory Framework – Laws on Tenancy – Statutory limitation of termination rights”); (viii) landlords shall, as a rule, be entitled to terminate the lease without notice in the event of the tenant’s default to provide a security deposit in an amount corresponding with the rent due for a two months period, and, (ix) in legal proceedings regarding the eviction of a lease object and rental payments the court can order that the tenant has to provide security for the rental payments becoming due during the proceedings.

The Draft Act for the Safeguarding of Affordable Rents and the Restriction of Energy Consumption and Energy Costs (*Entwurf eines Gesetzes zur Sicherung bezahlbarer Mieten und zur Begrenzung von Energieverbrauch und Energiekosten*) prepared by the party “Die Linken” providing, *inter alia*, for strict limitations of rent increases has been rejected by the German Bundestag in March 2012. A corresponding draft act submitted by the State of Berlin is pending in the German Bundesrat. Presently, it cannot be assessed whether this or other laws with identical or similar effect will be discussed in the political process in the future. In particular, it cannot be excluded that a similar law will be passed in the future if there is a shift of power in the German Bundestag. The next elections of the German Bundestag will take place in September 2013.

#### **14.2. Restrictions arising from easements**

Properties of TAG are encumbered with easements (*Grunddienstbarkeiten*) which have been registered in the land register. An easement implies an obligation of the owner of the respective property to refrain from certain actions (e. g., not to build on specific parts of the property) or to tolerate an action to be taken by a third party (e. g., right of access). The obligation can be enforced by the beneficiary third party. Since registered easements are attached to the property itself, they can be enforced against all current and subsequent owners of the serving property.

Some of TAG’s properties are also encumbered with public easements (*Baulasten*) registered in the register for public easements (*Baulastenverzeichnis*). These obligations, for example, relate to distance-spaces from buildings or require the owner to create a specific number of parking spaces, and can be enforced by means of an administrative order. Such public easements may therefore restrict the development of such property. Properties of TAG are also encumbered with public easements regarding the consolidation of certain plots (*Vereinigungsbaulasten*). These public easements create a consolidated “construction property” (*öffentlich-rechtliches Baugrundstück*) of the charged properties which remain independent properties under civil law. Many provisions of public building law, such as the requirement for minimum distances between buildings, apply to the construction property as if the plot boundaries did not exist. Public easements encumber the property itself and therefore can be enforced against the respective owner of the charged property and against third parties. The public easement is also effective against legal successors (i.e. buyers of the charged properties) and can only be suspended by a waiver of the competent authority. The restrictions resulting from the public easements may affect the value of the charged property of TAG.

#### **14.3. Obligations regarding energy savings and energy performance certificates**

In Germany, there are many statutes and regulations specifying requirements for the energy efficiency of residential and commercial buildings. Many of these requirements apply only to newly erected buildings. Certain regulations also apply, however, to existing buildings. While most provisions which apply to existing buildings must only be implemented in the event of construction alterations, some impose obligations to carry out measures to improve energy efficiency irrespective of whether other alterations to the building are being carried out.

Certain breaches of such provisions are sanctioned as administrative offences.

The most important statutes and regulations in this context are the Energy Conservation Act (*Energieeinsparungsgesetz* - EnEG), the Energy Conservation Ordinance (*Energieeinsparverordnung* - EnEV), the Renewable Energies Heat Act (*Erneuerbare-Energien-Wärmegesetz* - EEWärmeG) and the Heating Costs Ordinance (*Heizkostenverordnung* - HeizkostenVO). In some federal states, requirements stricter than those of these regulations may apply.

The Energy Conservation Ordinance imposes, *inter alia*, a maximum limit for newly erected buildings for the annual primary energy demand which may not exceed the demand for a reference building specified in the Ordinance. In addition, the same Energy Conservation Ordinance requires compliance with maximum values for heat circulation coefficients (commercial properties) or transmission heat loss (residential buildings). Further, the Energy Conservation Ordinance includes requirements with regard to insulation, minimum air circulation and the avoidance of thermal bridges.

With respect to existing buildings, the Energy Conservation Ordinance requires that alterations to the shell of the building (e.g. roof, façade, windows), as a rule, must be undertaken in compliance with the specified heat circulation coefficients. External alterations to the building must not result in a worsening of the overall energy balance. In addition, the Energy Conservation Ordinance contains technical requirements e. g. for newly installed boilers, warm water supply installations and central heatings. The Ordinance further includes inspection requirements for certain air conditioning systems and requirements to be complied with in case certain air conditioning systems are installed or specific parts thereof are exchanged. Independently of construction alterations to existing buildings, the Energy Conservation Ordinance contains certain obligations to improve buildings. For example, boilers fed with liquid or gaseous combustibles and installed before 1 October 1978 must, as a rule, be replaced. Further, under certain circumstances, the Energy Conservation Ordinance prohibits the use of electric storage heating systems after 31 December 2019. In addition, under specific circumstances, heating installations and ceilings of the uppermost floor in existing buildings must be insulated. With effect from 1 July 2013, amendments to the Energy Conservation Ordinance came into force but do not contain any significant changes compared with the present version.

The Renewable Energies Heat Act requests, *inter alia*, a certain proportion of heating and cooling energy consumed in newly erected buildings to be, as a rule, covered by renewable energies.

The Heating Costs Ordinance specifies that buildings with several users must include equipment for recording the consumption of heat and domestic hot water by each party. A specific share of the heat and domestic hot water costs is to be charged to the tenants in accordance with their consumption.

Currently, a draft ordinance implementing Directive 2010/31/EU of 19 May 2010 on the energy performance of buildings and amending the Energy Conservation Ordinance is in the legislative process. The current draft of 8 February 2013 does not include stricter requirements for existing, but primarily for new buildings. It is expected at present that this amendment to the Energy Conservation Ordinance will come into force in 2014.

The owner or landlord of buildings (residential or commercial) must provide an energy performance certificate (*Energieausweis*) providing certain information as to the energy efficiency of the building, when asked to do so by a potential acquirer or a potential future tenant of a building or an apartment. This applies to newly constructed buildings as well as to existing buildings. The requirement to provide an energy performance certificate applies to properties on which a building is located as well as to the sale of condominiums, partial ownership units and rights equivalent to real property (*grundstücksgleiche Rechte*) regarding developed land.

Non-compliance with the Energy Conservation Ordinance may constitute an administrative offence and be fined up to €50,000.

TAG is required to make energy performance certificates available to (potential) buyers and tenants upon request. The issuing of energy performance certificates creates additional costs. If information in an energy performance certificate is incorrect, buyers and/or tenants may claim damages, unless the liability in this regard is expressly excluded in the respective sale or lease agreement.

#### 14.4. Restrictions in connection with subsidised housing and public subsidies

TAG's business operations are regulated by statutory provisions on publicly subsidised housing. The German federal government, the German federal states, and the municipalities are required by law to promote residential construction. Accordingly, in particular apartments the size, fittings, and rents of which could make them accessible to large portions of the population are subsidised. The statutory provisions on subsidised housing affect TAG to the extent that the respective apartments may not be rented out unless the tenant holds a housing entitlement certificate (*Wohnberechtigungsschein*) and that the amount of the rent is limited to a fixed rent or a rent which does not exceed the amount required to cover all current expenditures for the property (including a return on equity capital), known as the cost-covering rent (*Kostenmiete*). These restrictions apply for a certain period, called binding period. The cost-covering rent includes administrative and maintenance costs the maximum amount of which is fixed by statute and is adjusted regularly. Subject to certain conditions, expenses of the owner may entitle him to a higher increase of the rent. However, such rent increase requires, as a rule, the approval of the institution which granted the respective subsidy.

The relevant statutes for publicly subsidized housing used to be mainly found in the First and Second Housing Laws (*Wohnungsbaugesetz*), the 1970 Rent Ordinance for New Construction (*Neubaumietverordnung*), the Controlled Tenancies Law (*Wohnungsbindungsgesetz*), the Second Calculation Ordinance (*Zweite Berechnungsverordnung*), and the Residential Space Promotion Law (*Wohnraumförderungsgesetz*), which replaced the First and Second Housing Laws as of 1 January 2002. In the German federalism reform, the federal states were given the legislative power regarding subsidised social housing as of 1 September 2006. Since then several federal states (e. g. Baden-Württemberg, Bayern, Hamburg, Bremen, Niedersachsen, Nordrhein-Westfalen, Schleswig-Holstein and Berlin) have imposed own laws on publicly subsidized housing. Other federal states envisage passing legislation in this respect as well. The federal law until 2006 providing for the amount of rent to be fixed by administrative decision or for a cost-covering rent during the binding period is still valid in those federal states that have not passed new legislation. The federal states which have passed laws regarding subsidised housing have imposed provisions deviating from the federal law e.g. regarding the conditions of subsidisation, the calculation of the admissible rent and the condition of the termination of the status as "being publicly subsidized".

Some subsidiaries of TAG – particularly subsidiaries of Colonia – have received public funding for housing. Such public funding was provided in the form of financial aid and outright grants (*verlorene Zuschüsse*), i.e., funding that generally need not be repaid to the state. TAG and its subsidiaries and affiliates will also examine in the future the extent to which they are entitled to receive public funding. The granting of such funding is based on the fulfilment of certain contractual provisions, provisions in administrative decisions, and other legal requirements. These requirements state *inter alia* that the landlord of a subsidised residential unit can only charge the cost-covering rent or a rent determined by administrative decision, and that the unit may be rented only to specific persons (e.g. persons with low incomes). The rent may be adapted over time. Once the binding period has expired, the landlord can, as a rule, adjust the rent to the customary level on the market. However, the general statutory restrictions regarding rent increases (see section 14.1.3, "*Regulatory Framework – Laws on Tenancy – Statutory Limitations on Rent Increases*") have to be observed. Further, if the public funding is paid back before the date due, the landlord is not allowed to exceed the cost-covering rent or the rent determined by administrative decision for a certain period. The duration of this period depends on the applicable law in the respective federal state. If the TAG subsidiaries that have received funding fail to satisfy the legal and other requirements for granting of the funds, the institutions which have granted the subsidies may impose monetary penalties or claw back the public funding received plus interest.

Furthermore, public subsidies with respect to properties of TAG may also have been approved under the German Historical Debt Relief Act (*Altschuldenhilfegesetz*) and/or the Investment Allowance Act of 1999 (*Investitionszulagengesetz 1999*). The German Historical Debt Relief Act provided, under certain circumstances, for financial support to municipalities and to communally owned housing construction and management organizations as well as housing corporations for properties located in the former GDR. Under the Investment Allowance Act of 1999, funding could be granted for the purchase, construction, refurbishment or maintenance of certain apartment buildings within the territory of the former GDR. The recipient was obliged

to let the respective apartments for residential housing purposes for five years upon completion of the subsidised measures. Under both acts, in case of non-compliance with the legal requirements, the granting body can claw back the subsidies plus interest. The aforementioned restrictions arising from subsidised housing may apply in particular also with respect to the portfolio of TAG Wohnen, which TAG acquired in December 2012. Furthermore, according to information provided by the former shareholder of TAG Wohnen to TAG, TAG Wohnen is obliged with respect to certain properties of its portfolio – which have been acquired from the Federal Government of Germany (“FRG”) pursuant to agreements about the allocation of an asset (*Vermögenszuordnungsvereinbarung*) according to various regulations relating to the sale of properties on the territory of the former GDR at reduced prices (*Verbilligungsrichtlinien*) at half of the market price (*Verkehrswert*) – to carry out refurbishments (*Sanierung*), to let these properties after the rehabilitation for at least twenty years to the locally customary rent (*ortsübliche Vergleichsmiete*) and to sell these properties only under certain conditions and constraints. In case of a breach of these obligations, the FRG (acting through the Federal Agency for Real Estate (*Bundesanstalt für Immobilienaufgaben*)) will be entitled to claim the amount of the price reduction (*Verbilligungsabschlag*) plus interest and, if the breach is committed culpably, a contractual penalty. The share purchase agreement on the acquisition of TAG Wohnen by TAG, however, provides for a mechanism pursuant to which TAG will, in semi-annual intervals, be reimbursed for any such payments until 2024. The economic risk of a violation of the aforementioned restrictions is therefore, subject to certain procedural requirements that TAG has to comply with, ultimately borne by the FRG.

#### **14.5. Restrictions arising from urban planning laws and historic preservation**

Some of TAG’s real estate is located in urban refurbishment, development, preservation, or reconstruction areas. The owners of real estate that is located in an urban refurbishment area established by by-law of the municipality (*förmlich festgelegtes Sanierungsgebiet*) or in a development area (*Entwicklungsgebiet*) are, among other things, required to obtain an official permit when (i) tearing down, erecting, modifying or changing the use of a building, (ii) entering into a lease agreement with a fixed term of more than a one year, (iii) selling the property or (iv) granting a lien or a mortgage. Further, the owner of a building located in such areas must as a rule pay compensation to the municipality to finance the urban refurbishment or development, which corresponds with the increase in the value of the property resulting from the measure (*Ausgleichsbetrag*). Yet, as regards properties located in development areas, the municipality should generally acquire the properties, implement the development measures itself and sell the property afterwards, primarily to the former owner. The owner of real estate located in a preservation area (*Erhaltungsgebiet*) is required to obtain an official permit to tear down or modify a building or change the purpose for which it is used. Furthermore, ordinances adopted by the German federal states valid for up to five years may impose the requirement of a permit for the conversion of residential apartment buildings located in conservation areas into condominiums. If properties are located in an urban reconstruction area (*Stadtumbaugebiet*), the municipality should enter into contracts with the owners of the properties, obliging them for example to demolish certain structural facilities and assume the costs resulting therefrom. The municipality may also enact a by-law to the effect that the owner has to apply for a permit for structural measures such as the erection, demolition and modification of a building situated in the conservation area.

In case a property located in refurbishment or urban reconstruction areas established by by-law, in development or conservation areas is sold, the municipality has a pre-emption right, which, as a rule, means that the contract is concluded between the seller and the municipality under the conditions agreed on by the original parties. Yet, if the purchase price significantly exceeds the market value of the property, the municipality can reduce the price to the market value. In such case, the seller can rescind the contract.

Some of TAG’s real estate is subject to monument protection. Generally, the owner of a building subject to monument protection has to maintain and preserve the protected structure (including its surroundings) at his own expense. Special tax write-offs are available for preservation and renovation work on buildings subject to monument protection. Measures such as the modification or demolition of protected buildings are subject to an official permit. Further, the modification of properties adjacent to a monument may require a permit if such modifications affect the condition or appearance of the monument (*Umgebungsschutz*). The owner of a monument is also required to report an intended sale of a protected building to the competent authority. Some

of the German federal states have imposed a pre-emption right of the municipality in case a property including a protected monument is sold.

#### **14.6. Improvement and development charges**

TAG as the owner of properties may be obliged to pay certain public charges related to development (*Erschließung*) and/or improvement (*Ausbau*) measures regarding the properties carried out by public authorities. Development charges (*Erschließungsbeiträge*) are levied for the initial construction and improvement charges (*Ausbaubeiträge*) for the subsequent improvement of development installations (*Erschließungsanlagen*), e.g. roads or sewage systems. Municipalities are obliged to levy development charges if the initial construction of development installations has been completed. Once the development charges were paid, no further development charges can be imposed. As regards improvement charges, municipalities are generally obliged to levy such charges as well. Yet, improvement charges incur for each improvement of development installations. As a consequence, such charges may be imposed again in the future. Both development and improvement charges are levied from the owner of a property which benefits from initially constructed or improved development installations.

#### **14.7. Urban development/public law agreements and restrictions due to copyrights in architectural services**

Further restrictions regarding TAG's properties may arise from urban development agreements (*städtebauliche Verträge*) or public law agreements (*öffentlich-rechtliche Verträge*) concluded between TAG and public authorities regarding e. g. the development of certain urban spaces.

In addition, properties may represent works of architectural significance and therefore be subject to copyrights of third parties, especially of the respective architects. In such cases structural changes to the building may be subject to the designer's or architect's consent.

#### **14.8. Environmental contamination**

Environmental laws such as the German legislation on soil and water protection (*Boden- und Wasserschutzgesetze*) as well as legislation on hazardous substances and their disposal (e.g. the chemicals and hazardous substances and waste legislation) are in particular applicable to TAG's properties. In that respect, TAG could, where applicable, be held responsible for soil, surface or groundwater or building contamination or other environmentally relevant conditions and be required to carry out investigation, securing or remediation measures. Furthermore, TAG could be liable for works for disposal of asbestos or other dangerous substances.

##### **14.8.1 Responsibility under public law for environmental damage and contamination**

Under the Federal Soil Protection Act (*Bundesbodenschutzgesetz*), the person or entity responsible for soil contamination (and water contamination caused thereby) include the polluter, its legal successor, the owner of the property, the person or entity in actual control of the property, the previous owner of the contaminated property (if such owner transferred title after 1 March 1999, and knew or should have known about the contamination), the operator and the person or entity responsible under general principles of commercial or corporate law for the legal entity owning the site ("piercing the corporate veil"). Such liability applies regardless of negligence or fault of the liable person or entity. The Federal Soil Protection Act empowers the competent authority to require risk inspections, investigations, remedial and other necessary measures for the protection against or removal of hazardous soil changes, water pollution or residual environmental contamination.

The aforementioned persons or entities are jointly and severally liable without any statutory specification as to which of them is to be held liable in the first instance. The competent authority, in its discretion, will often consider it most efficient to impose its orders to the current owner based on the largest financial resources (deep pocket principle). According to a precedent of the German Constitutional court the owner is liable for remediation measures to a maximum of costs equalling the value of the site after decontamination. Under certain preconditions, the party held responsible by the authority can claim indemnification from other responsible persons or entities. The costs incurred for investigation, remediation and other measures in this

context can be modified or waived by express contractual agreement between the involved parties. Yet, such agreement has no effect in relation to orders or acts of the public authority.

With respect to soil contamination, TAG Beteiligungs- und Immobilienverwaltungs GmbH (formerly “Kraftverkehr Tegernsee Immobilien GmbH”) and TBG own or owned properties that were used for railway operations in the past. TAG is aware that these properties are contaminated with residue from operating the railway, such as oil. It is also possible that soil pollution other than the legacy pollutants (*Altlasten*) specific to the former operation of a railway is present on these properties. Accordingly, it must be assumed that there will be a corresponding need for remediation of the soil and potentially of the surface or groundwaterland if it is used for another purpose. Although TAG Beteiligungs- und Immobilienverwaltungs GmbH sold the properties related to railway operations and TAG sold its shares in TBG it cannot be excluded that TAG will still be held liable for measures in connection with the contamination. TAG is further aware, that on a few of the properties owned by TAG Wohnen legacy pollutants were detected. For the potential risks resulting from the legacy pollutants, see the statements in section 6, “*Risk Factors*”.

#### **14.8.2 Asbestos**

TAG’s portfolio also comprises properties erected during the time where asbestos was frequently used as building material. As to Asbestos Containing (building) Materials (**ACM**), it has to be distinguished between friable asbestos and other types of asbestos.

Friable asbestos can release asbestos fibres into building air due to aging and external force. Friable asbestos is generally found in construction materials that provide fire safety, noise abatement, moisture protection, heat insulation, and thermal protection. Other types of asbestos are involved if the material containing asbestos is firm and no asbestos fibres can escape into the air, thus not posing a risk to human health.

As to friable asbestos, the Guidelines on Friable Asbestos Containing Materials (*Asbest-Richtlinien*) of the German federal states provide criteria for the urgency of removal of the contamination. Urgency level I requires immediate remediation of the structure; level II requires further evaluation after two years, level III after five years. Remediation measures comprise removal, or coating of the asbestos products, and separation from the air. The authorities may impose remediation orders in case of urgency level I or incidental conditions e.g. in a building permit for relevant modifications of use or of the building structure with regard to the handling, removal and disposal of ACM. Typically, disposal costs for ACM are elevated in comparison with materials not contaminated.

As to non-friable asbestos, there is generally no obligation to remove non-friable asbestos except in the event of structural alterations.

If there is an asbestos contamination of an apartment the tenant, according to the rulings of German courts, is entitled to reduce the rent if a danger to health cannot be excluded, i. e. in particular if the urgency level is II or III. Furthermore, the tenant may claim damages if the defect was present at the time the lease agreement was concluded. If the landlord is in default with the removal of the defect the tenant may be entitled to claim damages and to carry out the works at the expense of the landlord.

#### **14.8.3 Polychlorinated Biphenyl (PCB), Dichlorodiphenyltrichloroethane (DDT), Pentachlorophenol (PCP) and Lindane and other hazardous substances**

Hazardous substances such as PCB, DDT, PCP and Lindane in buildings rented out by TAG to third parties may justify a reduction of the rent or damage claims by the tenants. Moreover, the remediation of rooms or buildings where the concentration of DDT, PCP, Lindane or other hazardous substances exceed a certain level may be required. The tenants may claim damages if the hazardous substance was already present at the time the lease agreement was concluded. If the landlord is in default with the removal of the substances the tenant may be entitled to claim damages and to carry out the works at the expense of the landlord. There are no binding thresholds defined by statutory law. However, certain guide lines recommendations by e.g. the World Health Organization or the German Federal States exist. Such guide lines and recommendations are neither comprehensive nor binding for German courts. Therefore, it is extremely difficult to predict which level of

contamination a court will deem to be the threshold above which a rent reduction is appropriate, remediation measure are required and/or the landlord is required to pay damages. Notably, a combination of several different hazardous substances may require remediation measures even though the levels mentioned in the various guide-lines and recommendations are not exceeded. It is not unlikely that binding thresholds might be imposed in the future. Such binding thresholds might be substantially lower than the levels of contamination regarded as acceptable by the competent institutions and the German courts today. The imposture of such binding thresholds might result in substantial costs for TAG and might also affect the value of the assets owned by TAG.

In particular PCB may cause damage to embryos and is suspected to have carcinogenic effects and affect human health. Its production was prohibited in Germany in 1983. However, PCB may still exist in buildings (for example, in wood preservatives, synthetic materials, insulations or joints). DDT and Lindane are synthetic pesticides, which were also used in wood preservatives. DDT is suspected to cause cancer and to be genotoxic, while Lindane is suspected to harm the nervous system, especially in case of occupational exposure, and to cause cancer. PCP was used as a fungicide against mould. It is also suspected to affect human health (skin, nervous system, organs, etc.).

Based on construction law or emissions protection law in conjunction with the “Guidelines on the Assessment and Remediation of PCB containing Construction Material or Elements in Buildings” (PCB-Guidelines), the owner of a building may be obliged to remedy PCB sources. In particular, the owner may have to carry out remediation measures if the PCB concentration in rooms which are designed for human use exceeds 300 nanograms per cubic meter of air. Remediation measures include the elimination or sealing of PCB-containing construction elements. Furthermore, the existence of PCB may entitle the tenants to reduce the rent or claim damages.

TAG is not aware of any cases of PCB, DDT, PCP or Lindane in its residential buildings.

#### **14.8.4 Civil Law Liability**

Civil law liability for residual pollution may result from contractual warranty provisions or statutory law. Warranty obligations can generally be waived or limited by contract. According to statutory provisions, a person or entity which caused a contamination can be held liable for damages or for remediation of the contamination and its consequences. TAG could be subject to such liability if a property currently or formerly owned by TAG is detrimentally affecting the property, health or another legally protected interest of third parties. This civil law liability exists independently from a liability based on environmental laws (i.e. public law liability).

## 15. MATERIAL AGREEMENTS

### 15.1. Acquisitions

- **Acquisition of shares in Colonia Real Estate AG (“Colonia project”)**

As part of the Colonia project, the Company initially purchased a total of 6,941,180 shares in Colonia from various investors. Pursuant to two share purchase agreements dated 14 October 2010, TAG AG purchased a total of 4,269,864 and 328,565 shares respectively from individual investors. In other contracts on the acquisition of a further 2,342,751 shares in Colonia, it was agreed that the consideration for the transfer of the Colonia shares would be the issue of new shares in the Company created through a capital increase against contributions in kind from authorised capital. The implementation of the capital increase against contribution in kind was registered with the commercial register on 26 November 2010.

In addition to the shares acquired as part of the Colonia project, TAG AG subscribed further 700,000 shares in Colonia as part of a capital increase against cash effected by Colonia in October 2010, and an additional 1,694,169 shares in Colonia were purchased in the open market. In total, TAG AG was therefore able to acquire 9,335,349 shares or around 29.82% of the registered share capital in Colonia. TAG AG subsequently increased its share in Colonia to a total of 11,938,742 shares or around 38.32% of Colonia’s registered share capital by means of a voluntary public takeover offer that ran from 20 December 2010 to 18 January 2011. TAG AG financed the acquisition of the shares acquired as a result of the takeover offer by effecting a capital increase against cash from authorised capital and issuing a convertible bond. TAG successively further increased its share in Colonia through additional acquisitions on the stock exchange and obtained a majority voting interest on 15 February 2011, holding 15,658,191 shares or around 50.02% of the registered share capital in Colonia on such date. Subsequently, TAG acquired further shares in Colonia from the exercise of conversion rights from convertible bonds, as a result of which TAG AG was able to increase its interest in Colonia to 20,335,152 shares and thus to 61.63% of Colonia’s registered share capital.

Colonia resolved a capital increase against contributions in kind on 25 August 2011 with exclusion of the subscription rights of its shareholders by €11,384,010.00 from €32,994,633.00 to €44,378,643.00, by issuing 11,384,010 shares. The new share were exclusively subscribed for by TAG AG, which contributed loan receivables against Colonia in the amount of around €47 million as consideration to Colonia. The capital increase against contributions in kind was registered with the commercial register on 7 November 2011. As a result, TAG AG’s interest in Colonia had increased to a total of 31,719,162 shares and thus to 71.47% of its registered share capital. TAG has also acquired a further 122,934 shares since that time, so that TAG AG’s interest in the registered share capital in Colonia has increased to 31,842,096 shares and thus to 72.13% of the registered share capital.

On 19 September 2012, the Management Board of TAG resolved to acquire 3,067,277 additional shares in Colonia against issuance of new TAG shares. Various shareholders in Colonia entered into a contribution and assignment agreement under which they undertook to transfer 3,067,277 shares in Colonia to TAG as contributions in kind. In return, TAG agreed to issue 1,809,693 new shares in TAG. The exchange ratio was one TAG share against 1.69 Colonia shares. The approximately 3 million shares in Colonia Real Estate AG correspond to 6.91% of Colonia’s total share capital. As a result TAG’s share in Colonia increased to 79.05%. The capital increase was approved by TAG’s Supervisory Board on 20 September 2012. The implementation of the capital increase against contribution in kind was registered with the commercial register on 15 November 2012. After the capital increase, TAG AG transferred the new 3,067,277 shares (6.91% of Colonia’s total share capital) to its subsidiary TAG Administration GmbH, so that TAG immediately holds 35,079,373 shares (72.13% of Colonia’s total share capital) at the date of this Prospectus.

- **Acquisition of property companies as part of the Theta project**

In July 2011, TAG AG has, as part of the “Theta” project, acquired 94% of the shares in five different property companies, arsago wohnen I GmbH, arsago wohnen II GmbH, arsago wohnen IV GmbH, arsago wohnen V GmbH, and arsago wohnen VI GmbH, which have their registered office in Hamburg and the companies’ names of which have been changed into TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH, and TAG Wolfsburg-Immobilien GmbH, respectively. At the time of the acquisition, the companies had a combined real estate portfolio that includes 3,304 units, of which 3,228 were residential units and 76 were commercial units. Most of the real estate is in northern Germany, Saxony-Anhalt and Saxony. It is concentrated in Saxony-Anhalt (630 units), the Hamburg metropolitan area (440 units), Wolfsburg (462 units), and Kassel (412 units). The total floor area in the real estate portfolio is around 208,757 m<sup>2</sup>, divided into around 200,202 m<sup>2</sup> of residential floor area and around 8,555 m<sup>2</sup> of commercial floor area. The annual net target rent is €13.7 million. The market value of the portfolio as determined by an independent valuation report at such time was around €173 million. The real estate was encumbered with loan liabilities of around €100 million, which were assumed during the transaction.

The shares in the five companies were acquired by way of a mixed contribution in kind, in consideration of which TAG AG issued 5,476,924 new shares and also undertook to pay a cash contribution. Fifty per cent of the shares in the property companies were previously held by arsago Grundstücks- und Beteiligungsgesellschaft I mbH, with 50% of the shares in each company held by MSAR Holding B.V. (arsago wohnen I GmbH), MSREF V Everest B.V. (arsago wohnen II GmbH), Zonnegloed Holding B.V. (arsago wohnen IV GmbH), MSREF V Skyline B.V. (arsago wohnen V GmbH), and Vescova B.V. (arsago wohnen VI GmbH). In the investment agreement dated 26 July 2011, upon which the “Theta” transaction is based, those shareholders of the five property companies undertook vis-à-vis TAG AG to contribute 94% of their shares in each property company to TAG as a contribution in kind. The shares in those five companies were contributed in return for the issue of 5,476,924 new shares by way of a capital increase against contributions in kind and payment of a total cash amount of €11.7 million. The capital increase against contributions in kind was registered with the commercial register on 1 November 2011.

In addition to the 94% interest of TAG AG, TAG KG has also acquired the remaining 6% of the shares in the companies for a cash purchase price of €3 million.

- **Acquisition of TAG Potsdam (previously named DKB Immobilien AG)**

On 27 March 2012 TAG entered into a share purchase and transfer agreement regarding 94.9% of the shares in DKB Immobilien Aktiengesellschaft (“DKBI”, subsequently renamed TAG Potsdam-Immobilien AG and in a second step transformed to TAG Potsdam-Immobilien GmbH (“TAG Potsdam”)), a real estate company having its registered office in Berlin whose owner and seller was Deutsche Kreditbank AG (“DKB”). The parent company and owner of DKB was Bayerische Landesbank. The remaining 5.1% of the shares in DKBI were acquired by TAG KG on the same day. The acquisition of DKBI took part in the course of a bidding process from which TAG emerged as the successful bidder.

TAG Potsdam is the parent company of numerous property companies (collectively “TAG Potsdam Group”) owning a residential real estate portfolio that includes approximately 25,000 residential units. Most of the residential units are in the Berlin region, Thuringia/Saxony and in other regions of Eastern Germany. The approximately 25,000 residential units and more than 500 commercial units owned by TAG Potsdam Group have a lettable floor area of approximately 1.5 million m<sup>2</sup> and generate approximately €71 million (residential units) and approximately €2.7 million (commercial units) annually in net rent (excluding charges for utilities and services). As at 31 December 2011, the entire real estate portfolio was valued at approximately €1.060 billion. TAG Potsdam Group companies had loan liabilities secured by real property liens of approximately €680 million (as at 31 December 2011) to DKB and to other banks which were as part of the transaction extended until 2022 after their respective expiry on the basis of a master agreement at the respective interest rate applicable as at the point in time of the expiry of the fixed interest rate or at the interest rate applicable as at the date on which the original term expired.

In addition, other loan liabilities of approximately €120 million were refinanced through DKB. The above mentioned master agreement is described in more detail in section 20. “*Description of other Indebtedness*”.

The primary business segment of TAG Potsdam is the management of about 25,000 residential units owned by it. TAG Potsdam Group’s real estate portfolio is divided among some two dozen operational subsidiaries whose sub-portfolios are divided again among property companies according to regional criteria, while TAG Potsdam itself serves as a holding company. Therefore, most of TAG Potsdam Group’s employees were employed directly by the subsidiaries in the area of operational property management.

The purchase price for the acquisition of DKBI amounted to approximately €160 million. TAG raised part of the financing in an offering of 20,663,737 new shares which took place in March 2012 and under which TAG generated gross proceeds of approximately €127 million. The remainder of the purchase price was granted by DKB to TAG as an interest-bearing vendor loan granted which was repaid by TAG from the proceeds of convertible bonds issued in an amount of approximately €85.3 million in June 2012.

Under the share purchase and transfer agreement with DKB, TAG had, until payment of the purchase price in full, to obtain approval from DKB for certain operational measures that impacted DKBI. In addition, TAG agreed to continuously comply with a social charta for the protection of tenants.

- **Acquisition of TAG Wohnen (previously named TLG Immobilien GmbH)**

On 28 November 2012, TAG Administration GmbH, a wholly-owned direct subsidiary of TAG AG, entered into a share sale and transfer agreement concerning the sale and transfer of 94.9% of the shares in TLG Immobilien GmbH (subsequently renamed TAG Wohnen GmbH) and TAG Beteiligungs GmbH & Co. KG, a majority-held indirect subsidiary of TAG AG, entered into a share sale and transfer agreement concerning the sale and transfer of 5.1% of the shares in TAG Wohnen. The purchase price for the acquisition of TAG Wohnen amounted to approximately €218 million which was subject to certain purchase price adjustments which will sum up to a low one-digit € million amount and which are subject to ongoing discussions between the parties. TAG raised the financing in an offering of 30,000,000 new shares which took place from 23 November to 7 December 2012 and under which TAG generated gross proceeds of approximately €270 million. The closing of this transaction took place on 20 December 2012.

The real estate portfolio of TAG Wohnen together with all assets and liabilities pertaining to it was transferred to TAG Wohnen by way of a spin-off (*Abspaltung*) from TLG Immobilien GmbH with economic effect as of 1 January 2012 pursuant to the German Transformation Act (*Umwandlungsgesetz*). TLG Immobilien GmbH was wholly-owned by the Federal Republic of Germany (“FRG”). The commercial real estate portfolio of TLG Immobilien GmbH together with all assets and liabilities were retained by TLG Immobilien GmbH in the course of the spin-off. All costs and taxes in relation to the spin-off were borne by TLG Immobilien GmbH.

At the date of the closing of the transaction TAG Wohnen held a residential real estate portfolio that included approximately 11,350 residential and 150 commercial units which to a substantial extent overlapped geographically with TAG’s residential real estate portfolio. All of the residential and commercial units of TAG Wohnen are located in Eastern Germany, with a focus on the core regions Thuringia/Saxony (67%), Rostock/Stralsund (20%) and Berlin (13%). The approximately 11,350 residential units and 150 commercial units owned by TAG Wohnen have a total floor area of approximately 697,000 m<sup>2</sup> and 13,500 m<sup>2</sup>, respectively, and generated approximately €42.4 million annually in net rent (excluding charges for utilities and services) at the date of the closing of the transaction.

- **Acquisition of a real estate portfolio in Berlin-Hellersdorf**

Pursuant to a notarised purchase agreement dated 14 July 2011, TAG Sachsenimmobilien GmbH acquired a real estate portfolio located in Berlin-Hellersdorf, which includes a housing complex containing 454 residential units and 7 commercial units, for a purchase price of €17.6 million, which has already been paid in full. The complex has a total floor area of around 26,921 m<sup>2</sup> and had an annual net

target rent of approximately €1,687 million in 2011. The transfer of title took place on 30 September 2011.

- **Acquisition of a real estate portfolio in Dresden**

Pursuant to a notarised purchase agreement dated 22 July 2011, TAG Sachsenimmobilien GmbH also acquired a real estate portfolio located in Dresden, which includes a housing complex containing 150 residential units and 6 commercial units, for a purchase price of around €7.4 million, which has already been paid in full. The complex has a total floor area of approximately 11,427 m<sup>2</sup> and an annual net target rent of approximately €610 thousand. The transfer of title took place on 1 September 2011.

- **Acquisition of Jokasa Immo Invest I GmbH in Chemnitz**

Pursuant to a notarised contribution agreement dated 25 October 2011, the Company acquired a housing complex in Chemnitz, which was contributed to TAG Immobilien AG as a contribution in kind as part of a capital increase resolved on the same date. The housing complex has a total floor area of around 32,000 m<sup>2</sup>, and the target rent was around €1.7 million. The contribution to the capital increase consisted of 94 % of the shares in Jokasa Immo Invest I GmbH, which is the owner of the complex, and a shareholder loan of approximately €3 million. The contribution was made in return for the issue of 859,339 shares. In addition, TAG paid a cash component of around €260 thousand. The capital increase was effected by utilising Authorised Capital 2011/I in the amount of €859,339.00, and was registered with the commercial register on 23 January 2012. Jokasa Immo Invest I GmbH has changed its company name into as TAG Chemnitz-Immobilien GmbH. It has its registered office in Hamburg.

- **Acquisition of Eberswalde Verwaltungs GmbH**

Pursuant to a notarised share purchase agreement dated 11 January 2012, TAG Administration GmbH acquired 94% of the shares in Eberswalde Verwaltungs GmbH. At the same time, TAG KG acquired another 6% of the shares. Eberswalde Verwaltungs GmbH is a real estate company having its registered office in Berlin, which owns a housing complex in Eberswalde near Berlin with a total rentable space of 59,911 m<sup>2</sup> in 1,057 residential units and 11 commercial units. The residential units provided annual net target rent of approximately €2.7 million in 2011. The total purchase price for all shares was about €30.4 million, of which a substantial portion (approximately €19.5 million) was satisfied by the assumption of liabilities to banks of Eberswalde Verwaltungs GmbH.

- **Acquisition of Stadthaus am Anger, Erfurt**

On 9 November 2012, TAG acquired all shares in a real estate company which holds a hereditary building right in a housing complex in Erfurt (“Stadthaus am Anger”) comprising 359 residential units and 39 commercial units, as well as 538 parking spaces. The annualised net target rent amounts to approximately €2.9 million. TAG AG acquired 94 % of the shares in the real estate company and further 6 % of the shares were acquired by TAG KG. The transfer of the hereditary building right is expected to take place as of 31 December 2012. The purchase price amounts to €29 million and includes the assumption of the financial liabilities of such real estate company.

- **Acquisition of a real estate portfolio in Chemnitz**

Pursuant to a notarised purchase agreement dated 8 July 2013, TAG Chemnitz-Immobilien GmbH acquired a real estate portfolio located in Chemnitz, which includes a housing complex containing 219 residential units and 5 commercial units, for a purchase price of around €7.7 million, which is expected to be paid by end of August 2013. The complex has a total floor area of approximately 13,271 m<sup>2</sup> and an annual net target rent of approximately €721 thousand. The transfer of title is expected to take place on 31 August 2013.

## 15.2. Sales

- **Properties on Tegernsee and interest in TBG**

Pursuant to the notarised agreement dated 4 May 2010, TAG AG and TAG Beteiligungs- und Immobilienverwaltungs GmbH (at that time Kraftverkehr Tegernsee Immobilien GmbH) submitted to a local investor an irrevocable offer to contract for the transfer of shares and for the sale of real estate. The subject matter concerns TAG AG's shares in Tegernsee-Bahn Betriebsgesellschaft mit beschränkter Haftung ("TBG") as well as various real properties owned by TAG AG or TAG Beteiligungs- und Immobilienverwaltungs GmbH. The local investor accepted this offer by signing of the notarial deed on 18 December 2012. Payment and transfer of the shares and the transfer of the real estate were effected on 28 February 2013. The purchase price for the real estate and for the shares amounted to approximately €12 million.

- **Sale of Max-Brauer-Allee project development property, Hamburg**

Pursuant to the purchase agreement dated 15 March 2010 with amendments dated 10 June 2011, TAG Gewerbe sold the commercial property on Max-Brauer-Allee in Hamburg. The purchase price is €5.0 million. TAG Gewerbe has made a commitment to the buyer to reimburse it for any additional costs up to €250 thousand that are incurred for treating and disposing of soil material in connection with completion of a construction project initiated by TAG Gewerbe. The purchase price was already paid.

- **Sale of Tübinger Strasse property, Munich**

Pursuant to the purchase agreements dated 14 and 20 October 2011, TAG Gewerbe sold land for development on Tübinger Strasse in Munich. This is a partially developed parcel of approximately 15,000m<sup>2</sup> which has three preliminary building permits (*Bauvorbescheide*) for the construction of commercial spaces. The purchase price for the land totals approximately €31.0 million. The buyer has indemnified TAG Gewerbe against all demolition costs and costs for the disposal of legacy pollutants (*Altlast*). The purchase price was paid at the end of December 2011.

- **Sale of the Drosselstrasse and Starstrasse properties, Hamburg**

Pursuant to the purchase agreement dated 15 December 2011, TAG sold a property in Hamburg held by its subsidiary BV Hamburger Wohnimmobilien GmbH. The purchase price for the property, on which a parking garage is located, is around €1.6 million. The transfer of title and payment of the purchase price took place in March 2012.

- **Sale of Eichholz and Reimarusstrasse housing complex, Hamburg**

Pursuant to the purchase agreement dated 29 December 2011, TAG sold a housing complex in Hamburg held by its subsidiary BV Hamburger Wohnimmobilien GmbH that had 122 residential units and total floor area of 5,380 m<sup>2</sup>. The purchase price, which is to remain confidential pursuant to an agreement with the buyer, was paid place in February 2012.

- **Sale of Punkthäuser, Ottobrunn**

Pursuant to the purchase agreement dated 14 August 2012, TAG sold a housing complex consisting of three buildings including 59 residential units and one commercial unit in Ottobrunn near Munich. The property was held by its subsidiary Wohnanlage Ottobrunn GmbH. The purchase price of €10.5 million was paid after the transfer of benefits and burdens of the property which took place on 1 October 2012.

- **Sale of Schönningstedter Strasse, Reinbek**

Pursuant to the purchase agreement dated 22 June 2012, TAG sold the development property Schönningstedter Strasse in Reinbek near Hamburg that was held by its subsidiary BV Eigenheim-Immobilien GmbH for a purchase price of €1.8 million. The agreement is still subject to the condition precedent that the City of Reinbek consents to the buyer taking over the existing urban development

(*städtebaulicher Vertrag*) and land improvement contracts (*Erschließungsvertrag*). TAG anticipates the consent of the City of Reinbek to be given before end of 2012. TAG has submitted several reports and expert opinions on potential contamination and environmental pollution of the property to the buyer and has declared in the purchase agreement that it is not aware of any hidden defects. In turn, the buyer has indemnified TAG with respect to the costs for a potential removal of legacy pollutants and environmental pollution.

- **Sale of Bogenstrasse, Ahrensburg**

Pursuant to the purchase agreement dated 16 August 2012, TAG sold the property Bogenstrasse in Ahrensburg held by its subsidiary TAG Sachsenimmobilien GmbH. The purchase price for the property which, to the major part, is used for commercial purposes, is €630 thousand and was paid in the beginning of 2013.

- **Sale of Ohmoor property, Hamburg**

Pursuant to the purchase agreement dated 5 July 2011 and its amendments of 25 January 2012, 13 April 2012 and 31 May 2012, TAG sold the property Ohmoor in Hamburg held by its subsidiary BV Hamburg Altbau-Immobilien GmbH. The purchase price of €500 thousand has already been paid.

- **Sale of Café Atlas, Munich**

Pursuant to the purchase agreement dated 8 December 2011, TAG Gewerbe sold the property Innere-Wiener-Strasse, Munich (Café Atlas). The purchase price of €1.165 million has already been paid.

- **Sale of Königstorgraben, Nuremberg**

Pursuant to a purchase agreement, which was concluded on 20 December 2012 and 30 April 2013, TAG Gewerbe sold the commercial property Königstorgraben, Nuremberg. The payment of the purchase price of €4.0 million took place end of June 2013 and the transfer of the property took place in the beginning of July 2013.

- **Sale of Shares of POLARES Real Estate Asset Management GmbH**

On 6 September 2012, Colonia sold all shares in its wholly owned subsidiary POLARES Real Estate Asset Management GmbH ("POLARES REAM") to the POLARES REAM management team by way of a management buy-out.

POLARES REAM was formed in 2011 from the merger of the former TAG subsidiary LARUS Asset Management GmbH and the former Colonia Real Estate AG subsidiary Colonia Real Estate Solutions GmbH. This made POLARES REAM one of the major commercial real-estate service providers in Germany in terms of the volume of real estate property serviced. The main focus of POLARES REAM's business was asset and property management for commercial real estate. The divestiture of POLARES REAM ended TAG's real estate services for third parties business segment. This was an important step in pursuing TAG's business strategy and allows TAG to better focus on managing its own real estate portfolio.

The purchase price for the shares in POLARES REAM was a low two digit million €-amount. A major part of the purchase price remains unpaid as a vendor loan secured by a pledge on the shares in POLARES REAM. Due to financial difficulties of the buyers, payment of principal and interest on the purchase price was suspended for 2013. TAG is in contact with the buyers in order to negotiate how payment in full of the outstanding amount can be ensured. Until the purchase price is paid in full, major measures and transactions regarding POLARES REAM require the prior written consent of Colonia. The previously existing domination and profit and loss transfer agreement between Colonia and POLARES REAM was terminated. In addition, it was agreed that POLARES REAM will continue to service TAG's commercial real estate portfolio on the basis of amended asset and property management agreements with various companies of the TAG Group, in particular TAG Gewerbe. Further, POLARES remains a

tenant at the TAG's headquarters in Hamburg and continues to obtain IT, accounting and other services from TAG.

- **Sale of Bärenpark and other residential units, Berlin**

Pursuant to a share purchase agreement dated 18 December 2012, two subsidiaries of TAG AG sold all shares in several limited liability partnerships which in total hold 1,384 residential units in Berlin. The transfer of the shares and the payment of the purchase price of approximately €87 million took place on 31 January 2013.

- **Sale of Bergedorfer Straße, Hamburg**

Pursuant to a purchase agreement, which was concluded on 15 January 2013, GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, in which Bau-Verein GmbH holds 50% of the interest, sold the commercial property Bergedorfer Straße, Hamburg. The transfer of the property and the payment of the purchase price, which amounts to a one-digit million € sum are subject to certain conditions precedent which are anticipated to be fulfilled by mid of 2014.

- **Sale of Vahrenwalder Straße, Hanover**

Pursuant to a purchase agreement, which was concluded on 19 March 2013, TAG Gewerbe sold the commercial property Vahrenwalder Straße, Hanover. The transfer of the property and the payment of the purchase price of €0.8 million took place with effect as of 30 April 2013.

- **Sale of Stahltwiete, Hamburg**

Pursuant to a purchase agreement, which was concluded on 26 April 2013, TAG Gewerbe sold the commercial property Stahltwiete, Hamburg. The transfer of the property and the payment of the purchase price of €5.1 million are anticipated to take place by 31 August 2013.

### 15.3. Other material agreements

- **Rent guarantees related to the sale of construction projects**

TAG AM (previously JUS Aktiengesellschaft für Grundbesitz) and Bau-Verein GmbH and their respective subsidiaries have in the past offered rent guarantees related to a series of properties they sold, which guaranteed a certain rental income to the various buyers of the properties. The terms of those rent guarantees vary for TAG AM, but most are for five years. In some cases, there are options to extend such rent guarantees for an additional five years term. The guarantees are covered by provisions and amount to €20 thousand at TAG AM as of 31 March 2013.

Bau-Verein Eigenheim-Immobilien GmbH, an indirect subsidiary of TAG AG, granted rent guarantees for different terms in connection with real estate purchase and sale agreements in favour of the buyer of Wohn- und Geschäftshaus Sandtorkai in Hafencity Hamburg for the period ending 31 October 2014. Most of the available office space in that property has been rented. The provisions set aside for this total €183 thousand as of 31 March 2013. The amount of any future provisions will depend on the occupancy rate.

- **Loan Agreements**

TAG uses a large amount of debt capital to finance its business operations. Loans are generally entered into in relation to certain properties, i.e., the banks finance the entity that is shown as owner in the Property Register (*Grundbuch*) and primarily secure the loan with the entry of real estate liens in the relevant Property Register. When several properties are being purchased in a single transaction, the acquisition might be financed in combined "packages" (*Paketfinanzierungen*). TAG's total debt to banks as at 31 March 2013 is around €2.1 billion. All material loan agreements concluded by TAG are described in detail in section 20, "*Description of Other Indebtedness*".

#### 15.4. Domination and profit and loss transfer agreements

Bau-Verein GmbH has or previously had entered into domination and profit and loss transfer agreements with the following subsidiaries:

- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH;
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH (“BVEI”);
- Bau-Verein zu Hamburg “Junges Wohnen” GmbH;
- Bau-Verein zu Hamburg Altbau-Immobilien GmbH;
- Wohnanlage Ottobrunn GmbH;
- Hamburg-Bremer Vermögensverwaltungsgesellschaft mbH through 31 December 2009;
- BV Hamburger Wohnimmobilien GmbH;
- Bau-Verein zu Hamburg Wohnungsgesellschaft mbH.

TAG Potsdam (at that time named DKB Immobilien AG) is party to domination and profit and loss transfer agreements with the following subsidiaries:

- Werderau GmbH;
- TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH;
- TAG Wohnungsgesellschaft Sachsen mbH;
- TAG Immobilien Wohn-Invest GmbH;
- TAG Wohnungsgesellschaft Sachsen-Anhalt mbH; and
- TAG Immobilien Infrastruktur GmbH.

TAG Wohnungsgesellschaft Berlin-Brandenburg mbH (at that time named Gemeinnützige Wohnungsbaugesellschaft Bestensee mbH), a subsidiary of TAG Potsdam, entered into a domination and profit and loss transfer agreements with its subsidiary Park- und Gewerbehäuser GmbH Bestensee.

In addition, in 2012 TAG Potsdam (at that time named DKB Immobilien AG) entered into domination agreements with the following subsidiaries:

- TAG Wohnungsverwaltungsgesellschaft Nord-West mbH;
- Aufbaugesellschaft Bayern GmbH;
- TAG Immobilien Service GmbH;
- Victus I. Beteiligungs GmbH; and
- Victus II. Beteiligungs GmbH.

In addition, there was a domination and profit and loss transfer agreement between BVEI as controlling company and Bau-Verein zu Hamburg Bauregie GmbH as controlled company until the merger of Bau-Verein zu Hamburg Bauregie GmbH with and into BVEI in April 2011. In 2012, additional domination agreements have been entered into between entities of the TAG PotsdamH sub-group.

Furthermore, Colonia as controlling company has entered into a domination and profit and loss transfer agreement with POLARES REAM. POLARES REAM was created in July 2011 through the merger of Larus, a previous TAG subsidiary, with Colonia Real Estate Solutions GmbH, a previous Colonia subsidiary. This domination and profit and loss transfer agreement was terminated in the course of the sale of POLARES REAM.

TAG NRW-Immobilien GmbH, as controlling company, has also entered into a domination and profit and loss transfer agreement with each of its subsidiaries TAG 1. NRW-Immobilien GmbH and TAG 2. NRW-Immobilien GmbH as controlled companies.

Finally, there are domination and profit and loss transfer agreements between TAG AG as controlling company and TAG Gewerbe as controlled company and between TAG AG as controlling company and TAG Beteiligungs- und Immobilienverwaltungs GmbH as controlled company.

All domination agreements as well as all domination and profit and loss transfer agreements are standard agreements.

## 16. RECENT DEVELOPMENTS

Pursuant to a notarised purchase agreement dated 8 July 2013, TAG Chemnitz-Immobilien GmbH acquired a real estate portfolio located in Chemnitz, which includes a housing complex containing 219 residential units and 5 commercial units, for a purchase price of around €7.7 million, which is expected to be paid by end of August 2013. The complex has a total floor area of approximately 13,271 m<sup>2</sup> and an annual net target rent of approximately €721 thousand. The transfer of title is expected to take place on 31 August 2013.

Since 31 March 2013, TAG reviewed a number of further smaller potential acquisitions and disposals in order to further improve its existing portfolio.

Besides this, TAG has been working on the refinancing of TAG Wohnen. In addition, progress has been made in the refinancing of the Quokka Financing for Emersion and Domus.

- On 7 June 2013, the Company and Münchener Hypothekenbank eG have signed a non-binding termsheet which contains the framework under which the granting of a loan could be acceptable for the parties. The loan would be granted to Emersion Grundstückverwaltungsgesellschaft mbH, an indirect subsidiary of the Company, in an amount of €65 million for the refinancing of financial indebtedness regarding a part of the portfolio of Emersion Grundstücksverwaltungsgesellschaft mbH. The term of the loan would be 10 years from the fixing date. The fixed interest rate period would be 5 to 10 years with a fixed interest, which depends on the fixed interest rate period. The loan would be secured by first ranking land charges in the loan amount over the lending objects, an assignment of claims under the lease agreements, a hard letter of comfort (*harte Patronatserklärung*) by the Company and possibly further collateral. The debt service cover ratio, i.e. the annual net rent (excluding utilities and common charges) divided by the debt service obligation, would have to be at least 155%. In the event that the debt service cover ratio falls below 155%, it would have to be re-established either by a partial repayment of the loan or by accruing a surplus on an account pledged in favour of the lender. The loan to value would have to be below 60% and any overrun cured by a repayment of such part of the loan needed to establish the required loan to value.
- On 20 June 2013, Emersion Grundstücksgesellschaft and Deutsche Genossenschafts-Hypothekenbank AG have signed a non-binding termsheet which contains an indicative offer for a loan. The borrower of such loan would be Emersion Grundstücksverwaltungsgesellschaft mbH. The loan would be in the amount of the lower of €65 million and 60% of the marked value of the lending object (yet to be determined). The loan would have a term of 5 years not exceeding 31 August 2018 and a fixed interest rate based on the mortgage bond start (*Pfandbriefeinstand*) (of the chart for mortgage bonds published by the association of German Pfandbrief Banks - vdp-Kurve für Hypothekenspfandbriefe) plus margin. The loan would be secured by first ranking collective land charges in the loan amount over the lending objects, an assignment of claims under lease agreements and building insurances, a negative pledge regarding junior ranking land charges as well as a comfort letter (*Patronatserklärung*) by the Company and possibly further customary collateral. The loan to value would have to be 60%. In addition, a covenant regarding the rent amount would be included a breach of which would lead to an increase of the repayment instalments. The debt service would come ahead of distributions to the shareholders.

If TAG is able to implement all these refinancings as envisaged, the average cost of debt will be at 3.99% and the average maturity for the bank financing will be 9.8 years.

On 14 June 2013 the Company's Annual General Meeting resolved to pay a dividend for financial year 2012 amounting to €32.7 million or €0.25 per share as compared to €19.1 million or €0.20 per share for 2011. The dividend payment was made on the day following the Annual General Meeting.

The development of TAG's residential real estate segment since 31 March 2013 was stable and in line with the Company's expectations. The vacancy rate for the Group's residential portfolio (including TAG Potsdam) was

around 9.33% as at 15 June 2013, and has therefore not changed materially since 31 March 2013, when the vacancy rate was 9.4%. It is expected to further slightly decrease until the end of 2013.

In the Company's estimation, the development of TAG's commercial real estate segment remains stable. The rental income stream has barely changed since 31 March 2013. The trend for vacancies also remains stable. The Company expects no material changes in this sector until the end of 2013.

TAG's total rental income for 2013 is expected to increase significantly compared to financial year 2012 (€192.5 million), which is primarily attributable to the consolidation of TAG Wohnen. The Company expects that the combination of rising rents, falling vacancy, falling interest rates and synergies from the continued integration of acquisitions made in 2012 will lead to a strong growth of TAG's FFO for the financial year 2013.

Besides this, no material changes in TAG's assets, its financial situation and operating results occurred between 31 March 2013 and the date of this Prospectus.

## **17. GENERAL INFORMATION ON THE COMPANY**

### **17.1. Formation and history of TAG AG**

TAG Immobilien AG's origins date back to the founding of a railway company called Eisenbahn Actiengesellschaft Schaftlach-Gmund-Tegernsee, Munich, in 1882. The registered share capital of Eisenbahn Actiengesellschaft Schaftlach-Gmund-Tegernsee at the time it was formed was 300,000 Marks. The share capital was divided into 600 bearer shares of 500 Marks each.

At first, the Company's business was primarily rail transport, initially only on the line between Schaftlach and Gmund and, after 1902, also on the extended line from Gmund to Tegernsee. It also offered bus transport. In 1947, it transferred the operation of the bus lines to KVT, a subsidiary created for that purpose, which continued to run the bus operation until 1990. The Company transferred the railway operation to TBG, its wholly owned subsidiary created for that purpose, in 1983. TBG held the rail concession for the Tegernsee-Bahn railway, which it continued to operate until 28 November 1998 and then leased to BOB.

The company name Eisenbahn Actiengesellschaft Schaftlach-Gmund-Tegernsee was changed to Tegernsee-Bahn Aktiengesellschaft in 1942. The company name was changed again, to TAG Tegernseebahn Immobilien- und Beteiligungs-Aktiengesellschaft, in 1999. The company name was changed again in 2001, to TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft, and in 2008 to the present name, TAG Immobilien AG.

### **17.2. Company name, registered office, object, financial year, and term of TAG AG**

TAG is registered in the commercial register of the Local Court (*Amtsgericht*) of Hamburg under the number HRB 106718. The company name of TAG is "TAG Immobilien AG". The Company's registered office has been in Hamburg since 2008. The business address of the Company is Steckelhörn 5, 20457 Hamburg. The Company can be reached by telephone at +49 (0) 40 38032-0. The Company frequently uses the name "TAG" as a commercial name in its documentation and advertising brochures.

Pursuant to section 2 of its Articles of Association, the Company's object is to acquire and manage domestic and foreign real estate, to acquire and market equity interests including interests in real estate funds, and to engage in all other related business, as well as build and operate railways and construct, acquire, lease, lease out and operate transport companies of all kinds, particularly motorised transport companies, and to support transport including freight forwarding. The Company is also authorised to conduct any business activities, which are appropriate to directly or indirectly promote the object of the Company. For this purpose, the Company can found companies having the same or another object and establish branch offices in Germany and abroad. It may sell its businesses in whole or in part or transfer them to other companies.

The General Meeting of the Company resolved on 14 June 2012 to restate section 2 of the Articles of Association. According to that resolution, the Company's object is to acquire, sell and manage domestic and foreign real estate, to acquire, sell and manage participations including interests in real estate funds, and to engage in all other related business. The Company is also authorised to conduct any business activities, which are appropriate to directly or indirectly promote the object of the company. For this purpose, the Company can found companies having the same or another object and establish branch offices in Germany and abroad. It may sell its businesses in whole or in part or transfer them to other companies. The General Meeting also instructed the Management Board not to file for registration in with the commercial register of the amendment to the Articles of Association in the commercial register until after acceptance of, and after performance of the agreements resulting from, an irrevocable, limited-time offer notarially recorded on 4 May 2010 that was made to an investor to enter into a contract for the transfer of the shares in Tegernsee-Bahn Betriebsgesellschaft mbH and a contract for the sale of real estate concerning various real properties in connection with the railway operation (see section 15.2, "*Material Agreements – Sales*").

The Company's financial year is the calendar year.

The term of the Company is unlimited. The Company is incorporated in the legal form of a stock corporation (*Aktiengesellschaft*) under German law and governed by German stock corporation act (*Aktengesetz – AktG*).

### 17.3. Corporate structure and information about the holdings

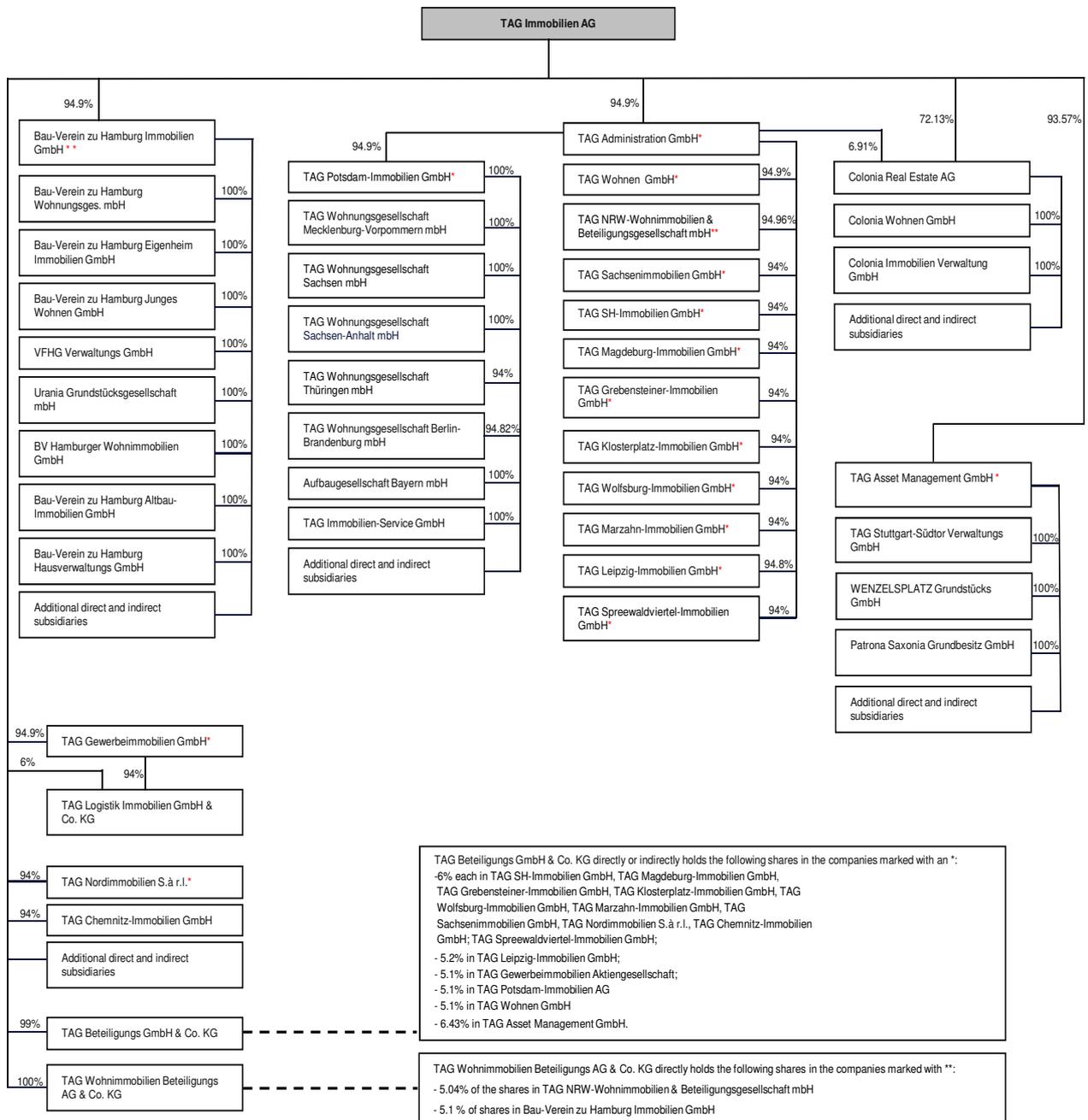
TAG Immobilien AG predominantly functions as the parent company of a diversified real estate group and operates alongside its sub-holding companies in the individual business segments. At the date of this Prospectus, the Group comprised a total of 94 companies that are included in the consolidated financial statements. The primary sub-holding companies are

- Bau-Verein zu Hamburg Immobilien GmbH, which was until 9 November 2012 listed (at that time as Bau-Verein zu Hamburg AG with effect of 14 December 2012 transformed by a change of legal form into Bau-Verein zu Hamburg Immobilien GmbH) on the Entry Standard of the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange and on the SME Exchange (*Mittelstandsbörse Deutschland*) of the Hamburg Stock Exchange and which as a result of a squeeze-out effected on 9 November 2012 is now a wholly owned subsidiary of TAG Immobilien AG (including the shares it holds directly and those it holds through TAG KG);
- the publicly traded company Colonia Real Estate AG in which TAG Immobilien AG currently immediately holds 79.05% of the shares (including the shares it holds directly and those it holds through TAG Administration GmbH);

TAG Potsdam-Immobilien GmbH (previously named DKB Immobilien Aktiengesellschaft, and with effect as of 7 January 2013 transformed by a change of legal form into TAG Potsdam-Immobilien GmbH) which is a wholly owned subsidiary of TAG Immobilien AG (including the shares it holds directly and those it holds through TAG KG); and

TAG Administration GmbH, which is a wholly owned subsidiary of TAG Immobilien AG (including the shares it holds directly and those it holds through TAG KG).

With exception of TAG Administration GmbH; the sub-holding companies each prepare sub-group IFRS consolidated financial statements. For the purpose of combined management, TAG successively uses internal Group restructuring measures to transfer various property companies that it has acquired over the past few years to TAG Administration GmbH. For example, TAG Potsdam-Immobilien GmbH and TAG Wohnen GmbH were recently transferred to TAG Administration GmbH. The sub-holding companies, as well as TAG Asset Management GmbH each hold additional subsidiaries and equity interests in corporations (*Kapitalgesellschaften*), civil law partnerships (*Gesellschaften bürgerlichen Rechts*), and commercial partnerships (*Personenhandelsgesellschaften*), through which, for example, the projects of TAG AM, Bau-Verein GmbH, and Colonia Real Estate AG, were carried out in the past. The diagram below provides a simplified view of the corporate structure of TAG as at the date of this Prospectus:



There are domination and profit and loss transfer agreements with a number of subsidiaries within TAG. They are individually described in section 15.4. *“Material Agreements – Domination and profit and loss transfer agreements”*.

## **17.4. Management Board, Supervisory Board**

### **17.4.1 Overview**

The governing bodies of TAG AG are the Management Board (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) and the Annual General Meeting (*Hauptversammlung*). The powers and responsibilities of these governing bodies are set out in the German Stock Corporation Act (*Aktiengesetz*, “AktG”), in the Articles of Association and in the internal rules of procedure for the Management Board and the Supervisory Board.

The Management Board conducts the business of the Company in accordance with the law, the provisions of the Articles of Association and the rules of procedure for the Management Board. It represents the Company in its dealings with third parties.

The Supervisory Board appoints and in certain cases dismisses the members of the Management Board. It must supervise and advise the Management Board in the execution of its management duties. The Supervisory Board itself has no authority to make executive decisions. However, the rules of procedure for the Management Board provide that certain transactions require the consent of the Supervisory Board.

Both the members of the Management Board and the Supervisory Board have fiduciary duties and duties of care toward the Company. The Management Board must also take into account the shareholders’ rights to equal treatment and equal information.

The members of the Management Board and the Supervisory Board bear sole responsibility for the performance of their respective functions and must do so with the standard of care of a diligent and conscientious manager/supervisory board member. In making their decisions, they must take into account a broad range of interests, in particular those of the Company, its shareholders, its employees, and its creditors. If members of the Management Board or Supervisory Board negligently or wilfully breach their duties, they are jointly and severally liable to compensate the Company for any damage it suffers as a result.

### **17.4.2 Management Board**

Pursuant to the Company’s Articles of Association, the Management Board must consist of one or more persons; deputy members may be appointed. The Supervisory Board appoints the members of the Management Board and determines the number of board members. Because the Company’s registered share capital is greater than €3 million and since the Articles of Association do not provide otherwise, the Management Board must have at least two members. The Supervisory Board appoints one member of the Management Board as Chairman (CEO) and one or more members as Deputy Chairmen. Management Board members are appointed for a maximum term of five years. Reappointment or an extension of the term of office for a maximum of five years is permissible. The Supervisory Board may dismiss a Management Board member or a CEO for good cause. Resolutions of the Management Board are adopted by simple majority of the Management Board members voting on the relevant resolution. In the event of a tie, the Chairman casts the deciding vote. Pursuant to the Company’s Articles of Association, the Supervisory Board issues rules of procedure for the Management Board, which it did by resolution dated 12 November 2003.

Pursuant to section 6 para. 2 of the Company’s Articles of Association, if there is more than one member of the Management Board, the Company shall be represented by two Management Board Members or by one Management Board member acting jointly with an authorised representative (*Prokurist*). If there is only one Management Board member, he or she shall represent the Company alone. The Supervisory Board may authorise a single Management Board member to represent the Company alone. The members of the Management Board can be relieved from the prohibition on self dealing in section 181 case 2 of the German Civil Code (*Bürgerliches Gesetzbuch*).

The current members of the Company’s Management Board are Mr. Rolf Elgeti, Mr. Georg Griesemann, Ms. Claudia Hoyer, and Dr. Harboe Vaagt.

Mr. **Rolf Elgeti**, born 4 November 1976, holds a degree in business (*Diplomkaufmann*) and has been the CEO of TAG AG since 1 July 2009. He is responsible for Acquisitions, Asset Management, Property Management and Commercial. His term of office, which should originally expire on 30 April 2014, has been extended by the Supervisory Board on 12 November 2012 and will expire on 30 November 2017. Upon completing his studies in business administration at the University of Mannheim and the ESSEC Business School in Paris (*diplome de l'ESSEC*) in 1999, Mr. Elgeti worked as an equity analyst for several major international banks in London. Since 2003, he has founded and managed several German real estate investment firms. In 2007, he became an independent real estate fund manager, founding Elgeti Ashdown Advisers Ltd., London, United Kingdom. Before joining the Company's Management Board, Mr. Elgeti served as a member of the Company's Supervisory Board from 17 October 2008 until 31 May 2009.

Mr. **Georg Griesemann**, born 31 May 1974, holds a degree in business (*Diplom-Kaufmann*) and has been the CFO of TAG AG since 1 June 2012, where he is responsible for Finance, Accounting, Controlling and Tax. His term of office expires on 31 May 2017. Upon completing his studies in business administration at the University of Mannheim in 2000, Mr. Griesemann worked as an auditor for KPMG in Frankfurt am Main, Cologne and Moscow. He passed the certified tax advisor exam (*Steuerberater*) in 2003 and the certified auditor exam (*Wirtschaftsprüfer*) in 2005. Since June 2011 he worked as the Head of Accounting and Tax at TAG AG.

Ms. **Claudia Hoyer**, born 2 May 1972, holds a degree in business administration (Diplom-Kauffrau (FH)) and has been the COO of TAG AG since 1 July 2012. Her term of office expires on 30 June 2017. Prior to that, she has held the same office at TAG Potsdam-Immobilien GmbH (formerly operating under the name DKB Immobilien AG), a company that TAG acquired in early 2012. Upon completing her studies at the FHW university of Berlin in 1995, she started her career with Deutsche Kreditbank AG ("DKB") initially working in a special lending unit before moving on to real estate lending in 1998 where she held various position. In 2007 she became managing director of DKB Finance, a workout subsidiary for commercial property developments of DKB before taking the office of COO at DKB Immobilien AG in 2010. Mrs. Hoyer also qualified as a master in real estate business (Immobilienökonom, European Business School) in 2002.

**Dr. Harboe Vaagt**, born 1 August 1956, is an attorney and has been a member of the Management Board of TAG AG since 1 April 2011. His term of office expires on 31 March 2016. After completing his studies, Dr. Vaagt was a practising attorney before spending nine years as legal counsel to a bank in Hamburg, Germany. Since 1999, he has been responsible for legal matters at Bau-Verein and subsequently became responsible for all of TAG's legal matters, as well. As member of the Management Board, Dr. Vaagt is responsible for Legal, Compliance and Condominium Management.

The members of the Management Board can be contacted at the Company's business address.

### 17.4.3 Supervisory Board

Pursuant to the Company's Articles of Association, the Supervisory Board has six members, four are shareholder representatives and two are employee representatives elected in accordance with sections 4 *et seq.* of the German One Third Employee Representation Act (*Drittelbeteiligungsgesetz*, "DrittelbG").

The shareholder representatives are elected for the period until the conclusion of the Annual General Meeting that resolves on ratification for the fourth financial year following commencement of their term of office. The financial year in which the term in office commences shall not be calculated in this period. When regular members of the Supervisory Board are elected, substitute members for one or several specific Supervisory Board members may also be elected at the same time. Such substitutes will become members of the Supervisory Board in an order to be stipulated upon their election if the respective Supervisory Board member for whom they were elected as a substitute leaves office prematurely. If a Supervisory Board member is elected to replace a departing member, he or she shall remain in office for the remainder of the term of office of the departing member. If a substitute member has replaced a departing member, his or her office will terminate upon conclusion of the next Annual General Meeting that elects a new Supervisory Board member to replace the departing member; otherwise it will terminate at the end of the term of office of the departing member.

Supervisory Board members who have been elected by the Annual General Meeting may be dismissed before the end of their term of office, by resolution of the Annual General Meeting passed by a 75% majority of the votes cast. Employee representatives may be dismissed by resolution of the employees eligible to vote with a 75% majority of the votes cast.

Supervisory Board members may resign from their office with one month's notice by submitting a written letter of resignation to the Management Board and notifying the Chairman of the Supervisory Board. The foregoing shall have no bearing on the right to resign from office for good cause.

The Supervisory Board elects a Chairman and at least one Deputy Chairman for the term of his or her office. If the Chairman or a Deputy Chairman leaves office before the end of his or her term, the Supervisory Board shall elect a replacement Chairman or Deputy. Deputy Chairmen exercise the rights and duties of the Chairman by law and under the Articles of Association in those cases where the Chairman is unable to do so. Where several Deputies have been elected, the order set at the time of their election shall apply.

Pursuant to the Company's Articles of Association, the Supervisory Board shall have a quorum if at least three members, including the Supervisory Board Chairman or his or her Deputy, are present. Resolutions of the Supervisory Board are generally adopted by simple majority of the votes cast. In the event of a tie, the Chairman has the deciding vote.

As stipulated by law, the Supervisory Board meets at least twice every six calendar months. Its functions include, in particular:

- supervising the management of the Company;
- appointing the Company's Management Board;
- granting consent to those transactions which legally require its consent as well as to those transactions which the Supervisory Board has made subject to its consent.

At the present time, the Company's Supervisory Board consists of four members elected by the Annual General Meeting and two members elected by the employees. The members of the Supervisory Board are:

**Dr. Lutz R. Ristow**, born 3 September 1940, has been a member since 30 January 2007 and Chairman of the Supervisory Board since 12 February 2007. His current term expires at the conclusion of the Company's Annual General Meeting in 2014. After completing his doctorate (*dr. rer. pol.*), he began his professional career at Bankhaus Marcard, Stein & Co., Hamburg, Germany. Afterwards, he worked as an independent corporate consultant, asset manager and investor. From 2004 until the end of 2006, he was the acting CEO of TAG following his tenure as Chairman of the Supervisory Board.

**Prof. Dr. Ronald Frohne**, born 21 March 1945, is Deputy Chairman of the Supervisory Board and has been a member of the board since 25 September 2000. His term of office expires at the conclusion of the Company's Annual General Meeting in 2014. He is an attorney and auditor (*Wirtschaftsprüfer*) and contract partner of the law firm Noerr LLP, Munich, Germany.

**Mr. Lothar Lanz**, born 1 October 1948, has been a member of the Supervisory Board since 14 June 2013. His term of office expires in 2018. After completing his studies with a Master of Commerce, he occupied several managing and executive positions in private and institutional banks. Since 2009, Mr. Lanz has been a member of the executive board at Axel Springer AG.

**Dr. Philipp K. Wagner**, born 4 October 1975, has been a member of the Supervisory Board since 14 June 2013. His term expires in 2018. has been a member of the Supervisory Board since 14 June 2012. His term of office expires in 2018. After completing his law studies he was admitted as attorney-at-law in Berlin and New York in 2005. Furthermore he is lecturer on International Sales Law and Arbitration as well as Real Estate Transactions at Berlin Humboldt-University.

Ms. **Andrea Mäckler**, Hamburg, Germany, born 6 June 1970, and Ms. **Wencke Röckendorf**, Hamburg, Germany, born 17 May 1969, have been members of the Supervisory Board since 27 April 2010 and were

elected to the board by the employees as employee representatives. The election became necessary after TAG stepped into or assumed nearly all the employment contracts within the Group as of 1 January 2010, thus relinquishing its status as a mere holding company from an employment law standpoint. Ms. Mäckler holds a degree in civil engineering (*Diplom-Bauingenieurin*) and is qualified as a Master Professional (CCI) of Technical Management (*technische Betriebswirtin*). She was employed for seven years at the Otto Wulf construction company in Hamburg, Germany. She joined TAG in February 2006. Ms. Mäckler works in the Financial Control department and is in particular responsible for ongoing real estate appraisal. Ms. Röckendorf has been with TAG since 2007. She holds a degree in economics (*Volkswirtin*) and prior to working at TAG she spent three years working at a Berlin-based project developer and 2.5 years at a corporate consulting firm. She works in the field of HR/Organisation.

The members of the Supervisory Board can be contacted at the Company's business address.

On 26 February 2013, the Supervisory Board has set up an audit committee in accordance with section 5.3.2 German Corporate Governance Code (the "Code"). The audit committee handles the monitoring of the accounting process, the effectiveness of the internal control system, risk management system and internal audit system, the audit of the Annual Financial Statements, here in particular the independence of the auditor, the services rendered additionally by the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement, and compliance. The audit committee currently consists of Prof. Dr. Ronald Frohne as chairman, Dr. Lutz R. Ristow and Andrea Mäckler. The audit committee meets at least four times in a financial year. For further information see also section 17.6, "*General Information on the Company – Corporate Governance*".

#### **17.4.4 Conflicts of interest**

Some of the members of the Company's Management Board and Supervisory Board currently have or had in the past, either directly or indirectly, business relations with TAG AG or its subsidiaries and affiliates (see the information contained in section 18, "Related Party Transactions"). In negotiation and agreeing on the terms of such business relationships, conflicts of interest could arise between the board members' duties towards the Company on the one hand and their personal interests as business partners of stakeholders in such business partners on the other hand. Some board members also hold, either directly or indirectly, shares in TAG AG (see the information contained in section 19, "*Major Shareholders*") or its subsidiaries. In addition to their functions as members of the Company's Management Board, Mr. Rolf Elgeti, Mr. Griesemann and Dr. Harboe Vaagt also serve on the management board of Bau-Verein GmbH. Mr. Elgeti and Mr. Griesemann are also members of the management board of Colonia Real Estate AG. Dr. Vaagt is also a shareholder in TAG Beteiligungsverwaltungs GmbH, the general partner of TAG KG. Dr. Ristow is chairman of the supervisory board of Colonia Real Estate AG. As a result of these additional management functions or shareholdings, conflicts of interest could arise between their duties towards the Company on the one hand and their duties as board members of other legal entities or their personal interests as shareholders on the other hand. Otherwise, no members of either the Management Board or the Supervisory Board have any potential conflicts of interest between their obligations toward the Company and their private interests or other obligations. Furthermore, no members of either the Management Board or the Supervisory Board have been appointed member of any administrative, management or supervisory body or of senior management pursuant to any agreement or arrangement between the respective board member and any third parties. Nor have the members of the Management Board or Supervisory Board agreed to any lock-up restrictions on the Company's shares they own. No member of the Management Board or Supervisory Board is related to any other members of the Management Board or Supervisory Board.

#### **17.5. Share Capital**

The registered share capital of the Company amounts to €130,737,996.00. It is divided into 130,737,996 no-par value bearer shares, each such no-par value share representing a proportionate amount of the registered share capital (notional interest in the registered share capital) of €1.00. The registered share capital of €130,737,996.00 is fully paid in. Furthermore, conversion rights arising from the convertible bond issued in April 2010 were exercised in the course of 2013, thus creating an additional 173 shares from contingent

capital. All of the Company's 130,738,169 shares are admitted to the Regulated Market (*Regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the Regulated Market with additional post-admission listing obligations (Prime Standard) of the Frankfurt Stock Exchange. Pursuant to the Articles of Association, each no-par value share carries one vote at the General Meeting. The Articles of Association do not provide for any restrictions on voting rights. TAG currently does not hold any treasury shares itself or via third parties.

The Management Board, with the consent of the Supervisory Board, determines the form of the share certificates as well as that of any dividend and renewal coupons. The Company is entitled to issue share certificates made out to the bearer which represent multiple shares (global shares, *Sammelaktien*). Pursuant to the Articles of Association, shareholders are not entitled to receive individual share certificates for their respective shareholdings. The shares are freely transferable.

All of the Company's ordinary bearer shares in the form of no-par value shares are represented by several global share certificates, in some cases also with global dividend coupons, which have been deposited with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany.

#### **17.6. Corporate governance**

The German Corporate Governance Code (the "Code") makes suggestions and recommendations for the management and supervision of German listed companies. The Code was adopted by the Government Commission on the German Corporate Governance Code (*Regierungskommission Deutscher Corporate Governance Kodex*) on 26 February 2002 and since then has been amended several times, most recently on 15 May 2012 with effect as of 15 June 2012. Recommendations are published by the German Federal Ministry of Justice (*Bundesministerium der Justiz*, "BMJ") in the official section of the Federal Gazette (*Bundesanzeiger*).

Pursuant to section 161 of the German Stock Corporation Act (AktG), the management board and the supervisory board of a listed company must declare annually that the Code's recommendations have been and will be complied with, or declare which recommendations have not been or will not be complied with and for what reason. The declaration must be made permanently accessible to the public on the Company's website. There is no duty to comply with the recommendations or suggestions in the Code.

As a listed German stock corporation, TAG AG is required to issue, publish and make permanently accessible such a declaration pursuant to section 161 AktG during of the current financial year.

In February 2013, the Company's Management Board and Supervisory Board most recently issued the following declaration of compliance with the Code in the relevant version at that time pursuant to section 161 AktG as mandated by law:

"The Management and Supervisory Boards of TAG Immobilien AG ("the company" in the following) declare that they have been and are in compliance with the Government Commission "German Code of Corporate Governance" (DCGK) recommendations published by the Federal Ministry of Justice in the official section of the Bundesanzeiger (Federal Gazette) in the version of 26 May 2010 and as amended on 15 May 2012, with the following exceptions:

1. Section 5.4.6 DCGK recommends that chairing of committees is taken into consideration when determining remuneration for Supervisory Board members. The Company has set up an Audit Committee and a Nomination Committee. Since the Company's Articles of Association do not provide for an extra allowance for membership in a committee, the Company cannot follow this recommendation until the Articles of Association's rules regarding the remuneration of Supervisory Board members have been changed by resolution of the Annual General Meeting.

2. The company's group financial statements will not be published within 90 days after the end of the fiscal year (Section 7.1.2 DCGK). In compliance with legal requirements, the group financial statements will be published within the first four months after the end of the financial year, or eight weeks after the end of the quarter. The company's management and supervisory boards feel that bringing the deadlines forward any

further is untenable given the different deadlines and the associated effort and cost.”

With effect as of 10 June 2013, an amended version of the German Corporate Governance Code, dated 13 May 2013, entered into force. As at the date of the Prospectus, the Company remains in compliance with the requirements of the German Corporate Governance Code in its version dated 15 May 2012, as well as in its version dated 13 May 2013 in accordance with the declaration quoted in this section.

#### **17.7. Appropriation of Profits, Dividend Policy**

The amount of dividends distributed to each shareholder correlates to such shareholder’s share in the registered share capital of the Company. The appropriation of net retained profits and the distribution of dividends are resolved by the Company’s Annual General Meeting, held in the subsequent financial year at the proposal of the Management and Supervisory Boards.

Dividends may only be distributed from TAG AG’s net retained profits as reported in the unconsolidated German GAAP annual financial statements. When determining the net retained profits available for distribution, the net profit/loss for the year must be adjusted for profits/losses carried forward from the previous year as well as withdrawals from or transfers to certain reserves. The law requires that certain reserves must be created and such reserves must therefore be deducted from the calculation of the net retained profits available for distribution.

The Company did not pay any dividends for financial years 2009 and 2010. On 14 June 2012, the Annual General Meeting resolved to pay a dividend for financial year 2011 amounting to €19.1 million or €0.20 per share, and on 14 June 2013 the Annual General Meeting resolved to pay a dividend for financial year 2012 amounting to €32.7 million or €0.25 per share.

For financial year 2013 and future financial years, TAG AG aims to pursue a balanced dividend policy, which takes into account both, the interests of shareholders and the general position of the Company. For this reason, TAG AG plans for future financial years to use any profits not only to repay liabilities and finance the development and growth of the Company, as done in the past, but in addition also to make regular dividend payments to the shareholders. This strategy was already implemented with the dividend payment for financial years 2011 and 2012 and will be pursued in the future. The dividend payment for 2012 corresponds to approximately 80% of TAG’s funds from operations (“FFO”) in 2012 (for further information on the way in which the Company calculates its FFO see the description in section 10 “Selected Financial Information”). In the future the Company intends to pay out a large part of its FFO as dividend aiming at a target payout ratio of approximately three quarters of the FFO.

The Company, however, only intends to distribute dividends if the Company’s financial condition and results of operations permit such payments.

#### **17.8. Notices**

Pursuant to the Company’s Articles of Association, its notices are to be published in the Federal Gazette (*Bundesanzeiger*) unless otherwise required by law.

Notices concerning the approval of this Prospectus or supplements to this Prospectus shall be published in accordance with the form of publication specified for this Prospectus, which is publication on the Company’s website (<http://www.tag-ag.com>) and as printed copies made available at the Company’s business offices at Steckelhorn 5, 20457 Hamburg during regular business hours.

#### **17.9. Statutory Auditors**

The Company’s auditor for the financial year 2011 was Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Valentinskamp 70, 20355 Hamburg (“**Nörenberg Schröder**”). Nörenberg Schröder is a member of the German Chamber of Public Accountants (Wirtschaftsprüferkammer) and the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V. - IDW).

The IFRS consolidated financial statements of TAG for the years ending 31 December 2011 were audited by Nörenberg Schröder and received an unqualified auditor's report.

On 14 June 2012, the Annual General Meeting elected KPMG AG Wirtschaftsprüfungsgesellschaft, Ludwig-Erhard-Str. 11-17, 20459 Hamburg ("**KPMG**"), as (i) statutory auditors of the Company's annual financial statements and consolidated financial statements for financial year 2012 and (ii) statutory auditors to perform a review, if necessary, of the abridged financial statements and the interim management report for the first half of 2012. KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (Wirtschaftsprüferkammer) and the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V. - IDW).

The consolidated financial statements of TAG for the year ending 31 December 2012 were audited by KPMG and received an unqualified auditor's report.

## **18. RELATED PARTIES TRANSACTIONS**

TAG AG and its affiliates enter into transactions with related parties from time to time as part of their business operations. In the Company's view, all current legal relationships of this kind have been entered into on terms and conditions equivalent to arm's length business transactions.

### **18.1. Agreements with members of the Management Board and Supervisory Board**

#### ***Loan from Immobilienkontor Leipzig GmbH***

In the past, various companies and persons related to the Company made extensive loans to TAG AG and its affiliates, most of which were repaid in 2006. In financial year 2010, TAG AM had only one loan liability to Immobilienkontor Leipzig GmbH in the amount of €1.5 million including interest. The sole shareholders of Immobilienkontor Leipzig GmbH are the chairman of the Supervisory Board, Dr. Lutz Ristow, and Prof. Dr. Roland Frohne, member of the Supervisory Board, as well as Rolf Hauschildt, member of the Supervisory Board through 14 June 2012. This loan liability has expired on 27 July 2010 by full repayment to Immobilienkontor Leipzig GmbH.

#### ***Guarantees by WH Vermögensverwaltungs GmbH***

WH Vermögensverwaltungs GmbH, Düsseldorf, whose managing director is Mr. Rolf Hauschildt, member of the Supervisory Board of TAG AG through 14 June 2012, provided supplemental collateral free of charge in the form of a guarantee for an overdraft facility which amounted to €5.0 million on 31 March 2013. This is additional collateral; TAG primarily provided its own collateral for the loan.

#### ***Banque Havilland S. A. Luxemburg loan agreement***

Banque Havilland S. A., where Dr. Lutz R. Ristow was a member of the board of directors until April 2011, made a loan of €10.0 million to TAG in December 2009. The loan is for a three-year term beginning 17 December 2009, is subject to 5% interest p.a., and is secured by a pledge of shares and receivables from certain companies of the TAG Group.

#### ***Loan agreements with TAG Beteiligungs-GmbH & Co. KG***

TAG Beteiligungs-GmbH & Co. KG ("TAG KG") holds minor interests about 6% each in various TAG Group companies. Specifically, TAG KG directly holds 5.2% of the shares in TAG Leipzig-Immobilien GmbH, 6.43% of the shares in TAG AM, 5.1% of the shares in TAG Gewerbe, 5.1% of the shares in TAG Potsdam, 5.1% of the shares in TAG Wohnen, as well as 6% of the shares in each of the following: TAG Sachsenimmobilien GmbH, VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, TAG Nordimmobilien S.à r.l., TAG Marzahn-Immobilien GmbH, TAG Chemnitz-Immobilien GmbH, TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH, TAG Wolfsburg-Immobilien GmbH and TAG Spreewaldviertel Immobilien GmbH. TAG KG also indirectly holds 5.04% of the shares in TAG NRW-Immobilien GmbH through its wholly-owned subsidiary TAG Wohnimmobilien Beteiligungs AG & Co. KG; TAG KG acquired the shares in TAG Gewerbe from Bau-Verein GmbH in 2009 for a purchase price of €969 thousand. Further, TAG KG indirectly holds 5.1% of the shares in Bau-Verein GmbH through its wholly-owned subsidiary TAG Wohnimmobilien Beteiligungs AG & Co. KG; TAG Wohnimmobilien Beteiligungs AG & Co. KG acquired the shares in Bau-Verein GmbH from TAG in 2012 for a purchase price of €4.9 million.

As at 31 December 2011, TAG's loan receivables from TAG KG, which were primarily used to acquire the above equity interests, and ongoing business from TAG KG totalled €9.4 million, subject to interest of 6% p.a. As at 31 December 2012, such receivables from TAG KG totalled €30.1 million, and as at 31 March 2013 they totalled €30.6 million.

Mr. Hans-Ulrich Sutter, member of the Management Board of TAG AG and Bau-Verein GmbH through 30 June 2012, Mr. Erhard Flint, member of the Management Boards of TAG AG and Bau-Verein GmbH through 31

March 2009, and Dr. Harboe Vaagt, member of the Management Boards of TAG AG and Bau-Verein GmbH, collectively hold a majority interest in TAG Verwaltungs-GmbH, the general partner of TAG KG.

#### ***Service agreement with Dr. Ristow***

TAG AG and Dr. Lutz R. Ristow, the chairman of its Supervisory Board, entered into a service agreement (*Geschäftsbesorgungsvertrag*) in financial year 2007, which was terminated on 31 August 2011. Based on that agreement, Dr. Lutz R. Ristow received, for services outside the scope of his duties as chairman of the Supervisory Board, fees that were calculated according to daily rates and work done. That amount was €98 thousand in 2010, and €92 thousand in 2011.

#### ***Legal advice from Noerr LLP***

Payments for legal advice and legal services have been made to the firm Noerr LLP, Munich, over the past three financial years. Prof. Dr. Ronald Frohne, a member of the Supervisory Board, is a contract partner of Noerr LLP. The payments were €607 thousand in financial year 2010, €567 thousand in 2011, €1,132 thousand in 2012, and €27 thousand in the period between 1 January 2013 and 31 March 2013.

#### ***Legal advice from WEITNAUER Rechtsanwälte, Wirtschaftsprüfer, Steuerberater Partnerschaft***

Legal advice and legal services have been rendered to TAG by WEITNAUER Rechtsanwälte, Wirtschaftsprüfer, Steuerberater Partnerschaft over the past three financial years. Dr. Philipp K. Wagner, a member of the Supervisory Board since 14 June 2013, is a partner of this firm, and therefore, legal advice and legal services rendered by WEITNAUER Rechtsanwälte, Wirtschaftsprüfer, Steuerberater Partnerschaft, and payments for it, constitute related parties transactions since then.

### **18.2. Transactions with affiliates**

#### **18.2.1 GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG**

Bau-Verein GmbH holds 50% of the participation interest in GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co KG and provided a guarantee to a bank in favour of this company in 2004 which totalled €505 thousand as at 31 December 2011, as at 31 December 2012 and as at 31 March 2013, for which compensation has not yet been agreed.

Finally, there is an overdraft arrangement between Bau-Verein GmbH and GIB which shows the amount of €0.2 thousand in favour of Bau-Verein GmbH on 31 March 2013. The overdraft amount is subject to interest of 6% p.a.

#### **18.2.2 LARUS Asset Management GmbH**

From the viewpoint of TAG, until 30 September 2010 LARUS Asset Management GmbH (“Larus”) was merely an associated company in which TAG AG held 49.81% of the shares. There are current business relations with it in the form of construction management and administrative activities. TAG earned income from cost allocations to Larus in the amount of €51 thousand during the nine-month period ended 30 September 2010. Larus also provided services to TAG, primarily in the areas of real estate and construction management, for which TAG incurred expenses of €1.0 million during the nine-month period ended 30 September 2010.

TAG also had loan receivables from Larus Asset Management GmbH valued at a total of €2.4 million on 30 September 2010 and subject to an interest rate of 2.75% p.a. The loans were due for repayment within 12 months if they were not extended.

TAG AG directly held almost 100% of the shares in Larus Asset Management GmbH since 1 October 2010, so it was from that date consolidated as a group company and no longer considered a related party. In 2011 Larus was merged with the former Colonia Real Estate AG subsidiary Colonia Real Estate Solutions GmbH. The combined entity POLARES Real Estate Asset Management GmbH became a wholly owned subsidiary of Colonia Real Estate AG and was sold to its management team by way of a management buy-out in 2012.

### **18.2.3 ESTAVIS AG**

In financial year 2010, TAG acquired real estate for a purchase price of €10.3 million from ESTAVIS AG. TAG owned 20.03% of the shares in ESTAVIS AG through 1 February 2012 and considered it to be only an affiliate during that time.

Pursuant to the notarised share purchase agreement dated 4 May 2011, Colonia sold its shares in Colonia Residential Sales GmbH to two subsidiaries of ESTAVIS AG (ESTAVIS 32. Wohnen GmbH & Co. KG and ESTAVIS Beteiligungs GmbH & Co. KG) for €2.3 million and €0.2 million, respectively.

During the period from 1 January 2011 through 30 September 2011, Colonia also sold the assets and liabilities of a segment of the fully consolidated Colonia Real Solutions GmbH to a subsidiary of ESTAVIS AG (ESTAVIS 2. Vermögensverwaltungs GmbH), and sold its technical equipment and office furnishings directly to ESTAVIS AG.

TAG AG sold all of its shares in ESTAVIS AG in January 2012, so it is no longer an affiliate of TAG AG.

### **18.3. Business relations with joint ventures**

There have been business relations with DESIGN Bau BV Hamburg GmbH & Co. KG, a subsidiary of TAG AG and DESIGN Bau AG, Kiel, since 2007 in the form of construction management and accounting services. The construction management and accounting services resulted in income of €4 thousand in 2010 and €31 thousand in 2009. Those business relations were terminated on 31 May 2010.

## 19. MAJOR SHAREHOLDERS

The table below lists TAG AG's principal shareholders which, to the best of the Company's knowledge, held more than 3% of TAG AG's share capital as at the date of this Prospectus. The information in the table regarding the respective number of shares is based on notifications received by the Company under the German Securities Trading Act (*Gesetz über den Wertpapierhandel*, "WpHG") and other sources of Company information. The information in the table regarding the percentage of voting rights is recalculated based on the 130,738,169 shares issued by the Company as at the date of this Prospectus.

The table also identifies shareholders who are related parties of the Company. Where applicable, the name of the party to whom the shares must be attributed appears in brackets behind the shareholder's name. (Rounding differences may occur where voting rights are expressed as percentages.)

	Number of shares	Per cent of voting rights
<b>Principal shareholders</b>		
Ruffer LLP	19,605,027	15.00%
Flossbach von Storch SICAV	15,277,210	11.69%
Sun Life Financial, Inc.	13,091,874	10.01%
Taube Hodson Stonex Partners LLP	6,960,665	5.32%
Ameriprise	6,443,427	4.93%
Capita Financial Managers Limited	6,248,934	4.78%
DWS Investment GmbH	5,165,451	3.95%
Total shares held by principal shareholders	72,792,588	55.68%
<b>Shares held in free float</b>	57,945,581	44.32%
<b>Total shares</b>	130,738,169	100%
<b>Shares held by related parties</b>		
Rolf Elgeti (member of the Management Board)	153,000	0.12%
Dr. Harboe Vaagt (member of the Management Board)	2,585	< 0.01%
Georg Griesemann (member of the Management Board)	1,290	< 0.01%
Claudia Hoyer (member of the Management Board)	6,000	< 0.01%
Dr. Lutz R. Ristow (1,400,814 shares held in his own name, plus 479,000 shares held jointly by Dr. Ristow and his wife, Rita Ristow) (member of the Supervisory Board)	1,879,814	1.44%
Prof. Dr. Roland Frohne (member of the Supervisory Board)	309,677	0.24%

The Company is not directly or indirectly owned or controlled by a controlling shareholder. The shares held by the Company's principal shareholders do not entitle them to any special voting rights. The Company is not currently aware of any other shareholders that directly or indirectly hold more than 3% of the voting rights in the Company.

## 20. DESCRIPTION OF OTHER INDEBTEDNESS

TAG uses a large amount of capital to finance its business operations. As at 31 March 2013, its total debt to banks amounted to approx. €2,114.1 million and results from financing arrangements with about 50 German banks. A further major source of financing have been convertible bonds. As at 31 March 2013, liabilities under convertible bonds amounted to €173.7 million.

### 20.1. Bank Loans

TAG 's bank loans are generally entered into in relation to certain properties, i.e., the banks finance the entity that is shown as owner in the Property Register (*Grundbuch*) and primarily secure the loan with the entry of real estate liens in the relevant Property Register. When several properties are being purchased in a single transaction, the acquisition might be financed in combined "packages" (*Paketfinanzierungen*). Based on what are known as broad declarations for the purpose of collateral (*weite Sicherungszweckerklärungen*), customarily used by the banks, the real estate liens that are created generally secure all claims, including future claims, of the respective creditors against the respective borrowers, which means that the real estate that is encumbered as collateral is subject to additional liability resulting from a number of loan obligations (*Mehrfachhaftung*).

Due to the large number of lending banks the following overview of bank loans is not comprehensive and only covers the most significant instruments (with a nominal amount of more than €40 million) as at the date of this Prospectus.

- Under two loan agreements dated 23/25 June 2007 Bayerische HypoVereinsbank AG – now UniCredit Bank AG – granted to TAG Gewerbeimmobilien-Aktiengesellschaft – now TAG Gewerbeimmobilien GmbH ("**TAG Gewerbe**") – several loans which were consolidated into a single loan under a consolidation agreement dated 10 June 2010 with a principal amount of €95 million (the "**Siemens Package Loan**"). The purpose of the Siemens Package Loan was to finance the purchase of properties in the Siemens package (Dynamostrasse 4, Mannheim; Siemensdamm 50, Berlin; St.-Martin-Strasse and Hofmannstrasse in Munich; and Franz-Geuer-Strasse in Cologne). The property Hofmannstraße in Munich was refinanced under the South Package Loan (as defined below) in 2008. The nominal interest rate corresponds to the EURIBOR three-month interest rate plus margin, and the term of the Siemens Package Loan ends on 9 June 2017. The level of the interest rate is hedged with an interest derivative. The Siemens Package Loan is, among other securities, secured by encumbrances on real property and assignments of rent receivables. The covenants of the Siemens Package Loan require compliance with a certain debt service coverage ratio with regard to TAG Gewerbe, i.e., a minimum ratio calculated by dividing the contractually specified net base rent (exclusive of heating) (*Nettokaltemiete*) for certain properties by the debt service that is owed. The Siemens Package Loan has been paid down according to the repayment schedule since March 2011 and was valued at around €89.7 million as at 31 March 2013.
- Under a loan agreement dated 17/26 June 2008, as amended several times with the last amendment dated 14/17 November 2011, with Norddeutsche Landesbank Girozentrale ("**NordLB**"), TAG Gewerbe was granted a loan in the principal amount of €58.8 million to finance what is known as the "Süd" (south) package of TAG Gewerbe (the "**South Package Loan**"). The South Package Loan is, *inter alia*, secured by liens on the Hofmannstrasse property in Munich, the Landshuter Strasse property in Unterschleissheim, and the Bartholomäusstrasse property in Nuremberg. TAG AG has provided to NordLB a letter of patronage dated 7 July 2008, under which it undertakes to procure that TAG Gewerbe is managed in a way and provided with sufficient funds to fulfil all its obligations resulting from the business relationship with NordLB at any time. In addition, the South Package Loan is, among other securities, secured by encumbrances on real property and assignment of rent receivables. The nominal interest rate of the South Package Loan corresponds to the EURIBOR three-month interest plus margin, and the term of the South Package Loan ends on 30 June 2014. The interest rate is also in the amount of about 31% hedged by interest swaps. The covenants of the South Package Loan require (i) TAG AG's equity to amount to (y) at least 25% of the total capital (as defined in the South Package Loan agreement) and (z) at least €180 million in total during the term of the South Package Loan and (ii) the ratio of (y) the total of liabilities to banks and trade payables and (z) the total of investment properties

and land with furnished and unfurnished buildings not to fall below 75%, in each case with regard to TAG's consolidated accounts on 31 December of each financial year and on the last day of each calendar quarter. Under an assumption agreement dated 19/21/29 March 2012 Deutsche Hypothekenbank (Actien-Gesellschaft) assumed the South Package Loan as new lender in replacement of NordLB. The loan has been paid down to around €43.3 million as at 31 March 2013.

- Under a framework loan agreement (real estate) dated 26 May 2011, as amended several times with the last amendment dated 30 November / 13 December 2012, UniCredit Bank AG made available to TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG ("**TAG Stuttgart-Südtor**") a loan in the principal amount of €47 million for long-term financing of the "Stuttgart-Südtor" development project which has been completed (the "**Stuttgart-Südtor Loan**"). TAG AG has granted to UniCredit AG a personal guarantee (*selbstschuldnerische Bürgschaft*) dated 26 May 2011 under which it guarantees the fulfilment of TAG Stuttgart-Südtor's obligations under the Stuttgart-Südtor Loan up to a maximum amount of €17.4 million. The Stuttgart-Südtor Loan is further secured by, among other securities, encumbrances on real property, assignment or rent receivables and account pledges. The nominal interest rate of the Stuttgart-Südtor Loan corresponds to the EURIBOR three-month interest rate plus margin, and the term of the loan ends on 30 June 2016. The interest rate is hedged by an interest derivative. The covenants of the Stuttgart-Südtor Loan require that TAG Stuttgart-Südtor's debt service cover ratio (*Kapitaldeckungsgrad*), i.e. the net profit (determined based on the net cold rent of the property as defined in the loan agreement) divided by TAG Stuttgart-Südtor's capital service obligation (*Kapitaldienst*) (as defined in the loan agreement) accruing in the following twelve months in rolling periods starting 30 June 2013 does not fall short of a value of 1.1 on 30 June and 31 December of each year, respectively. The Stuttgart-Südtor Loan provides for termination rights of the borrower, *inter alia*, in case of (i) TAG Stuttgart-Südtor not fulfilling obligations under agreements with third parties or other obligations towards third parties in the amount of more than €20,000 when due or (ii) borrowers of a loan granted to TAG Stuttgart-Südtor can terminate such loan or request early repayment, in each case provided that the repayment of the Stuttgart Südtor Loan or the fulfilment of an other obligation towards the lender of the Stuttgart Südtor Loan is threatened. The loan has not entered repayment so far. As of 30 June 2013, TAG Stuttgart-Südtor violated a financial covenant of the framework loan agreement and had to deposit approximately €0.6 million as collateral.
- Under two loan agreements dated 22 December 2006 and 14 September 2006, as at last amended on 5 May 2009, between Deutsche Bank AG, London Branch as Lender, Arranger and Agent and Security Trustee, and Colonia Portfolio Berlin GmbH (previously CRE Wohnen Dritte GmbH) as Borrower and CRE Wohnen GmbH as Shareholder and Colonia Real Estate AG as Parent two loans were made in the principal amounts of €67.5 million and €66.56 million, respectively, for long-term financing of various residential properties in Nauen and Berlin-Marzahn (the "**Nauen/Marzahn Financing**"). The loans are, among other securities, secured by encumbrances on real property, account pledges, assignments of receivables and share pledges. Both loans made under the Nauen/Marzahn Financing have fixed interest rates (5.28% and 4.92%) and have terms ending on 20 January 2014. The Nauen/Marzahn Financing provides for termination rights of the Lender, *inter alia*, in case of the Borrower (i) not fulfilling financial obligations towards third parties neither when due nor when an additional payment term set by the relevant creditor has expired or (ii) one of its financial obligations has been declared or becomes due, is recalled or requested as early repayment or (iii) an obligation under a financial obligation has been terminated or suspended by the relevant creditor. They have been paid down since December 2006 and October 2007 by regular quarterly payments and were valued at approximately €65.2 million and approximately €63.1 million as at 31 March 2013.
- Under a term loan agreement dated 14 August 2006 between Quokka Finance plc as issuer, Domus Grundstücksverwaltungsgesellschaft mbH ("**Domus**") and Emersion Grundstücksverwaltungsgesellschaft mbH ("**Emersion**", and together with Domus the "**TAG Quokka Borrowers**"), as well as certain other borrowers, which are not related to Domus and Emersion any more, term loan facilities in the aggregate principal amount of €221.3 million were granted to the TAG Quokka Borrowers for the purpose of

financing the acquisition of real property referred to as the Salzgitter portfolio (the “**Quokka Financing**”). Under the Quokka Financing, approximately €177.1 million were allotted to Emersion and approximately €44.3 million were allotted to Domus. Predominantly due to repayments by Domus, the Quokka Financing valued to approximately €214.0 million as at 31 March 2013. The Quokka Finance is secured by, among other securities, encumbrances on real property, assignments of receivables, account pledges and share and interest pledges. The covenants of the Quokka Financing require that the debt service cover ratio (as defined in the term loan agreement) of each of the TAG Quokka Borrowers does not fall short of 100 per cent. on 1 March, 1 June, 1 September and 1 December of each year. The nominal interest rate for the facilities of the Quokka Financing corresponds to the EURIBOR three-month interest rate plus margin, and the term of the Quokka Financing ends on 1 September 2013. The interest rates were hedged by derivatives. The facility of the Quokka Financing granted to Domus is being paid down in accordance with the repayment schedule and was valued at around €37.5 million as at 31 March 2013; the facility made to Emersion was reduced through sales without repayment to €176.6 million and has not yet otherwise been reduced. TAG plans to refinance its commitments under the Quokka Financing in the near future.

- Under a framework loan agreement (*Rahmenkreditvereinbarung*) dated 23 February 2011, TAG AG as lender granted Colonia as borrower a credit line (*Rahmenkredit*) in the amount of €75 million for the purpose of redeeming and refinancing short- and medium-term liabilities, particularly Colonia’s convertible bonds. Colonia’s liabilities to TAG AG were valued at about €65 million on 30 June 2011. As a result of a capital increase against contributions in kind, which was resolved on 25 August 2011 and registered with the commercial register on 7 November 2011, a material portion of the loan claims of TAG AG against Colonia amounting to some €47 million was contributed to Colonia as a contribution in kind, while TAG received new shares in Colonia in return (a transaction known as a debt-to-equity swap). The loan is secured by a pledge over the shares in Colonia Wohnen GmbH, Köln. TAG AG may request additional collateral from Colonia if the risks increased due to an impairment of the financial situation of Colonia or of the value of the collateral. As at 31 March 2013, 27.2 million were outstanding under this framework loan agreement.
- By a loan agreement dated 23 September 2011 between Deutsche Pfandbriefbank AG as lender and property companies acquired as part of the Theta project (now named TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH, TAG Wolfsburg-Immobilien GmbH) as borrowers, Deutsche Pfandbriefbank AG has granted a loan in the maximum amount of €99.6 million for long-term refinancing of real estate portfolios held by those companies, particularly the repayment of existing liabilities to other banks. The borrowers are jointly liable. The loan is secured by the residential and commercial real estate held by those companies, the interest rate corresponds to the EURIBOR three-month interest plus margin, and the term of the loan will end on 31 December 2016. The interest rate is hedged by derivative financial instruments.

The covenants in this agreement require, among other things, (i) that the LTV of the five property companies must be less than 75,1% and (ii) that the ratio of projected net rental income from charged real estate to the projected debt service, comprising interest payments and scheduled repayments (“debt service coverage”) must be at least 130%. In the event that these covenants are breached all surplus – after payments in accordance with clause 19.2.2 – is transferred to the reserve account on each interest payment date.

Changes in the control of the borrowers require the prior written consent of Deutsche Pfandbriefbank AG. Changes in the control of the borrower without the prior written consent of Deutsche Pfandbriefbank AG would constitute an event of default.

The shares in the borrowers have been pledged in favour of Deutsche Pfandbriefbank AG. In addition, TAG AG has provided to Deutsche Pfandbriefbank AG a hard letter of comfort (*harte Patronatserklärung*) securing possible tax obligations of the borrowers and has assigned certain rights and claims under the investment agreement for the Theta project to Deutsche Pfandbriefbank AG.

The loan agreement is supplemented (*ergänzt*) by Deutsche Pfandbriefbank AG's general terms and conditions, under which Deutsche Pfandbriefbank AG may request to be provided with additional collateral.

After a partial repayment €96.5 million were outstanding under this loan agreement as at 31 March 2013.

- By a master agreement dated 27 June 2012 (the “**Master Agreement**”) between Deutsche Kreditbank AG (“**DKB**”) and companies of the TAG Potsdam sub-group various loan agreements between DKB and companies of the TAG Potsdam sub-group in the aggregate amount of approximately €556.7 million (as at 31 March 2013) have been prolonged and/or refinanced. To the extent the terms of loan agreements secured by liens on properties (*grundbuchlich besichert*) did not already end after 30 April 2022, the Master Agreement extended the term of such loan agreements to 30 April 2022. Pursuant to the Master Agreement, the interest rates for such extended loan agreements are, after expiry of the fixed interest rate (*Zinsbindung*), for the remaining period equal to the interest rate pursuant to the chart for mortgage bonds published by the association of German Pfandbrief Banks (*vdp-Kurve für Hypothekendarlehen*) applicable seven calendar days prior to the expiry of the fixed interest rate plus margin. To the extent the terms of loan agreements, which are not secured by liens on properties (*nicht grundbuchlich besichert*), did not already end after 30 April 2014, the Master Agreement extended the term of such loan agreements to 30 April 2014. Pursuant to the Master Agreement, the interest rates for such extended loan agreements are either (i) the interest rate applicable at the beginning of the prolongation period; (ii) if the remaining period is more than 12 month the 12-months EURIBOR plus margin (calculated seven days prior to the beginning of the prolongation period); or (iii) if the remaining period is less than 12 month the EURIBOR (month or week) corresponding to the remaining period plus margin (calculated seven days prior to the beginning of the prolongation period). In addition, DKB agreed to refinance certain additional loan liabilities of approximately €170 million owed to third party banks in case such third party banks terminate their loan agreements on the basis of change-of-control clauses due to TAG's acquisition of TAG Potsdam.

The Master Agreement provides for the following financial covenants: (i) Each borrower has to provide evidence that it has performed maintenance measures with respect to the lending object (*Beleihungsobjekt*) in the amount of €7 per m<sup>2</sup> of the habitable or useful area in 2012 through 2014 and in the amount of €8 per m<sup>2</sup> of the habitable or useful area from 2015 through the remaining term of the relevant loan agreement; (ii) each borrower undertakes to pay net debt service and to repay shareholder or intercompany loans only after the net debt service on all loan agreements with DKB, all operating costs and other necessary costs; (iii) the LTV must be 82% at year end 2011, 75% at year end 2016, 70% at year end 2019, and 70% at the end of subsequent years; and (iv) the debt service cover ratio (*Kapitaldienstfähigkeit*) needs to increase from 4,6% as at 31 December 2011 to 7,5% as at 31 December 2016 gradually as provided for in the Master Agreement. If these covenants are breached and the breach is not remedied, all proceeds exceeding the net base rent (exclusive of heating) (*Nettokaltmiete*) are transferred to a cash reserve account.

Under the Master Agreement, each borrower assigns to DKB all of its existing and future payment claims arising under lease agreement or – to the extent such claims have been priorly assigned to third parties – all restitution claims against such third parties.

In addition, the Master Agreement contains a change-of-control clause pursuant to which DKB can terminate (i) all loan agreements covered by the Master Agreement in the event of a sale of more than 25% of the shares in TAG Potsdam, or (ii) the loan agreement with the respective TAG Potsdam sub-group company in the event of a sale of more than 25% of the shares in such sub-group company.

The Master Agreement is supplemented by DKB's general terms and conditions, under which DKB may request to be provided with additional collateral.

As at 31 March 2013, €556.7 million were outstanding under the loan agreements between DKB and the TAG Potsdam group companies.

- By a loan agreement dated 10/11 April 2013 between Münchener Hypothekenbank eG (“**MünchenerHyp**”) as lender and TAG Wohnen GmbH as borrower, MünchenerHyp has granted to TAG Wohnen GmbH a loan in the amount of €61.0 million mainly for the refinancing of liabilities in the amount of approximately €57.3 million as well as prepayment of penalties resulting from such refinancings. The repayment of the loan is due on 31 March 2023. The loan is secured by, among other securities, encumbrances on real property and assignments of rent receivables.

During the term of the loan agreement the occupancy ratio (*Vermietungsquote*) should be at least 95% relating to the objects in Dresden and at least 93% relating to all lending objects (*Beleihungsobjekte*) financed by MünchenerHyp. In the event that TAG Wohnen GmbH is in breach of this covenant, all rental income not required for repayment and interest payment as well as operating expenses needs to be transferred to an account pledged in favour of MünchenerHyp until the stipulated occupancy ratio is met again.

As at 31 May 2013, €50 million is outstanding under the loan agreement between MünchenerHyp and TAG Wohnen GmbH. The loan was fully drawn only as at 30 June 2013.

- By a loan agreement dated 21 March 2013 between Landesbank Hessen-Thüringen Girozentrale (“**Helaba**”) as lender and Colonia Portfolio Berlin GmbH as borrower, Helaba has made available to Colonia Portfolio Berlin GmbH a loan in the maximum amount of €70.0 million for the purpose of refinancing existing liabilities in the amount of approximately €67.0 million under a financing loan made to Colonia Portfolio Berlin GmbH by Deutsche Bank AG and of equity used for capital expenditures in an amount of approximately €3.0 million. The loan is secured by, among other securities, encumbrances on real property, account pledges, abstract acknowledgement of indebtedness and assignments or receivables.

Helaba is entitled to terminate that loan agreement if a change of control in Colonia Portfolio Berlin GmbH occurs without Helaba’s prior consent and the repayment of the loan appears to be jeopardised. Although the loan agreement does not provide for an explicit recourse on the borrower’s shareholders, it is stipulated that the loan has been granted against the background and relying upon the fact that Colonia Portfolio Berlin GmbH’s shareholders will provide Colonia Portfolio Berlin GmbH with the funding required to meet its obligations under the loan agreement.

The loan agreement provides for a cross default provision pursuant to which an event of default under the loan agreement occurs if (i) financial indebtedness of Colonia Portfolio Berlin GmbH which does not arise under the loan agreement is terminated, accelerated or not paid or (ii) any creditor is entitled to accelerate a financial indebtedness of Colonia Portfolio Berlin GmbH prior to its due date or to demand payment of a financial indebtedness of Colonia Portfolio Berlin GmbH or (iii) loan commitment (*Bereitstellung*) is terminated or suspended by any creditor of Colonia Portfolio Berlin GmbH.

During the term of the loan agreement a debt service cover ratio, being the ratio between the anticipated net rental income (*voraussichtliche Netto-Mieteinnahmen*) and the anticipated debt service (*voraussichtlicher Kapitaldienst*, being the sum of the anticipated interest service (*voraussichtlicher Zinsdienst*) and the scheduled principal payment (*Regeltilgung*)) of 120% has to be met. The LTV must be not more than 70% in the first two years after disbursement, not more than 65% in third and fourth years after disbursement and not more than 60% as of the fifth year after disbursement. In the event that one or more of such financial covenants are breached on specific dates, (i) payments to the reserve account need to be made, (ii) the right of withdrawal (*Verfügungsbefugnis*) regarding the rent account will be revoked and – if the cure period has elapsed – Helaba may transfer the balance on the rent account to the reserve account, and (iii) amounts remaining on the rent account – after certain payments, in particular for operating expenses, fees, interest payments, repayments, have been made – have to be transferred to the reserve account. The funds on the reserve account may be used for a prepayment if covenants have been breached on two subsequent calculation dates.

The loan agreement is supplemented by Helaba's general terms and conditions, under which Helaba may request to be provided with additional collateral.

The loan agreement only became effective as of 1 July 2013 therefore no drawdown under the loan agreement has been made so far.

- By a loan agreement dated 13 June 2013 between Helaba as lender and TAG Wohnen GmbH as borrower, Helaba has granted to TAG Wohnen GmbH a loan in the maximum amount of €75 million for the repayment of existing indebtedness in the amount of approximately €45 million as well as for the refinancing of equity. The repayment of the loan is due on 29 June 2018. The interest rate is fixed until 29 June 2018. The loan is secured by, among other securities, encumbrances on real property, abstract acknowledgements of indebtedness, account pledges and assignments of receivables.

Helaba is entitled to terminate that loan agreement if a change of control in TAG Wohnen GmbH occurs without Helaba's prior consent and the repayment of the loan appears to be jeopardised. Although the loan agreement does not provide for an explicit recourse on the borrower's shareholders, it is stipulated that the loan has been granted against the background and relying upon the fact that TAG Wohnen GmbH's shareholders will provide TAG Wohnen GmbH with the funding required to meet its obligations under the loan agreement.

TAG Wohnen GmbH has to apply an amount of at least €5.50 per m<sup>2</sup> of habitable surface per year to maintenance and investments until 31 December 2017. During the term of the loan agreement a debt service cover ratio, being the ratio between the anticipated net rental income (*voraussichtliche Netto-Mieteinnahmen*) and the anticipated debt service (*voraussichtlicher Kapitaldienst*, being the sum of the anticipated interest payments and the scheduled principal payment (*Regeltilgung*)) of at least 165% has to be met. The loan to value must be not more than 65% during the term of the loan. In the event that one or more of the financial covenants are breached on specific dates, (i) payments to the reserve account need to be made, (ii) the power of disposition (*Verfügungsbefugnis*) regarding the rent account will be revoked and – if the cure period has elapsed – Helaba may transfer the balance on the rent account to the reserve account, and (iii) amounts remaining on the rent account – after certain payments, in particular for operating expenses, fees, interest payments, repayments, have been made – have to be transferred to the reserve account. The funds on the reserve account may be used for a prepayment if covenants have been breached on two subsequent calculation dates. If the DSCR is below 120% of the LVT exceeds 75%, Helaba is entitled to terminate the loan.

The loan agreement provides for a cross default provision pursuant to which an event of default under the loan agreement occurs if (i) financial indebtedness of TAG Wohnen GmbH which does not arise under the loan agreement is terminated, accelerated or not paid or (ii) any creditor is entitled to accelerate a financial indebtedness of TAG Wohnen GmbH prior to its due date or to demand payment of a financial indebtedness of TAG Wohnen GmbH or (iii) loan commitment (*Bereitstellung*) is terminated or suspended by any creditor of TAG Wohnen GmbH.

The loan agreement is supplemented by Helaba's general terms and conditions, under which Helaba may request to be provided with additional collateral.

- By a loan agreement dated 26 June 2013 between Deutsche Pfandbriefbank AG ("**pbb**") as lender and TAG Wohnen GmbH as borrower, pbb has granted to TAG Wohnen GmbH a loan in the amount of €107.8 million. The purpose of the loan is the partial refinancing of the purchase of the shares in TAG Wohnen GmbH and the partial (re)financing of the lending objects. The loan has a five year term. TAG Wohnen GmbH fixed the interest rate for 85% of the loan amount and kept the remaining 15% on a variable basis.

The loan is secured by, besides, among other securities, encumbrances on real property, account pledges and assignments of receivables, a hard letter of comfort (*harte Patronatserklärung*) by the Company in a maximum amount of €10 million for all obligations under the loan agreement, all claims of the Federal

Republic of Germany in connection with the regulations relating to the sale of properties on the territory of the former GDR at reduced prices (*Verbilligungsrichtlinien*) and cost incurred due to the restructuring.

The loan agreement provides for several undertakings during the term of the loan, in particular a debt service coverage of at least 160% has to be met (being the ratio of the anticipated net rental income and the anticipated debt service). The loan to value should not exceed (i) 73% for the period from 26 June 2013 to 25 June 2015, (ii) 70% from 26 June 2015 to 25 June 2017 and (iii) 67% from 26 June 2017 to the last repayment date. TAG Wohnen GmbH has to apply an amount of at least €8.50/m<sup>2</sup> of the rentable surface per year to the maintenance of the lending objects. If the borrower is in breach of an obligation under the loan agreement, the amounts on the rent account are transferred to the reserve account ("cash trap"). pbb is entitled to terminate the loan if the debt service coverage is below 140%, the loan to value is more than 77% (26 June 2013 to 25 June 2015), 74% (26 June 2015 to 25 June 2017) and 71% (26 June 2017 to the last repayment date) or the debt to equity ratio exceeds 9.5:1 and such ratios are not re-established.

A change of control in TAG Wohnen GmbH requires the prior written consent of pbb. A change of control in TAG Wohnen GmbH without pbb's prior consent constitutes an event of default.

The loan agreement is supplemented by pbb's general terms and conditions, under which pbb may request to be provided with additional collateral.

## 20.2. Convertible bonds

As of the date of this Prospectus, the following convertible bonds issued by TAG AG are outstanding:

- ***Convertible Bond May 2010***

On 7 May 2010, TAG AG issued a €30 million convertible bond to shareholders, who had exercised their subscription rights, and other investors (the "**Convertible Bond May 2010**"). The Convertible Bond May 2010 bears interest at a rate of 6.375%, which is paid annually on 13 May of each calendar year, and becomes due for repayment on 13 May 2015. The initial conversion price amounted to €5.47 per share. After adjustments due to capital measures of TAG AG and payments of dividends by TAG AG, it amounted to €5.0263 as of the date of this Prospectus. Each note of the Convertible Bond May 2010 carries a conversion right into ordinary bearer shares of TAG AG, which can be exercised on the third business day after TAG AG's AGM and on the third business day after the day of the publication of the quarterly report for the third quarter of each financial year and, in each case, during the following 14 business days thereafter. TAG AG has the right to demand early redemption if the aggregate principal amount of notes outstanding falls below 20% of the initial total principal amount. The terms and conditions provide for market standard dilution adjustments including adjustments for dividend payments as well as in case of a change in control. The obligations under the convertible bonds are unsecured and rank *pari passu* with all other unsecured and unsubordinated obligations of TAG AG.

- ***Convertible Bond December 2010***

On 7 December 2010, TAG AG issued a €66.6 million convertible bond to national and international institutional investors outside the USA (the "**Convertible Bond December 2010**"). The Convertible Bond December 2010 bears interest at a rate of 6.5%, which is paid annually on 10 December of each calendar year, and becomes due for repayment on 10 December 2015. The initial conversion price amounted to €7.40 per share. After adjustments due to capital measures of TAG AG and payments of dividends by TAG AG, it amounted to €6.9289 as of the date of this Prospectus. Each note of the Convertible Bond December 2010 carries a conversion right into ordinary bearer shares of TAG AG, which can be exercised, subject to certain excluded periods, until the tenth business day prior to the repayment date. The issuer has a right to demand early redemption if the aggregate principal amount of notes outstanding falls below 20% of the initial total principal amount. The terms and conditions provide for market standard dilution adjustments including adjustments for dividend payments as well as in case

of a change in control. The obligations under the convertible bonds are unsecured and rank pari passu with all other unsecured and unsubordinated obligations of TAG AG.

- ***Convertible Bond June 2012***

On 7 June 2012, TAG AG issued a €85.3 million convertible bond to national and international institutional investors outside the USA (the “**Convertible Bond June 2012**”). The Convertible Bond June 2012 bears interest at a rate of 5.5%, which is paid annually on 28 June of each calendar year and becomes due for repayment on 28 June 2019. The initial conversion price amounted to €8.8483 per share. After adjustments due to capital measures of TAG AG and payments of dividends by TAG AG, it amounted to €8.5132 as of the date of this Prospectus. Each note of the Convertible Bond June 2012 carries a conversion right into ordinary bearer shares of TAG AG which can be exercised, subject to certain excluded periods, until the tenth business day prior to the repayment date. The TAG AG has a right to demand early redemption if the aggregate principal amount of notes outstanding falls below 20% of the initial total principal amount. The terms and conditions provide for market standard dilution adjustments including adjustments for dividend payments as well as in case of a change in control. The obligations under the convertible bonds are unsecured and rank pari passu with all other unsecured and unsubordinated obligations of TAG AG.

The Company intends to use significant parts of the net proceeds from the sale of the Notes for the repurchase of the outstanding convertible bonds, the interest rate of which exceeds the interest rate of the Notes.

## 21. DESCRIPTION OF THE NOTES

### General

TAG Immobilien AG (the “**Issuer**”) will issue €200,000,000 in aggregate principal amount of ●% senior notes due 2018 (the “**Notes**”) under an indenture expected to be dated on or about 7 August 2013 (the “**Indenture**”) between the Issuer and Deutsche Trustee Company Limited, London, United Kingdom, as trustee (the “**Trustee**”).

Unless the context requires otherwise, references in this “*Description of the Notes*” to the Notes include any Additional Notes (as defined below) that may be issued from time to time. The terms of the Notes include those set forth in the Indenture. The Indenture is not required to be nor will it be qualified under the U.S. Trust Indenture Act of 1939, as amended (the “**Trust Indenture Act**”) and will not incorporate or include any of the provisions of the Trust Indenture Act.

The following description is a summary of the material provisions of the Indenture and the Notes. It does not restate the Indenture in its entirety and where reference is made to particular provisions of the Indenture, such provisions, including the definitions of certain terms, are qualified in their entirety by reference to all of the provisions of the Notes and the Indenture. You should read the Indenture because it contains additional information, because it and not this description defines your rights as a holder of the Notes (each, a “**Holder**” and collectively, the “**Holders**”) and because each Holder is deemed to have notice of the provisions therein. Copies of the Indenture and the form of Note are available as set forth below under “—*Additional information.*”

Holders can find definitions of certain terms used in this Description of the Notes under “—*Certain definitions.*” Certain defined terms used in this description but not defined below under “—*Certain definitions*” have the meanings assigned to them in the Indenture. However, in this description, the term “**Issuer**” refers only to TAG Immobilien AG and not to any of its Subsidiaries.

The registered Holder will be treated as the owner of a Note for all purposes. Only registered Holders will have rights under the Indenture, including, without limitation, with respect to enforcement and the pursuit of other remedies. The Notes will not be registered under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”), and will therefore be subject to certain transfer restrictions. The Notes will not be offered, sold or directed into the United States or to, for the account of benefit of, U.S. persons.

The Notes will be the Issuer’s direct, unsecured obligations and will rank *pari passu* with all of its other unsecured unsecured indebtedness from time to time outstanding. As of 31 March 2013, on a *pro forma* basis adjusted to give effect to the issuance of the Notes, the Issuer had outstanding €378 million aggregate principal amount of consolidated unsecured unsecured indebtedness (assuming a aggregate principal amount of the Notes of €200 million) and €2,114 million aggregate principal amount of secured indebtedness. The Notes will be effectively subordinated to all of the Issuer’s existing and future secured indebtedness, if any, to the extent of the collateral securing such indebtedness. Subject to certain limitations set forth in the Indenture, and as described under “*Certain Covenants*” below, the Indenture will permit the Issuer and its Subsidiaries to incur additional secured and unsecured indebtedness. The Notes are not guaranteed by any Subsidiary of the Issuer or any other Person.

### Principal, maturity and interest

Following the Issue Date, the Issuer may issue additional Notes (“**Additional Notes**”) under the Indenture from time to time after this Offer. As far as legally required, in such case a new securities prospectus will be published. The Notes may be issued in one or more series under the Indenture. Any issuance of Additional Notes is subject to all of the covenants in the Indenture, see “—*Certain covenants.*” The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase, except as otherwise provided in the Indenture.

The Issuer will issue Notes in minimum denominations of €1,000. The Notes will mature on 7 August 2018 unless redeemed prior thereto as described herein.

Interest on the Notes will accrue from 7 August 2013 (i.e. the Issue Date) at the rate of ●% per annum. The interest on the Notes will be due and payable in euro semi-annually in arrears on 7 February and 7 August of each year, commencing on 7 February 2014. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

#### ***Payments on the Notes***

Principal, premium, if any, and interest, if any, on the Global Notes (as defined below) will be payable and the Global Notes may be exchanged and transferred, at the corporate trust office or agency of the Paying Agent (as defined below) in London and Frankfurt, respectively, except that, at the option of the Issuer, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register. Payments on the Global Notes will be made to the common depository whose nominee is the registered holder of the Global Notes.

The Issuer will pay interest on the Notes to Persons who are registered Holders at the close of business on the record date immediately preceding the interest payment date for such interest. The Holders must surrender their Notes to a Paying Agent to collect principal payments. If any payment with respect to the Notes is due on a day which is not a Business Day, then the payment need not be made on such date, but may be made on the next succeeding Business Day, and no additional interest shall accrue.

#### **Paying Agent and Registrar for the Notes**

The Issuer will maintain one or more paying agents (each, a “**Paying Agent**”) for the Notes in each of (i) the City of London and (ii) Germany, for so long as the Notes are included in trading on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange. The Issuer will undertake to maintain a Paying Agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other directive implementing the conclusions of the ECOFIN Council meeting on 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such directive. The initial Paying Agent will be Deutsche Bank Aktiengesellschaft, Große Gallusstraße 10-14, 60311 Frankfurt am Main, Germany.

The Issuer will also maintain one or more registrars (each, a “**Registrar**”) with an office in Germany. The initial Registrar will be Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg. The Issuer will also maintain a transfer agent (“**Transfer Agent**”) in Germany. The initial Transfer Agent will be Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg. The Registrar and the Transfer Agent acting as agent of the Issuer solely for this purpose will maintain a register (the “**Register**”) reflecting ownership of Definitive Registered Notes (as defined below) outstanding from time to time and will make payments on and facilitate transfer of Definitive Registered Notes on behalf of the Issuer and a copy of the Register will be sent to the Issuer on the Issue Date and after any change to the Register made by the Registrar, with such copy to be held by the Issuer and at its registered office. In case of discrepancies between the Register and the register held by the Issuer at its registered office, the latter will prevail for purposes of German law. See “*Book Entry, Delivery and Form.*”

The Issuer may change the Paying Agents, the Registrar or the Transfer Agent without prior notice to the Holders. For so long as the Notes are included in trading on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange and the rules of the Frankfurt Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or Transfer Agent in the Federal Gazette (*Bundesanzeiger*) or a daily newspaper having a general circulation in Germany or, in lieu thereof, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and the Frankfurt Stock Exchange ([www.boerse-frankfurt.de](http://www.boerse-frankfurt.de)).

If the Issuer fails to appoint or maintain another entity as Paying Agent, Registrar or Transfer Agent, the Trustee', acting as agent of the Issuer solely for this purpose, shall act as such. The Issuer may act as Registrar.

#### **Transfer and exchange**

The Notes will be initially issued in the form of registered notes in global form, without interest coupons (the “**Global Notes**”).

The Global Notes representing the Notes will, on the Issue Date, be deposited with, and registered in the name of, the nominee of the depository for the account of Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream**”).

Ownership of interests in the Global Notes (the “**Book-Entry Interests**”) will be limited to persons that have accounts with Euroclear or Clearstream or Persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer described more fully under “*Transfer restrictions.*” In addition, transfers of Book-Entry Interests between participants in Euroclear or Clearstream will be effected by Euroclear or Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream and their respective participants.

If definitive registered Notes in certificated form (“**Definitive Registered Notes**”) are issued, they will be issued only in minimum denominations of €1,000 upon receipt by the Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant that owns the relevant Book-Entry Interests.

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €1,000, to persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents to the Registrar, furnish information regarding the account of the transferee at Euroclear or Clearstream, where appropriate, furnish certain certificates and opinions and pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer or exchange; provided that if the Issuer is a party to the transfer or exchange, the Holder will not be required to pay such Taxes.

Notwithstanding the foregoing, the Issuer is not required to register the transfer of any Definitive Registered Notes:

- (1) for a period of 15 days prior to any date fixed for the redemption of the Notes;
- (2) for a period of 15 days prior to the record date with respect to any interest payment date; or
- (3) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer.

#### **Additional Amounts**

All payments made by or on behalf of the Issuer under or with respect to the Notes will be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of (1) any jurisdiction in which the Issuer is then incorporated or organised, engaged in business for tax purposes or otherwise resident for tax purposes or any political subdivision thereof or therein or (2) any jurisdiction of any Paying Agent or any political subdivision thereof or therein (each, a “**Tax Jurisdiction**”) will at any time be required to be made from any payments made by or on behalf of the Issuer under or with respect to the Notes, including payments of principal, redemption price, purchase price, interest or premium, the Issuer will pay such additional amounts (the “**Additional Amounts**”) as may be necessary in order that the net amounts received in respect of such payments by each Holder after such withholding, deduction or imposition (including any such withholding, deduction or imposition from such Additional Amounts) will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding, deduction or imposition; provided, however, that no Additional Amounts will be payable with respect to:

- (1) any Taxes, to the extent such Taxes would not have been imposed but for the existence of any present or former connection between the Holder or the beneficial owner of the Notes (or between a fiduciary, settlor, beneficiary, partner of, member or shareholder of, or possessor of a power over, the relevant Holder, if the relevant Holder is an estate, trust, nominee, partnership, limited liability company or corporation) and the relevant Tax Jurisdiction (including being or having been a citizen, resident, or national thereof or being or having been pre-

sent or engaged in a trade or business therein or having or having had a permanent establishment therein), but excluding any connection arising merely from the holding of such Note, the exercise or enforcement of rights under such Note or the receipt of any payments in respect of such Note;

- (2) any Taxes, to the extent such Taxes were imposed as a result of the presentation of a Note for payment (where Notes are in the form of Definitive Registered Notes and presentation is required) on a day more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);
- (3) any estate, inheritance, gift, sales, excise, transfer, personal property or similar Taxes;
- (4) any Taxes withheld, deducted or imposed on a payment to an individual or a “residual entity” (as interpreted within the context of the European Council Directive 2003/48/EC) that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting on 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced, in order to conform to, such directive;
- (5) Taxes imposed on or with respect to a payment made to a Holder or beneficial owner of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union;
- (6) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes;
- (7) any Taxes to the extent such Taxes would not be imposed or withheld but for the failure of the Holder or beneficial owner of Notes (including, for these purposes, any financial institution through which the Holder or beneficial owner holds the Notes or through which payment on the Notes is made), following a written request by or on behalf of the Issuer or a Paying Agent addressed to the Holder or beneficial owner (and made at a time that would enable the Holder or beneficial owner acting reasonably to comply with that request, and in all events, at least 30 days before any withholding or deduction would be required), to comply with any certification, identification, information or other reporting requirement whether required by statute, treaty, regulation or administrative practice of a Tax Jurisdiction, that is a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Tax Jurisdiction (including, without limitation, a certification that the Holder or beneficial owner is not resident in the Tax Jurisdiction), but in each case, only to the extent the Holder or beneficial owner is legally entitled to provide such certification, information or documentation;
- (8) any Taxes to the extent such Taxes would not be imposed or withheld but for the application of section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), any successor provision thereto or any current or future Treasury regulations or other official interpretations thereof, any agreement entered into pursuant to Section 1471 (b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code or any agreement entered into pursuant to the Code;
- (9) any Taxes imposed on or with respect to any payment by the Issuer to the Holder if such Holder is a fiduciary or partnership or any person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had such Holder been the sole beneficial owner of such Note; or
- (10) any combination of items (1) through (9) above.

In addition to the foregoing, the Issuer will also pay and indemnify the Holder for any taxes, charges or similar levies which are levied by any Tax Jurisdiction on the execution, delivery, issuance, registration or transfer (other than a transfer of the Notes after this Offer) of any of the Notes, the Indenture or any other document referred to therein, and any taxes, charges or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of any of the Notes.

If the Issuer becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes, the Issuer will deliver to the Trustee and the Paying Agents on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 45 days prior to that payment date, in which case the Issuer shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information necessary to enable the Paying Agents to pay such Additional Amounts to Holders on the relevant payment date. The Issuer will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts. The Trustee and the Paying Agents shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

The Issuer will make all withholdings and deductions required by law and will timely remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Issuer will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Issuer will furnish to the Trustee (or to a Holder upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Issuer or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee or the Holder) by such entity.

Whenever in the Indenture or in this "*Description of the Notes*" there is mentioned, in any context, the payment of amounts of principal, interest or any other amount payable under, or with respect to, any of the Notes, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination, defeasance or discharge of the Indenture, any transfer by a Holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Issuer is incorporated, engaged in business for tax purposes or otherwise resident for tax purposes or any jurisdiction from or through which such Person makes any payment on the Notes and any department or political subdivision thereof or therein.

### **Redemption for changes in taxes**

The Issuer may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the Holders (which notice will be irrevocable and given in accordance with the procedures described in "*—Selection and notice*"), at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a "**Tax Redemption Date**") and all Additional Amounts (if any) then due or which will become due by the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Issuer is or would be required to pay Additional Amounts and the Issuer cannot avoid any such payment obligation by taking reasonable measures available, and the requirement arises as a result of:

- (1) any amendment to, or change in, the laws, treaties or any regulations or rulings promulgated thereunder of a relevant Tax Jurisdiction which change or amendment has not been publicly announced before and which becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date); or
- (2) any amendment to, or change in, an official written interpretation or application of such laws, treaties, regulations or rulings (including by virtue of a holding, judgment, order by a court of competent jurisdiction or a change in published administrative practice) which amendment or change has not been publicly announced before and which becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date) (each of the foregoing clauses (1) and (2), a "**Change in Tax Law**").

The Issuer will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Issuer would be obligated to make such payment or withholding if a payment in respect of the Notes were then due, and the

obligation to pay Additional Amounts must be in effect at the time such notice is given. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an opinion of independent tax counsel (the choice of such counsel to be subject to the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed)) to the effect that there has been such Change in Tax Law which would entitle the Issuer to redeem the Notes hereunder. In addition, before the Issuer publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee an Officer's Certificate to the effect that it cannot avoid its obligation to pay Additional Amounts by the Issuer taking reasonable measures available to it.

The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders.

### **Mandatory redemption**

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

### **Change of Control**

If a Change of Control occurs, each Holder will have the right to require the Issuer to repurchase all or any part (in denominations of €1,000) of that Holder's Notes pursuant to an offer on the terms set forth in the Indenture. In the Change of Control Offer, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes repurchased to the date of purchase (the "**Change of Control Payment**"), subject to the rights of Holders on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will deliver a notice in accordance with the procedures described under "*—Selection and Notice,*" stating that a Change of Control Offer is being made and offering to repurchase Notes on the date (the "**Change of Control Payment Date**") specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed or delivered, pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply with any applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Issuer will comply with any applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the Paying Agents an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The Paying Agents will as soon as reasonably practicable mail (or cause to be delivered) to each Holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee (or its authenticating agent) will as soon as reasonably practicable authenticate and mail (or cause to be transferred by book-entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the

Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The Issuer's ability to repurchase the Notes pursuant to the Change of Control Offer may be limited by a number of factors. The ability of the Issuer to pay cash to the Holders following the occurrence of a Change of Control may be limited by then existing financial resources of the Issuer, and sufficient funds may not be available when necessary to make any required repurchases. The Issuer expects that it would require third party financing to make an offer to repurchase the Notes upon a Change of Control, and it may not be able to obtain such financing. Any failure by the Issuer to offer to purchase Notes would constitute a Default under the Indenture. Please see "*Risk factors—Risks related to the Notes—Although the occurrence of specific change of control events will permit Holders to require redemption or repurchase of the Notes, the Issuer may not be able to redeem or repurchase such Notes.*"

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of TAG taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder to require the Issuer to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Issuer and its Subsidiaries taken as a whole to another Person or group may be uncertain.

The provisions under the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the consent of the Holders of a majority in principal amount of the Notes prior to the occurrence of the Change of Control.

If and for so long as the Notes are included in trading on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange and the rules of the Frankfurt Stock Exchange so require, the Issuer will publish a public announcement with respect to the results of any Change of Control Offer in the Federal Gazette (*Bundesanzeiger*) or a daily newspaper having a general circulation in Germany or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and the Frankfurt Stock Exchange ([www.boerse-frankfurt.de](http://www.boerse-frankfurt.de)).

#### **Selection and notice**

Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes called for redemption.

Notwithstanding the previous paragraph, for Notes that are represented by Global Notes held on behalf of Euroclear and/or Clearstream, notices required under the Indenture to be provided to Holders may be given by delivery of the relevant notices to Euroclear and/or Clearstream for communication in accordance with their policies and procedures, in lieu of a mailing. So long as the Notes are included in trading on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange and the rules of the Frankfurt Stock Exchange so require, any such notice to the Holders of the relevant Notes shall also be published in the Federal Gazette (*Bundesanzeiger*) or a daily newspaper having a general circulation in Germany or in lieu thereof, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and the Frankfurt Stock Exchange ([www.boerse-frankfurt.de](http://www.boerse-frankfurt.de)).

## **Certain Covenants**

### ***Indebtedness***

The Issuer will not permit Indebtedness of the Issuer and its Subsidiaries on a consolidated basis as of any Test Date to exceed 65% of Consolidated Total Assets as of such Test Date.

### ***Debt Service Test***

In addition to the preceding covenant in respect of Indebtedness relative to Consolidated Total Assets, the Issuer will not, and will not permit any of its Subsidiaries to, incur any Indebtedness, other than Intercompany Indebtedness and guarantees of Indebtedness incurred by the Issuer or any of its Subsidiaries in accordance with the Indenture, if the ratio of Adjusted EBITDA to Consolidated Interest Expense for the period consisting of the four consecutive fiscal quarters most recently ended prior to the date on which the additional Indebtedness is to be incurred shall have been less than 1.4 to 1.0, if such incurrence occurs on or prior to December 31, 2014, or 1.6 to 1.0 if such incurrence occurs on or after January 1, 2015 and on or prior to December 31, 2015 or 1.8 to 1.0 if such incurrence occurs on or after January 1, 2016, in any case, on a pro forma basis after giving effect to the incurrence of that Indebtedness and the application of the proceeds therefrom, and calculated on the basis of the following assumptions:

- such Indebtedness and any other Indebtedness incurred by the Issuer and its Subsidiaries since the first day of the relevant four-quarter period and the application of the proceeds therefrom, including to refinance other Indebtedness, had occurred on the first day of such period;
- the repayment or retirement of any Indebtedness (other than Indebtedness repaid or retired with the proceeds of any other Indebtedness, which repayment or retirement shall be calculated pursuant to the preceding bullet and not this bullet) by the Issuer and its Subsidiaries since the first day of the relevant four-quarter period had been repaid or retired on the first day of such period (except that, in making such computation, the amount of Indebtedness under any revolving credit facility shall be computed based upon the average daily balance of such Indebtedness during such period);
- in the case of Acquired Indebtedness or Indebtedness incurred in connection with any acquisition since the first day of the relevant four-quarter period, the related acquisition had occurred as of the first day of such period with the appropriate adjustments with respect to such acquisition being included in such pro forma calculation; and
- in the case of any acquisition or disposition of any asset or group of assets or the placement of any assets in service or removal of any assets from service by the Issuer and any of its Subsidiaries from the first day of the relevant four-quarter period to the date of determination, including, without limitation, by merger, or stock or asset purchase or sale, the acquisition, disposition, placement in service or removal from service had occurred as of the first day of such period with appropriate adjustments with respect to the acquisition, disposition, placement in service or removal from service being included in that pro forma calculation.

### ***Negative Pledge***

So long as any Note remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Subsidiaries shall, create or permit to subsist any Lien upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness of the Issuer or a Subsidiary of the Issuer or Guarantee given by the Issuer or a Subsidiary of the Issuer in respect of Relevant Indebtedness without at the same time or prior thereto securing the Notes equally and ratably therewith.

### ***Restrictions on Mergers, Consolidations and Sales of Substantially all Assets***

The Issuer covenants in the Indenture, for the benefit of the Holders, that it will not consolidate with or merge into any other Person, or sell, convey, transfer or lease all or substantially all of the Issuer's assets to any other Person unless:

- the successor Person is a Person organised under the laws of any member state of the Pre-Expansion European Union, Switzerland, the United States of America, any State thereof or the District of Columbia which assumes its obligations in the Notes and under the Indenture; and
- after giving effect to such transaction, no default or event of default under the Indenture has occurred or is continuing.

Upon compliance with these provisions by a successor Person in connection with a consolidation with or merger of the Issuer into, or sale, conveyance, transfer or lease to, such successor Person, the Issuer (except in the case of a lease) would be relieved of its obligations under the Indenture and the Notes.

Notwithstanding the foregoing, the Issuer need not comply with the provision described in the second bullet point of the first paragraph under “—*Restrictions on Mergers, Consolidations and Sales of Substantially all Assets*” in connection with (i) a sale, conveyance, transfer or lease between or among the Issuer and any Wholly Owned Subsidiaries or (ii) any merger of the Issuer with or into any Wholly Owned Subsidiary or (iii) a merger of the Issuer with or into any of its affiliates incorporated or organised solely for the purpose of the Issuer reincorporating or reorganizing in another jurisdiction.

### **Reports**

For so long as the Notes are outstanding, to the extent the shares of the Issuer are no longer listed on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and the sub-segment thereof with further post-admission obligations (Prime Standard) (as may be modified from time to time, the then “Current Reporting Standards”) or any other EU regulated market such that the Issuer continues to be subject to disclosure obligations substantially the same, in terms of timing and content, as the Current Reporting Standards, the Issuer will furnish to the Trustee in electronic form, annual and interim reports as if it were still subject to the Current Reporting Standards.

The Issuer will also make available copies of all reports required by the first paragraph of this reporting covenant (i) on the Issuer’s website; and (ii) if and so long as the Notes are included in trading on Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange and the rules and regulations of the Frankfurt Stock Exchange so require, at the specified office of the Paying Agent in Germany or to the extent and in the manner required by such rules, post such reports on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and the Frankfurt Stock Exchange ([www.boerse-frankfurt.de](http://www.boerse-frankfurt.de)).

### **Maintenance of listing**

The Issuer will use its reasonable best efforts to obtain and maintain the listing of the Notes on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange for so long as such Notes are outstanding; provided that if the Issuer is unable to obtain listing of the Notes on the Frankfurt Stock Exchange or if at any time the Issuer determines that it will not maintain such listing, it will use its reasonable best efforts to obtain and maintain a listing of such Notes on another recognised stock exchange.

### **Lines of business**

The Issuer will not, and will not permit any of its Subsidiaries to, engage in any business other than a Permitted Business, except to such extent as would not be material to the Issuer and its Subsidiaries, taken as a whole.

### **Payments for consent**

The Issuer covenants in the Indenture that it will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent, waiver or amendment of any of the terms of the provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. Notwithstanding the foregoing, the Issuer and its Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes, to exclude the Holders in any jurisdiction where (i) the solicitation of such consent, waiver or amendment, including in connection with an offer to purchase

for cash; or (ii) the payment of the consideration therefor would require the Issuer or any of its Subsidiaries to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), which the Issuer in its sole discretion determines (acting in good faith) (A) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent document(s) used in other jurisdictions, any substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction); or (B) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

### Events of Default and remedies

Each of the following is an “**Event of Default**”:

- (1) default in the payment when due (at maturity, upon redemption, required repurchase or otherwise) of the principal of, or premium, if any, on the Notes; or
- (2) default for 30 days in the payment when due of interest or Additional Amounts, if any, with respect to the Notes; or
- (3) failure by the Issuer to (i) comply with the provisions set forth under “—*Certain covenants—Restrictions on Mergers, Consolidations and Sales of Substantially all Assets*”; or
- (4) failure by the Issuer for 30 Business Days after written notice to the Issuer by the Trustee or the Holders of at least 25% in aggregate principal amount of Notes then outstanding, voting as a single class, to comply with any of the agreements in the Indenture or the Notes (other than a default in performance, or breach, of a covenant or agreement which is specifically dealt with in clauses (1), (2) or (3)); or
- (5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Subsidiaries, whether such indebtedness or guarantee now exists, or is created after the Issue Date, if that default:
  - (a) is caused by a failure to pay principal of, or interest or premium, if any, on, such indebtedness at the Stated Maturity thereof prior to the expiration of the grace period provided in such indebtedness on the date of such default (a “**Payment Default**”); or
  - (b) results in the acceleration of such indebtedness prior to its express maturity,
 and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates €50 million or more (or its equivalent in any other currency or currencies);
- (6) failure by the Issuer or any of its Subsidiaries to pay final and enforceable judgments and/or orders entered by a court of competent jurisdiction aggregating in excess (individually or when aggregated with other judgment(s) and/or order(s)) of €50 million (or its equivalent in the applicable currency) (exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments or orders shall not have been discharged or waived and there shall have been a period of 45 consecutive days during which a stay of enforcement of such judgment or order, by reason of an appeal, waiver or otherwise, shall not have been in effect; or
- (7) certain events of bankruptcy or insolvency described in the Indenture with respect to the Issuer or any of its Subsidiaries that is a Significant Subsidiary or any group of the Issuer’s Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Issuer and its Subsidiaries), would constitute a Significant Subsidiary.

In the case of an Event of Default specified in clause (7) of the preceding paragraph, with respect to the Issuer, any of its Subsidiaries that is a Significant Subsidiary or any group of Subsidiaries of the Issuer that, taken together, would constitute a Significant Subsidiary, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in ag-

aggregate principal amount of the then outstanding Notes may, and the Trustee, upon request of such Holders, shall, declare all the Notes to be due and payable immediately.

Holders of Notes may not enforce the Indenture except as provided in the Indenture. Subject to certain limitations, Holders of at least a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any Holders unless such Holders have provided to the Trustee pre-funding, indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Except (subject to the provisions described under “—*Amendment, Supplement and Waiver*”) to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

- (1) such Holder has previously given the Trustee notice that an Event of Default is continuing;
- (2) Holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the Trustee to pursue the remedy;
- (3) such Holders have provided the Trustee pre-funding, security and/or indemnity satisfactory to the Trustee against any loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and
- (5) Holders of a majority in aggregate principal amount of the then outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The Holders of not less than a majority in aggregate principal amount of the Notes outstanding may, on behalf of the Holders, waive any existing or past default under the Indenture and its consequences, except a continuing default in the payment of the principal of, premium, if any, any Additional Amounts or interest on any Note held by a non-consenting Holder (which may only be waived with the consent of each Holder affected).

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture.

#### **No personal liability of directors, officers, employees and stockholders**

No director, officer, employee, incorporator or stockholder of the Issuer, as such, will have any liability for any obligations of the Issuer under the Notes, the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability and agrees not to enforce any claim in respect of the Notes or the Indenture to the extent that it would give rise to such personal liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver and release may not be effective to waive liabilities under applicable securities laws.

#### **Legal defeasance and covenant defeasance**

The Issuer may at any time elect to have all of its obligations discharged with respect to the outstanding Notes (“**Legal Defeasance**”) except for:

- (1) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, or interest (including Additional Amounts) or premium, if any, on, such Notes when such payments are due from the trust referred to below;
- (2) the Issuer’s obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

- (3) the rights, powers, trusts, duties and immunities of the Trustee and the Issuer's obligations in connection therewith; and
- (4) the Legal Defeasance and Covenant Defeasance (as defined below) provisions of the Indenture.

Legal defeasance otherwise means that the Issuer will be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Notes. In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer released with respect to certain covenants (including its obligation to make Change of Control Offers) that are described in the Indenture ("**Covenant Defeasance**") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, all Events of Default described under "*—Events of Default and remedies*" (except those relating to payments on the Notes or, bankruptcy or insolvency events) will no longer constitute an Event of Default with respect to the Notes. The Issuer may exercise its Legal Defeasance option regardless of whether it has previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Issuer must irrevocably deposit with the Trustee (or such entity appointed by the Trustee for this purpose), in trust, for the benefit of the Holders, cash in euro, euro-denominated European Government Obligations or a combination thereof in amounts as will be sufficient, in the opinion of a nationally recognised investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or interest (including Additional Amounts and premium, if any) on the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;
- (2) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion reasonably acceptable to the Trustee of United States counsel confirming that (a) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, Holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion reasonably acceptable to the Trustee of United States counsel confirming that Holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) the Issuer must deliver to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer or others; and
- (5) the Issuer must deliver to the Trustee an Officer's Certificate and an opinion of counsel, subject to customary assumptions and qualifications, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

#### **Amendment, supplement and waiver**

Except as provided otherwise in the succeeding paragraphs, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of at least a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes).

Unless consented to by the Holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes), an amendment, supplement or waiver may not:

- (1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption “—*Change of Control*”);
- (3) reduce the rate of or change the time for payment of interest, including default interest, on any Note;
- (4) impair the right of any Holder to receive payment of principal of and interest on such Holder’s Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder’s Notes in respect thereof;
- (5) waive a Default or Event of Default in the payment of principal of, or interest, Additional Amounts or premium, if any, on, the Notes (except a rescission of acceleration of the Notes by the Holders of a majority in aggregate principal amount of the then outstanding Notes and a waiver of the Payment Default that resulted from such acceleration);
- (6) make any Note payable in money other than that stated in the Notes;
- (7) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders to receive payments of principal of, or interest, Additional Amounts or premium, if any, on, the Notes;
- (8) waive a redemption payment with respect to any Note (other than a payment required by the covenant described above under the caption “—*Change of Control*”); or
- (9) make any change in the preceding amendment and waiver provisions.

Any amendment, supplement or waiver consented to by Holders of at least 90% of the aggregate principal amount of the then outstanding Notes will be binding against any non-consenting Holders.

Notwithstanding the preceding, without the consent of any Holder, the Issuer and the Trustee (as applicable) may amend or supplement the Indenture or the Notes:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (3) to provide for the assumption of the Issuer’s obligations to Holders in the case of a merger or consolidation or sale of all or substantially all of the Issuer’s assets, as applicable;
- (4) to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights under the Indenture of any such Holder in any material respect;
- (5) to conform the text of the Indenture or the Notes to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture or the Notes;
- (6) to secure the Notes or to release any collateral or lien securing the Notes in accordance with the terms of the Notes;
- (7) to add guarantors or co-obligors with respect to the Notes;
- (8) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

- (9) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code); or
- (10) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

In connection with its entry into any amendment, supplement or waiver, the Issuer shall deliver to the Trustee an opinion of a counsel and an Officer's Certificate, on which the Trustee may rely absolutely, stating that such amendment, supplement or waiver is permitted under the Indenture and that all conditions precedent to such amendment, supplement or waiver have been satisfied.

### **Satisfaction and discharge**

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

- (1) either:
  - (a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or
  - (b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer has irrevocably deposited or caused to be deposited with the Trustee (or an entity designated by the Trustee for such purpose) as trust funds in trust solely for the benefit of the Holders, cash, Cash Equivalents, European Government Obligations or a combination thereof, in each case, denominated in euro in amounts as will be sufficient, in the opinion of a nationally recognised investment bank appraisal firm or firm of independent public accountants, without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the Notes not delivered to the Trustee for cancellation of principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;
- (2) the Issuer has paid or caused to be paid all sums payable by it under the Indenture; and
- (3) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an Officer's Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied; provided that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

### **Judgment currency**

The sole currency of account and payment for all sums payable by the Issuer under the Indenture and the Notes is euro. Any amount received or recovered in a currency other than euro in respect of the Notes (whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Subsidiary or otherwise) by the Holder or by the Trustee in respect of any sum expressed to be due to it from the Issuer will constitute a discharge of the Issuer only to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not possible to make that purchase on that date, on the first date on which it is possible to do so). If that euro amount is less than the euro amount expressed to be due to the recipient under any Note, the Issuer will indemnify the recipient against any loss sustained by it as a result. In any event the Issuer will indemnify the recipient against the cost of making any such purchase.

For the purposes of this indemnity, it will be sufficient for the Holder or the Trustee to certify that it would have suffered a loss had an actual purchase of euro been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euro on such date had not been practicable, on the first date on which it would have been practicable). These indemnities constitute a separate and independent obligation from the other obligations of the Issuer, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect to any sum due under any Note or any other judgment or order.

### **Concerning the Trustee**

The Issuer shall deliver written notice to the Trustee within thirty (30) days of becoming aware of the occurrence of a Default or an Event of Default. The Trustee will be permitted to engage in transactions with the Issuer; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign as Trustee.

The Holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture will provide that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder has provided to the Trustee pre-funding, security and/or indemnity satisfactory to it against any loss, liability or expense.

The Issuer will indemnify the Trustee for certain claims, liabilities and expenses incurred without gross negligence, wilful misconduct or bad faith on its part, arising out of or in connection with its duties.

### **Admission to trading**

Application has been made to include the Notes in trading on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange with participation in the Prime Standard for corporate bonds segment. It is not intended to admit the Notes to trading on a "regulated market" pursuant to European Union Directive 2004/39 on Markets in Financial Instruments.

### **Additional information**

Pursuant to the Indenture and as long as the Notes are outstanding, any Holder may obtain a copy of the Indenture and the form of Note, without charge by writing to TAG Immobilien AG, Steckelhörn 5, 20457 Hamburg.

So long as the Notes are included in trading on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange and the rules of the Frankfurt Stock Exchange so require, copies of the financial statements included in this Prospectus may be obtained, free of charge, during normal business hours at the offices of the Paying Agent in Germany.

### **Governing law**

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

### **Consent to jurisdiction and service of process**

The Indenture will provide that the Issuer will appoint CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011, as its agent for service of process in any suit, action or proceeding with respect to the Indenture and the Notes brought in any U.S. federal or New York state court located in the City of New York and will submit to such jurisdiction.

### **Enforceability of judgments**

Substantially all of the assets of the Issuer are outside the United States. As a result, any judgment obtained in the United States against the Issuer may not be collectable within the United States.

## Prescription

Claims against the Issuer for the payment of principal or Additional Amounts, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

## Certain definitions

“**Acquired Indebtedness**” means Indebtedness of a Person (a) existing at the time such Person is merged or consolidated with or into, or becomes a Subsidiary of, the Issuer or (b) assumed by the Issuer or any of its Subsidiaries in connection with the acquisition of assets from such Person. Acquired Indebtedness shall be deemed to be incurred on the date the acquired Person is merged or consolidated with or into, or becomes a Subsidiary of, the Issuer or the date of the related acquisition, as the case may be.

“**Adjusted EBITDA**” means, the consolidated profit/(loss) of the Issuer and its Subsidiaries before interest, taxes, depreciation, amortisation, net gains/(losses) from the remeasurement of investment properties, non-cash expenses, and extraordinary or non-recurring items, as determined by reference to the Most Recent Published Financial Statements, adjusted to reflect the assumption that (a) any EBITDA related to any assets acquired or placed in service since the first day of the relevant period had been earned from the beginning of such period, and (b) any assets disposed of during the relevant period had been disposed of as of the first day of such period and no EBITDA related to such assets had been earned during such period.

“**Beneficial Owner**” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), except that in calculating the beneficial ownership of any particular “person” (as that term is used in Section 13(d)(3) of the Exchange Act), such “person” will be deemed to have beneficial ownership of all securities that such “person” has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms “Beneficially Owns” and “Beneficially Owned” have a corresponding meaning.

“**Board of Directors**” means:

- (1) with respect to the Issuer or any other corporation, the board of directors (or analogous governing body such as the management board (*Vorstand*) of the Issuer) of the corporation or any committee thereof duly authorised to act on behalf of such board;
- (2) with respect to a partnership, the board of directors of the general partner of the partnership; and
- (3) with respect to any other Person, the board or committee of such Person serving a similar function.

“**Business Day**” means a day other than a Saturday, Sunday or other day on which banking institutions in Frankfurt, London, Luxembourg or New York or a place of payment under the Indenture are authorised or required by law to close.

“**Cash Equivalents**” means:

- (1) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the Pre-Expansion European Union, the United States of America, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the European Union or the United States of America, Switzerland or Canada, as the case may be;
- (2) overnight bank deposits, time deposit accounts, certificates of deposit, banker’s acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued by a bank or trust company which is organised under, or authorised to operate as a bank or trust company under, the laws of a member state of the Pre-Expansion European Union or of the United States of America or any state thereof, Switzerland or Canada; provided that such bank or trust company has capital, surplus and undivided profits aggregating in excess of €250 million (or the foreign currency equivalent thereof as of the

date of such investment) and whose long-term debt is rated “A-1” or higher by Moody’s or A+ or higher by S&P or the equivalent rating category of another internationally recognised rating agency;

- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;
- (4) commercial paper having one of the two highest ratings obtainable from Moody’s or S&P and, in each case, maturing within one year after the date of acquisition; and
- (5) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (4) of this definition.

“**Change of Control**” means the occurrence of any of the following:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the Issuer’s properties or assets and of its subsidiaries’ properties or assets taken as a whole to any “person” (as that term is used in Section 13(d)(3) of the Exchange Act) other than to the Issuer or one of its Subsidiaries;
- (2) the adoption of a resolution relating to the Issuer’s liquidation or dissolution (other than by way of merger or consolidation);
- (3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” (as that term is used in Section 13(d)(3) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the then outstanding number of shares of the Issuer’s Voting Stock measured by voting power rather than number of shares; or
- (4) the Issuer consolidates with, or merges with or into any Person, or any Person consolidates with, or merges with or into, the Issuer, in any such event pursuant to a transaction in which any of the Issuer’s outstanding Voting Stock or the outstanding Voting Stock of such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Issuer’s Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock (measured by voting power rather than number of shares) of the surviving Person immediately after giving effect to such transaction; or
- (5) the first day on which a majority of the members of the Issuer’s board of directors are not Continuing Directors.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control if (1) the Issuer becomes a direct or indirect wholly-owned subsidiary of a holding company and (2)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Issuer’s Voting Stock immediately prior to that transaction or (B) immediately following that transaction, no “person,” as that term is used in Section 13(d)(3) of the Exchange Act (other than a holding company satisfying the requirements of this sentence), is the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company.

“**Change of Control Offer**” has the meaning assigned to that term in the Indenture governing the Notes.

“**Continuing Directors**” means, as of any date of determination, any member of the Issuer’s board of directors who (1) was a member of the Issuer’s board of directors on the Issue Date or (2) was nominated for election, elected or appointed to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination, election or appointment (either by a specific vote or by approval of the proxy statement of the Issuer in which such member was named as a nominee for election as a director, without objection to such nomination).

**“Consolidated Interest Expense”** means, for any period, all charges, interest, commission, fees, discounts, premiums and other finance expenses, in each case accrued to Persons other than the Issuer and its Subsidiaries, in respect of indebtedness incurred by the Issuer and its Subsidiaries net of interest income, to be received from Persons other than the Issuer and its Subsidiaries, as shown in the Most Recent Published Financial Statements, reduced by amortization of debt finance costs, excluding any one-off financing expenses (including without limitation, any one-off fees and/or break costs), and adjusted to reflect the assumption that (a) any interest expense related to indebtedness incurred since the first day of the relevant period is computed as if such indebtedness had been incurred as of the beginning of such period, and (b) any interest expense related to indebtedness that was repaid or retired since the first day of the relevant period is computed as if such indebtedness had been repaid or retired as of the beginning of such period (except that, in making such computation, the amount of interest expense related to indebtedness under any revolving credit facility shall be computed based upon the average daily balance of such indebtedness during the relevant period).

**“Consolidated Total Assets”** means total assets of the Issuer and its Subsidiaries as shown in the Most Recent Published Financial Statements.

**“continuing”** means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

**“Default”** means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

**“European Government Obligations”** means any security that is (1) a direct obligation of any country that is a member of the European Monetary Union on the date of the Indenture whose long-term debt is rated “Aa2” or higher by Moody’s or “AA” by S&P or the equivalent rating category of another internationally recognised rating agency, for the payment of which the full faith and credit of such country is pledged; or (2) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

**“Event of Default”** has the meaning assigned to such term in “—*Events of Default and Remedies.*”

**“Guarantee”** means, in relation to any Relevant Indebtedness of any Person, any obligation of another Person to pay such Relevant Indebtedness including (without limitation): (a) any obligation to purchase such Relevant Indebtedness, (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services for the express purpose of providing funds for the payment of such Relevant Indebtedness, (c) any indemnity against the consequences of a default in the payment of such Relevant Indebtedness and (d) any other agreement to be responsible for such Relevant Indebtedness.

**“incur”** means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, guarantee or otherwise become liable in respect of such Indebtedness or other obligation or the recording, as required pursuant to IFRS otherwise, of any such Indebtedness or other obligation on the balance sheet of such Person (and “incurrence,” “incurred” and “incurring” shall have meanings correlative to the foregoing), *provided* that (a) Indebtedness of a Person existing at the time such Person becomes a Subsidiary or is merged or consolidated with or into the Company or any Subsidiary shall be deemed to be Incurred at such time, (b) neither the accrual of interest, nor the accretion of original issue discount, shall be deemed to be an Incurrence of Indebtedness, (c) the mere extension of the term of lender commitments to extend credit or funds to the Company or any of its Subsidiaries pursuant to a revolving credit agreement or similar arrangement shall not be deemed to be an Incurrence of Indebtedness and (d) the extension of the original or stated maturity of Indebtedness shall not be deemed the Incurrence of that Indebtedness.

**“IFRS”** means International Financial Reporting Standards as endorsed by the European Union and in effect as of the Issue Date; provided that for purposes of the covenant described under the caption “—*Certain covenants—Reports,*” “IFRS” means International Financial Reporting Standards as endorsed by the European Union and in effect from time to time.

**“Indebtedness”** means, without duplication, any indebtedness net of cash and cash equivalents of the Issuer or any Subsidiary as shown in the Most Recent Published Financial Statements, in respect of: (a) borrowed money evidenced by bonds, notes, debentures or similar instruments whether or not such indebtedness is secured by any lien existing on property owned by the Issuer or any Subsidiary; (b) indebtedness for borrowed money of a Person other than the Issuer or a Subsidiary which is secured by any lien on property owned by the Issuer or any Subsidiary, to the extent of the lesser of (i) the amount of indebtedness so secured and (ii) the fair market value of the property subject to such lien; (c) reimbursement obligations, in connection with any letters of credit actually issued or amounts representing the balance deferred and unpaid of the purchase price of any property or services, except any such balance that constitutes an accrued expense or trade payable or (d) any lease of property by the Issuer or any Subsidiary as lessee which is reflected on the Issuer’s consolidated balance sheet as a capitalized lease in accordance with IFRS (as in effect on the date hereof), to the extent, in the case of indebtedness under (a) through (c) above, that any such items (other than letters of credit) would appear as a liability on the Issuer’s consolidated balance sheet in accordance with IFRS. Indebtedness also includes, to the extent not otherwise included, any obligation by the Issuer or any Subsidiary to be liable for, or to pay, as obligor, guarantor or otherwise (other than for purposes of collection in the ordinary course of business), indebtedness of another Person (other than the Issuer or any Subsidiary) of the type described in clauses (a)-(d) of this definition; provided that Indebtedness shall not include any derivative instruments shown in the Most Recent Published Financial Statements.

**“Intercompany Indebtedness”** means Indebtedness to which the only parties are the Issuer and any Subsidiary or Subsidiaries, or only Subsidiaries.

**“Issue Date”** means 7 August 2013.

**“Lien”** means, with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind. For the purposes of this definition, a Person shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement, capital lease or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes, and such retention of title shall constitute a “Lien.”

**“Moody’s”** means Moody’s Investors Service, Inc.

**“Most Recent Published Financial Statements”** as of any date means the most recent published annual or quarterly consolidated financial statements of the Issuer and its Subsidiaries prior to such date.

**“Officer”** means, with respect to any Person, the chairman or any executive director of the Board of Directors, the chief executive officer and the chief financial officer of such Person or a responsible accounting or financial officer of such Person including, with respect to a German stock corporation, a member of the management board (*Vorstand*).

**“Officer’s Certificate”** means a certificate signed by an Officer.

**“Permitted Business”** means (i) any business, services or activities engaged in by the Issuer or any of its Subsidiaries on the Issue Date; and (ii) any businesses, services and activities that are related, complementary, incidental, ancillary or similar to any of the foregoing, or are extensions or developments of any thereof.

**“Person”** means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

**“Pre-Expansion European Union”** means the European Union as of 1 January 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after 1 January 2004; provided that “Pre-Expansion European Union” shall not include any country whose long-term debt does not have a long-term rating of at least “AA” by S&P or at least “Aa2” by Moody’s or the equivalent rating category of another internationally recognised rating agency. For the avoidance of doubt, the Issuer shall not trigger a Default or Event of Default under the Indenture if at the time it takes particular action that depends on the status of a country under this definition, that country was included in Pre-Expansion European Union and thereafter ceases to be so.

“**Property**” means any property or asset, whether real, personal or mixed, including, without limitation, current assets and shares of capital stock, but excluding deposit accounts, owned at the original issuance date of the notes or thereafter acquired by the Issuer or any of its Subsidiaries.

“**Relevant Indebtedness**” means any Indebtedness which is in the form of, or represented by, bonds, notes or any similar securities which are, for the time being, or are ordinarily capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market).

“**S&P**” means Standard & Poor’s Ratings Services.

“**Significant Subsidiary**” means, at the date of determination, any Subsidiary of the Issuer that together with its Subsidiaries that are also Subsidiaries of the Issuer (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Issuer or (ii) as of the end of the most recent fiscal year, was the owner of more than 10% of the consolidated assets of the Issuer.

“**Stated Maturity**” means, with respect to any instalment of interest or principal on any series of indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

“**Subsidiary**” means, with respect to any Person (such Person, for purposes of this definition, the “specified person”), any corporation or other Person more than 50% of the outstanding Voting Stock (measured by voting power rather than number of shares) of which at the date of determination is owned, directly or indirectly, by the specified person and/or by one or more other Subsidiaries of the specified person.

“**TAG**” means TAG Immobilien AG together with its subsidiaries.

“**Taxes**” and “**Taxation**” shall be construed to have corresponding meanings and shall mean, any present or future tax, duty, levy, impost, assessment or other governmental charges (including, without limitation, penalties, interest and other similar liabilities related thereto) of whatever nature.

“**Test Date**” means each March 31, June 30, September 30 and December 31 of each year, commencing with the first such date to occur after the Issue Date.

“**Voting Stock**” means capital stock (or equivalent equity interest) of a Person of the class or classes having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such Person (irrespective of whether or not at the time capital stock (or equivalent equity interests) of any other class or classes has or might have voting power upon the occurrence of any contingency).

“**Wholly Owned Subsidiary**” means any Subsidiary of the Issuer of which all the outstanding voting securities (other than directors’ qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) are owned by the Issuer or one or more Wholly Owned Subsidiaries.

## 22. SUBSCRIPTION, OFFER AND SALE

### 22.1. Offer of the Notes

#### 22.1.1 General

The Company offers up to €200,000,000 aggregate principal amount of ●% Senior Notes due on 7 August 2018 (the “**Offer**”). The Notes will be senior obligations of the Issuer. The obligations under the Notes constitute unsubordinated and unsecured obligations of the Company ranking *pari passu* among themselves and *pari passu* with all other unsubordinated and unsecured obligations of the Company, unless such obligations are accorded priority under mandatory provisions of statutory law.

The Notes will be offered to institutional investors and retail investors in compliance with the public offer restrictions in the Member States of the European Economic Area. A public offer will be made in Luxembourg following the approval of the Prospectus by the CSSF and a public offer may be made in Germany and Austria following the notification of the approval of the Prospectus by the CSSF to the competent authorities in Germany (*Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin*) and Austria (*Finanzmarktaufsicht, FMA*) according to Article 18 of the Prospectus Directive.

The Offer consists of

- an offer to the public in Germany, Austria and Luxembourg through the subscription functionality (the “**Subscription Functionality**”) that is provided by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) in the XETRA-trading system or a substitute trading system for the collection and settlement of subscription offers, conducted solely by the Company (the “**Public Offer**”); and
- a private placement to qualified investors in Germany, Austria and Luxembourg and certain other countries other than the United States, Canada, Australia and Japan (the “**Private Placement**”) by the Initial Purchasers (as defined in section 2, “*Notice to Investors*”) in compliance with applicable private placement exemptions.

The Public Offer will be solely conducted by the Company. The Initial Purchasers will not participate in the Public Offer.

There are no predetermined tranches of Notes for each of the Public Offer and the Private Placement.

There is no minimum or maximum amount of Notes to be purchased. Investors may place offers to purchase Notes in any amount being an integral multiple of €1,000.

Subscription rights for the Notes do not exist and will not be issued. Therefore, there are no procedures for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.

#### 22.1.2 Offer Period

The offer period for the Private Placement will commence on 29 July 2013 and will end on 2 August 2013 (the “**Private Placement Offer Period**”). The offer period for the Public Offer will commence on 30 July 2013 and will end on 2 August 2013 (the “**Public Offer Period**”) and together with the Private Placement Period, the “**Offer Period**”). The Offer Period is subject to any shortening or extension.

An “**Over-Subscription**” occurs if the total amount of (i) subscription offers transmitted in the Public Offer to CBSB as order book manager for the Public Offer, and (ii) the subscription offers received by the Initial Purchasers in the Private Placement exceeds the maximum aggregate principal amount of Notes offered. In case of an Over-Subscription, the Offer Period may end before the aforementioned date, on the respective trading day of such Over-Subscription.

Should the Company and the Initial Purchasers determine any shortening or extension of the Offer Period, which could be the result of changing market conditions, such changes will be published on the Company’s website ([www.tag-ag.com](http://www.tag-ag.com)), which does not constitute part of this Prospectus, on the website of the Frankfurt

Stock Exchange ([www.boerse-frankfurt.de](http://www.boerse-frankfurt.de)) and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)), or, if applicable, by a supplement to the Prospectus which will be prepared and published in accordance with Article 13 of the Luxembourg Prospectus Law.

### **22.1.3 Subscription via the Subscription Functionality**

Investors wishing to submit subscription applications via the Subscription Functionality need to submit a subscription application for the Notes to their respective depositary bank during the Offer Period. Subscription applications may not include interest limits. This requires that the depositary bank (i) has been admitted as a trading participant to the Frankfurt Stock Exchange or has access to trading on the Frankfurt Stock Exchange via an accredited trading participant, (ii) is connected to XETRA and (iii) is authorised and able to use the Subscription Functionality according to the terms and conditions for the use of the Subscription Functionality (the “**Trading Participant**”).

Upon the investor’s request, the Trading Participant submits a subscription offer on behalf of the investor via the Subscription Functionality. Subscription applications may not include interest limits. CBSB will notify the Company and the Initial Purchasers of the aggregate amount of subscription offers received so far at least once daily during the Offer Period. Upon determination of the Interest Details, the Company and the Initial Purchaser will decide on the allotment.

CBSB as financial intermediary (*Finanzkommissionär*) may accept the subscription applications and informs the Company of the subscription applications received. By way of acceptance of the purchase offers by CBSB a sales contract for the Notes is concluded, subject to the condition subsequent that the Notes are not issued on the Issue Date. Performance day is the Issue Date mentioned in the Description of the Notes which is also the value day.

Investors in Luxembourg and Austria whose depositary bank is not a Trading Participant may instruct a Trading Participant via their depositary bank to submit a subscription offer and execute it after acceptance by CBSB together with the depositary bank of the investor.

If an Over-Subscription occurs, the Subscription Functionality may cease to be available as described above; in this case, the allotment of the Notes will be decided after consultation between the Company and the Initial Purchasers. Trading with respect to the Notes on terms of issue (*Handel per Erscheinen*) is envisaged on the Open Market (*Freiverkehr*) (Quotation Board) of the Frankfurt Stock Exchange until the business day immediately preceding the Issue Date.

### **22.1.4 Subscription via Private Placement**

The Private Placement will be made by the Initial Purchasers to institutional investors in Germany, Austria and Luxembourg and other countries other than the United States, Canada, Australia and Japan in accordance with the selling restrictions set out in section 22.2, “*Subscription, Offer and Sale - Selling Restrictions*” below.

### **22.1.5 Issue Price, Interest and Yield**

The issue price for each Note amounts to €1,000 and represents 100% of its principal amount (the “**Issue Price**”).

The Notes will bear interest from and including 7 August 2013 to, but excluding, 7 August 2018 at a minimum rate of 3% per annum, payable semi-annually in arrears on 7 February and 7 August, in each year, commencing on 7 February 2014.

The annual yield equals the interest on the principal amount and amounts to a minimum of 3% on the basis of an issue price of 100% of the principal amount and redemption at the end of the term of the Notes. Such yield is calculated in accordance with the ICMA (International Capital Market Association) method and on the basis of the issue price of 100% of the principal amount of the Notes. It does not take into account any transaction costs or other surcharges.

The interest rate and the yield of the issue (together, the “**Interest Details**”) will be determined and published as described below in Section 22.1.6, “—*Method of Determination of the Interest Details and Publication of Results*”.

#### **22.1.6 Method of Determination of the Interest Details and Publication of Results**

The Notes will bear interest on their nominal amount with a minimum rate of 3% per annum payable semi-annually in arrears.

The interest rate and the yield of the issue (the “**Interest Details**”) will be determined by the Company and the Initial Purchasers by way of a book building, which will be performed in the course of the Public Offer. The book building will take into consideration to what extent and with which proposal regarding the interest and the yield investors submit orders to purchase the Notes in the Private Placement and in the Public Offer. The book building will be performed in two steps:

- In a first step, an indicative interest range (the “**Interest Range**”) will be determined. Upon determination, the Interest Range will be set out in a notice (the “**Range Notice**”) which will be published on the Company’s website (<http://www.tag-ag.com/en/investor-relations/prospectus>) on the last day of the Offer Period the latest.
- In a second step, the Interest Details will be determined. Upon determination, the Interest Details and the aggregate principal amount of Notes to be issued will be set out in a notice (the “**Pricing Notice**”) which will be filed with the CSSF and published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and the Company’s website (<http://www.tag-ag.com/en/investor-relations/prospectus>) after publication of the Range Notice and on the last day of the Offer Period the latest.

#### **22.1.7 Allotment**

As long as there is no Over-Subscription with subscription offers that meet the requirements of the Interest Details, Notes subscribed through (i) the Subscription Functionality, or (ii) directly subscribed from the Initial Purchasers by institutional investors will be fully allotted.

In the event of an Over-Subscription with subscription offers that meet the requirements of the Interest Details, the allotment of the Notes will be decided after consultation between the Company and the Initial Purchasers. The ultimate decision rests with the Company. The Company and the Initial Purchasers are entitled to curtail subscription applications or reject individual subscriptions. Claims of investors in relation to already paid-in subscription fees and any expenses arising in connection with the subscription are dealt with in accordance with the legal relationship between the investor and the respective depository bank with which the investor has placed his subscription offer.

Investors who have submitted subscription offers for the Notes via the Subscription Functionality may request at their respective depository bank the number of Notes allotted to them.

#### **22.1.8 Issue, Delivery and Settlement**

The issue of the Notes is expected to take place on or about 7 August 2013.

Following confirmation which orders have been accepted and which amounts have been allotted to particular investors, delivery and payment of the Notes are expected to be made on or about 7 August 2013.

The delivery and settlement of the Notes subscribed for via the Subscription Functionality in the Public Offer will be made by CBSB.

Subscription offers via the Subscription Functionality will be executed – deviating from the regular two day settlement period for transactions on the Frankfurt Stock Exchange – only with value as at the Issue Date, i.e. presumably on 7 August 2013. In this context, CBSB has committed itself to underwrite the Notes by way of a financial agency for the account of the Issuer and to deliver and settle them to the investors who subscribed for

Notes in the Public Offer according to the allotment. Delivery of the Notes will be made on a delivery versus payment of the Issue Price for the Notes basis.

Delivery and settlement for the Private Placement will be made by the Initial Purchasers on a delivery versus payment of the Issue Price basis presumably on 7 August 2013 via book-entry through Euroclear and/ or Clearstream.

The Initial Purchasers are obliged to forward the received Issue Price – after deduction of costs and fees – to the Company in accordance with the Subscription Agreement (as defined below) to be concluded between the Company and the Initial Purchasers, presumably on 29 July 2013.

Delivery and settlement for investors in Luxembourg and Austria whose depositary bank does not have direct access to Euroclear and/ or Clearstream will be made via a correspondence bank with direct access to Euroclear and/ or Clearstream instructed by the depositary bank.

#### **22.1.9 Costs for the Investor in relation to the Offer**

The Company will not charge costs, expenses or taxes directly to any investor in connection with the Offer of the Notes. Investors must inform themselves about any costs, expenses or taxes in connection with the purchase of Notes which are generally applicable in their respective country of residence, including any charges of their own depositary banks in connection with the purchase or holding of securities.

#### **22.1.10 Inclusion in Trading**

Inclusion in trading on the Open Market, Entry Standard (*Freiverkehr*) of the Frankfurt Stock Exchange with participation in the Prime Standard segment for corporate bonds was applied for on 23 July 2013. Commencement of trading is expected to occur on 7 August 2013. It is not intended to admit the Notes to trading on a “regulated market” pursuant to Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on Markets in Financial Instruments.

#### **22.1.11 Subscription Agreement**

The Company and the Initial Purchasers will enter into a subscription agreement to be signed on or around the date hereof (the “**Subscription Agreement**”). The Initial Purchasers agree in this Subscription Agreement, subject to certain customary closing conditions, to purchase such Notes which have been subscribed by, and allotted to, investors in the course of the Offer, at a price of 100% of their principal amount and to sell and transfer such Notes to the respective investors. Proceeds to the Company will be net of commissions of 1% of the principal amount of the Notes purchased by the Initial Purchasers; such commission is higher, if the interest rate for the Notes is determined to be below a certain threshold. The Company has furthermore agreed to reimburse the Initial Purchasers for certain expenses incurred in connection with the Offer of the Notes. In addition, the Company has agreed to indemnify the Initial Purchasers against certain liabilities in connection with the Offer of the Notes.

The Initial Purchasers are entitled, under certain circumstances, to terminate the Subscription Agreement with the Company. The circumstances include: any material adverse change in the financial condition, results of operations, business or prospects of the TAG group and any material adverse change in conditions on the capital markets. If the Subscription Agreement is terminated, the Offer of the Notes will not take place or - if the Offer has already begun at this point - it will be cancelled. Any allotments already made to investors will be invalidated and investors will have no claim for delivery of the Notes. In this case the Initial Purchasers will not be obliged to deliver Notes to investors.

The Initial Purchasers or their affiliates have provided from time to time, and expect to provide in the future, investment services to the Company and its affiliates, for which the Initial Purchasers or their affiliates have received or will receive customary fees and commissions. In addition, Credit Suisse will assist the Company as dealer manager with respect to the intended repurchase of outstanding convertible bonds issued by the Company.

There are no interests of natural and legal persons other than the Company involved in the issue, including conflicting ones that are material to the issue.

## 22.2. Selling Restrictions

### 22.2.1 General

In addition to the specific restrictions set out below, the Initial Purchasers have agreed that they will observe all applicable provisions of law in each jurisdiction in or from which they may offer Notes or distribute any offering material.

### 22.2.2 European Economic Area

In relation to each Member State of the European Economic Area (i.e., the European Union plus Iceland, Norway and Liechtenstein) which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), the Initial Purchasers have represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) they have not made and will not make an offer of Notes which are the subject of the offer contemplated by this Prospectus to the public in that Relevant Member State other than the offers contemplated in the Prospectus in Luxembourg, Germany and Austria from the time the Prospectus has been approved by the competent authority in Luxembourg and published and notified to the relevant competent authorit(y)(ies) in accordance with the Prospectus Directive until the Issue Date, and provided that the Company has consented in writing to use of the Prospectus for any such offers, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers nominated by the Company for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Company or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

### 22.2.3 United Kingdom

The Initial Purchasers have represented and agreed that:

- (a) each of it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (“**FSMA**”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

- (b) each of it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom of Great Britain and Northern Ireland (“**United Kingdom**”).

#### **22.2.4 Switzerland**

The Notes issued under this Prospectus may not be offered or sold to any investors in or from Switzerland other than by private placement. This Prospectus does not constitute a prospectus within the meaning of Article 652a or Article 1156 of the Swiss Code of Obligations, and neither this offer nor the Notes have been or will be approved by any Swiss regulatory authority.

#### **22.2.5 United States of America and its Territories**

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”) or the securities laws of any state or other jurisdiction of the United States. The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws. The Notes are not being offered in the United States or to, or for the account or benefit of, U.S. persons.

**23. TRANSFER RESTRICTIONS**

The Notes have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States. The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the U.S. Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws. The Initial Purchasers are only offering the Notes outside the United States in reliance on Regulation S; the Notes are not being offered in the United States or to U.S. persons.

By purchasing Notes, each purchaser will be deemed to have acknowledged and agreed that the Notes have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or otherwise transferred in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws.

## 24. BOOK-ENTRY, FORM AND DELIVERY

Notes sold to investors will initially be represented by a global note in registered form without interest coupons attached (the “**Global Note**”).

Ownership of interests in the Global Note (the “**Book-Entry Interests**”) will be limited to persons that have accounts with Euroclear and/ or Clearstream or persons that hold interests through such participants. Euroclear and/ or Clearstream will hold interests in the Global Notes on behalf of their participants who in turn hold such interests through securities accounts as depositories for their respective customers. Except under the limited circumstances described below, Book-Entry Interests will not be issued in definitive form.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and/ or Clearstream and their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of those securities in definitive form. The foregoing limitations may impair the investor’s ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests may in such jurisdictions not be considered the owners or “holders” of Notes for any purpose.

So long as the Notes are held in global form, Euroclear and/ or Clearstream (or their nominee) will be considered the sole holders of the Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of Euroclear and/ or Clearstream, and indirect participants must rely on the procedures of Euroclear and/ or Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders of Notes under the Indenture.

Neither the Company nor the Trustee will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

### 24.1.1 Action by owners of book-entry interests

Euroclear and/ or Clearstream have advised the Company that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and/ or Clearstream will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Notes, Euroclear and/ or Clearstream, at the request of the holders of the Notes, reserve the right to exchange the Global Notes for definitive registered Notes in certificated form (the “**Definitive Registered Notes**”), and to distribute such Definitive Registered Notes to their participants.

### 24.1.2 Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- (1) if Euroclear and/ or Clearstream notify the Company that it is unwilling or unable to continue to act as depository and a successor depository is not appointed by the Issuer within 120 days;
- (2) if the owner of a Book Entry Interest requests such exchange in writing delivered through Euroclear and/ or Clearstream following an Event of Default under the Indenture.

Euroclear and/ or Clearstream have advised the Company that upon request by an owner of a Book-Entry Interest described in the immediately preceding clause (2), their current procedure is to request that the Company issues or causes to be issued Notes in definitive registered form to all owners of Book-Entry Interests and not only to the owner who made the initial request.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear and/ or Clearstream or the Company, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive

Registered Notes will bear the restrictive legend as provided in the relevant Indenture, unless that legend is not required by the Indenture or applicable law.

To the extent permitted by law, the Trustee, the relevant Paying Agent and the Registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Company and such registration is a means of evidencing title to the Notes.

The Company will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and/ or Clearstream.

### **24.1.3 Redemption of the Global Notes**

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/ or Clearstream will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by them in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and/ or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that, under the existing practices of Euroclear and/ or Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and/ or Clearstream will credit their participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate, provided, however, that no Book-Entry Interest of less than €1,000 principal amount may be redeemed in part.

### **24.1.4 Payments on Global Notes**

The Company will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and additional amounts, if any) to the Principal Paying Agent. The Principal Paying Agent will, in turn make said payments to the depositary or its nominee for Euroclear and/ or Clearstream. Euroclear and/ or Clearstream will distribute such payments to participants in accordance with their respective customary procedures. The Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "Description of the Notes—Additional Amounts." If any such deduction or withholding is required to be made, then, to the extent described under "Description of the Notes—Additional Amounts" above, the Company will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding to be equal to the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. The Company expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Company, the Trustee and the Paying Agents will treat the registered holders of the Global Notes (e.g., Euroclear and/ or Clearstream (or their nominee)) as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Trustee and the Paying Agents or any of their agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear and/ or Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear and/ or Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- Euroclear and/ or Clearstream or any participant or indirect participant.

#### **24.1.5 Currency of payment for the Global Notes**

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests to such Notes through Euroclear and/ or Clearstream in euro.

#### **24.1.6 Transfers**

Transfers between participants in Euroclear and/ or Clearstream will be effected in accordance with Euroclear's and/ or Clearstream's rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder of Notes must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and/ or Clearstream and in accordance with the procedures set forth in the Indenture governing the Notes.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under "Description of the Notes—Transfer and exchange" and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes.

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

#### **24.1.7 Information concerning Euroclear and/ or Clearstream**

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and/ or Clearstream, as applicable. The Company provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of the settlement system are controlled by the settlement system and may be changed at any time. Neither the Company nor the Initial Purchasers are responsible for those operations or procedures.

The Company understands as follows with respect to Euroclear and/ or Clearstream: Euroclear and/ or Clearstream hold securities for participating organizations. They facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in the accounts of such participants. Euroclear and/ or Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and/ or Clearstream interface with domestic securities markets. Euroclear and/ or Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and/ or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and/ or Clearstream participant, either directly or indirectly.

Because Euroclear and/ or Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/ or Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited.

#### **24.1.8 Global clearance and settlement under the book-entry system**

The Notes represented by the Global Notes are expected to be listed and admitted for trading on the Open Market, Entry Standard (*Freiverkehr*) of the Frankfurt Stock Exchange, and to be included in the Prime Standard for corporate bonds segment of Deutsche Börse AG. Transfers of interests in the Global Notes

between participants in Euroclear and/ or Clearstream will be effected in the ordinary way in accordance with Euroclear's and/ or Clearstream's rules and operating procedures.

Although Euroclear and/ or Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear and/ or Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Company, the Trustee or the relevant Paying Agent will have any responsibility for the performance by Euroclear and/ or Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### **24.1.9 Initial settlement**

Initial settlement for the Notes will be made in euro. Book-Entry Interests owned through Euroclear and/ or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and/ or Clearstream holders on the business day following the settlement date against payment for value of the settlement date.

## 25. TAXATION

*The following is a general description of certain tax considerations relating to the acquisition, holding and disposal of Notes in Germany, Luxembourg and Austria. It does not purport to be a complete analysis of all tax considerations that may be relevant to a decision to purchase Notes, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser.*

*This summary is based on the tax laws of Germany, Luxembourg and Austria currently in force and as applied on the date of this Prospectus, which are subject to change, possibly with retroactive or retrospective effect.*

*Prospective purchasers of Notes are advised to consult their own tax advisers as to the consequences, under the tax laws of the country in which they are resident for tax purposes and under the tax laws of Germany, Luxembourg and Austria of acquiring, holding and disposing of Notes and receiving payments of principal, interest and other amounts under the Notes.*

### 25.1. Withholding taxation at the source

The Issuer does not assume any responsibility for the withholding of taxes at the source.

### 25.2. Taxation in the Federal Republic of Germany

#### Income taxation of German tax residents

This section refers to persons who are tax residents of Germany (i.e. persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

#### Notes held by tax residents as non-business assets

Capital gains realised by Holders from the disposition or redemption of the Notes and payments of interest on the Notes to Holders who are tax residents of the Federal Republic of Germany (i.e., persons whose residence or habitual abode is located in the Federal Republic of Germany) are generally subject to German income tax. In each case where German income tax arises, a solidarity surcharge (*Solidaritätszuschlag*) is levied in addition. Furthermore, church tax may be levied, where applicable.

On payments of interest on the Notes and on capital gains from the disposition or redemption of the Notes or the separate disposition or redemption of interest claims income tax is generally levied as a flat income tax (*Abgeltungsteuer*) at a rate of 25% (plus solidarity surcharge at a rate of 5.5% thereon, resulting in a total tax charge of 26.375%, and church tax, if applicable). The total investment income of an individual will be decreased by a lump sum deduction (*Sparer-Pauschbetrag*) of €801 (€1,602 for married couples filing jointly), not by a deduction of expenses actually incurred, unless those expenses are directly related to the disposition or redemption of the Notes reducing the amount of taxable capital gains. Losses resulting from the investment in the Notes can only be off-set against other investment income. If a set-off is not possible in the assessment period in which the losses have been realised, such losses can be carried forward into future assessment periods.

If the Notes are held in a custodial account which the Holder maintains with a German branch of a German or non-German bank or financial services institution or with a German securities trading company or with a German securities trading bank (each a “**Disbursing Agent**”), the flat income tax on interest received from the Notes will be levied by way of withholding at the aforementioned rate from the gross interest payment to be made by the Disbursing Agent.

If the Notes are held in a custodial account which the Holder maintains with a Disbursing Agent, the flat income tax on capital gains derived from the disposition or redemption of the Notes will also be levied by way of withholding. The withholding tax is generally levied on the difference between the proceeds from the disposition or redemption (after deduction of actual expenses directly related thereto) and the issue price or the purchase price of the Notes. If the Notes have been transferred into the custodial account of the Disbursing Agent only after their acquisition, withholding tax will be levied on 30% of such proceeds unless the Disbursing Agent has been provided evidence of the actual acquisition costs of the Notes by the previous Disbursing Agent or a bank or financial service institution within the European

Economic Area or certain other countries in accordance with Art. 17 para. 2 of the Council Directive 2003/48/EC dated June 3, 2003 on the Taxation of Savings Income in the form of interest payment (the “**EU Savings Tax Directive**”).

Pursuant to a tax decree issued by the German Federal Ministry of Finance dated 9 October 2012 a bad debt-loss (*Forderungsausfall*) and a waiver of a receivable (*Forderungsverzicht*), to the extent the waiver does not qualify as a hidden capital contribution, shall not be treated like a disposal. Accordingly, losses suffered upon such bad debt-loss or waiver shall not be tax-deductible. The same rules should be applicable according to the said tax decree, if the Notes expire worthless so that losses may not be tax-deductible at all. A disposal of the Notes will only be recognised according to the tax authorities, if the received proceeds exceed the respective transaction costs.

For income from the Notes (interest and capital gains) received after 31 December 2013, the church tax, if applicable, is collected for the individual Holder by way of withholding as a standard procedure of a Disbursing Agent unless the Holder of the Notes has filed a blocking notice (*Sperrvermerk*) with the German Federal Tax Office (*Bundeszentralamt für Steuern*).

In general, no withholding tax will be levied if the Holder is an individual who filed a withholding exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent but only to the extent the income derived from the Notes together with other investment income does not exceed the maximum exemption amount shown on the withholding exemption certificate. Similarly, no withholding tax will be deducted if the Holder has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungs-Bescheinigung*) issued by the relevant local tax office.

If no Disbursing Agent is involved in the payment process, the Holder has to include its income from the Notes as well as the capital gains from the disposition or redemption of the Notes or the separate disposition or redemption of interest claims in its tax return and the flat income tax at a rate of 25% (plus solidarity surcharge, and church tax, if applicable) will be levied by way of tax assessment. If the withholding tax on capital gains from the disposition or redemption of the Notes has been calculated on the basis of 30% of the proceeds (rather than from the actual gain), an individual Holder may and in case the actual gain is higher than 30% of the proceeds must also apply for an assessment on the basis of his or her actual acquisition costs.

Withholding of the flat income tax will generally satisfy any income tax liability of the Holder in respect of such investment income. Holders may apply for a tax assessment on the basis of general rules applicable to them resulting in an individual tax rate on their entire investment income of less than 25%. However, the deduction of expenses (other than transaction costs) on an itemized basis is also in this case not permitted.

#### Notes held by tax residents as business assets

Payments of interest on Notes and capital gains from the disposition or redemption of Notes or the separate disposition or redemption of interest claims held as business assets by German tax resident individuals or corporations (including via a partnership, as the case may be), are generally subject to German income tax or corporate income tax (in each case plus solidarity surcharge, and church tax, if applicable). The income from interest and capital gains is also subject to trade tax if the Notes form part of the property of a German trade or business.

If the Notes are held in a custodial account which the Holder maintains with a Disbursing Agent (as defined above), tax at a rate of 25% (plus a solidarity surcharge of 5.5% of such tax, and church tax, if applicable) will also be withheld from interest payments on Notes and basically also from capital gains from the disposition or redemption of Notes held as business assets. In these cases, however, the withholding tax does not satisfy the income tax liability of the Holder but will – subject to certain requirements – be credited as advance payment against the income or corporate income tax liability and the solidarity surcharge of the Holder. To the extent the amount withheld exceeds the income tax liability, the withholding tax will – as a rule – be refunded.

With regard to capital gains, however, no withholding will generally be levied by a Disbursing Agent (i) in the case of Notes held by corporations resident in Germany, provided that in the case of corporations of certain legal forms the status of corporation has been evidenced by a certificate of the competent tax office, and (ii) upon application in the case of Notes held by individuals or partnerships as business assets.

### **Income taxation of non-German tax residents**

Interest and capital gains under the Notes are in general not subject to German taxation in the case of non-residents, i.e. persons having neither their residence nor their habitual abode nor legal domicile nor place of effective management in the Federal Republic of Germany, unless (i) the Notes form part of the business property of a permanent establishment (including a permanent representative) maintained in the Federal Republic of Germany or (ii) the income from the Notes qualify for other reasons as taxable German source income.

Non-residents of the Federal Republic of Germany are in general exempt from German withholding tax on interest and capital gains and from solidarity surcharge thereon. However, if the interest or capital gain is subject to German taxation as set forth in the preceding paragraph and the Notes are held in a custodial account with a Disbursing Agent, withholding tax will be levied as explained above under “Notes held by tax residents as business assets” or under “Notes held by tax residents as non-business assets”, respectively.

Where Notes are not kept in a custodial account with a Disbursing Agent and interest or proceeds from the disposal or redemption of Notes or interest coupons are paid by a Disbursing Agent to a non-resident upon delivery of the Notes or interest coupons, withholding tax generally will also apply. However, the withholding tax may be refunded based on an assessment to tax or under an applicable tax treaty.

### **Inheritance and Gift Tax**

No inheritance or gift taxes with respect to any Note will generally arise under the laws of the Federal Republic of Germany, if, in the case of inheritance tax, neither the decedent nor the beneficiary, or, in the case of gift tax, neither the donor nor the donee, is a resident of the Federal Republic of Germany and such Note is not attributable to a German trade or business for which a permanent establishment is maintained, or a permanent representative has been appointed, in the Federal Republic of Germany. Exceptions from this rule apply to certain German citizens who previously maintained a residence in the Federal Republic of Germany.

### **Other Taxes**

No stamp, issue, registration or similar taxes or duties will be payable in the Federal Republic of Germany in connection with the issuance, delivery or execution of the Notes. Currently, net assets tax (Vermögensteuer) is not levied in the Federal Republic of Germany.

The EU Commission and certain EU Member States (including Germany) are currently intending to introduce a financial transaction tax (FTT) (presumably on secondary market transactions involving at least one financial intermediary). It is currently proposed that the FTT should be introduced in the participating EU Member States on 1 January 2014.

## **25.3. Taxation in the Grand Duchy of Luxembourg**

### **Non-Residents**

Under the existing laws of Luxembourg and except as provided for by the Luxembourg laws of June 21, 2005 implementing the EU Savings Tax Directive (as defined below), there is no withholding tax on the payment of interest on, or reimbursement of principal of, the Notes made to non-residents of Luxembourg.

Under the Luxembourg laws of June 21, 2005 implementing the EU Savings Tax Directive and as a result of ratification by Luxembourg of certain related Accords with the relevant dependent and associated territories, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual holder of a Note or certain residual entities, who, as a result of an identification procedure implemented by the paying agent, are identified as residents or are deemed to be residents of an EU Member State other than Luxembourg or certain of those dependent or associated territories referred to under “EU Savings Tax Directive” below, will be subject to a withholding tax unless the relevant beneficiary has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his or her country of residence or deemed residence or, in the case of an individual holder of a Note, has provided a tax exemption certificate from his or her fiscal authority in the format required by law to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 35%.

## **Residents**

According to the law of December 23, 2005, as amended, interest on Notes paid by a Luxembourg paying agent or paying agents established in the EU, the EEA or in a State which has concluded an international agreement related to the EU Savings Tax Directive to an individual holder of Notes who is a resident of Luxembourg or to a residual entity established in another EU Member State or in the dependent and associated territories (as defined under the EU Savings Tax Directive) securing the payment for such individual will be subject to a withholding tax of 10%. In case of payment through a paying agent established in the EU, the EEA or in a State which has concluded an international agreement related to the EU Savings Tax Directive, the Luxembourg resident individual holder of Notes must under a specific procedure remit 10% tax to the Luxembourg Treasury.

If the individual Holder holds the Notes in the course of the management of his or her private wealth, the aforementioned 10% withholding tax will operate a full discharge of income tax due on such payments.

Interest on Notes paid by a Luxembourg paying agent to a resident holder of Notes who is not an individual is not subject to withholding tax.

When used in the preceding paragraphs “interest”, “paying agent” and “residual entity” have the meaning given thereto in the Luxembourg laws of June 21, 2005 (or the relevant Accords) and December 23, 2005, as amended. “Interest” will include accrued or capitalised interest at the sale, repayment or redemption of the Notes.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws, which is typically the bank or broker with whom the individual Holder of Notes has a securities account on which the Notes are kept.

## **Residency and income tax**

A holder of a Note will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Note or the execution, performance, delivery and/or enforcement of that or any other Note.

A holder of a Note who derives income from such Note or who realizes a gain on the disposal or redemption or exchange thereof will not be subject to Luxembourg taxation on income or capital gains unless: (i) such holder is, or is deemed to be, resident in Luxembourg; or (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

## **Inheritance tax and gift tax**

No Luxembourg inheritance tax is levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

Gift tax may be due on a gift or donation of Notes if the gift is recorded in a deed passed in front of a Luxembourg notary or otherwise registered in Luxembourg.

## **Net wealth tax**

Luxembourg net wealth tax will not be levied on a holder of a Note unless: (i) such holder is, or is deemed to be, a resident company in Luxembourg for the purpose of the relevant provisions; or (ii) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

No Luxembourg net wealth tax is applicable to a Luxembourg resident entity governed by the Luxembourg law of 16 December 2010 on undertakings for collective investments as amended, by the Luxembourg law of 13 February 2007 on specialised investment funds as amended, or by the Luxembourg law of 11 May 2007 on the family estate management company as amended; or to a Luxembourg resident securitisation company governed by the Luxembourg law of 22 March 2004 on securitization as amended; or to a Luxembourg resident capital company governed by the Luxembourg law of 15 June 2004 on venture capital investment companies as amended.

In respect of individuals, the Luxembourg law of 23 December 2005 has abolished the net wealth tax with effect from 1 January 2006.

## Registration

It is not compulsory that the Notes be filed, recorded or enrolled with any court, or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes, in accordance therewith, except that, in case of use of the Notes, either directly or by way of reference, (i) in a public deed, (ii) in a judicial proceeding in Luxembourg or (iii) before any other Luxembourg official authority (autorité constituée), registration may be ordered which implies the application of a fixed or an ad valorem registration duty of 0.24% calculated on the amounts mentioned in the Notes. Indeed, a 0.24% registration duty could be levied on any notarial or other public deed making a precise reference to a loan or obligation of sum of money. In practice such kind of registration is rarely ordered.

## VAT

There is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of Notes, provided that Luxembourg value-added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value-added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from Luxembourg value-added tax does not apply with respect to such services.

## 25.4. Taxation in the Republic of Austria

### Income tax

#### Notes held by tax residents as non-business assets

Capital gains realized by Holders from the disposition or redemption of the Notes and payments of interest on the Notes to Holders who are tax residents of Austria (i.e., persons whose residence or habitual abode is located in Austria) are subject to Austrian income tax.

On payments of interest on the Notes to Austrian tax resident individuals and capital gains from the disposition or redemption of the Notes or the separate disposition or redemption of interest claims income tax is generally levied at a flat income rate of 25%. Losses resulting from the investment in capital assets can only be off-set against other investment income in the same fiscal year.

If the Notes are held in a custodial account which the Holder maintains with an Austrian branch of a bank or financial services institution (the “**Domestic Disbursing Agent**” or “*inländische depotführende Stelle*”) the flat income tax on interest received from the Notes will be levied by way of withholding at the aforementioned rate from the gross interest payment to be made by the Disbursing Agent.

If the Notes are held in a custodial account which the Holder maintains with a Domestic Disbursing Agent the flat income tax on capital gains derived from the disposition or redemption of the Notes will be levied by way of withholding. The withholding tax is generally levied on the difference between the proceeds from the disposition or redemption and the issue price or the purchase price of the Notes.

In general, no withholding tax will be levied if the Holder is an individual not resident in Austria (i) whose Notes do not form part of the property of a trade or business in Austria and (ii) who filed a withholding exemption certificate (*Freistellungsauftrag*) with the Domestic Disbursing Agent.

If no Domestic Disbursing Agent is involved in the payment process the Holder will have to include its income on the Notes as well as the capital gains from the disposition or redemption of the Notes or the separate disposition or redemption of interest claims in its tax return and the flat income tax of 25% will be collected by way of assessment.

Payment of the flat income tax will generally satisfy any income tax liability of the Holder in respect of such investment income.

### Notes held by tax residents as business assets

Payments of interest on Notes and capital gains from the disposition or redemption of Notes or the separate disposition or redemption of interest claims held as business assets, by Austrian tax resident individuals or corporations (including via a partnership, as the case may be), are generally subject to Austrian income tax or corporate income tax.

If the Notes are held in a custodial account which the Holder maintains with a Domestic Disbursing Agent (as defined above) in Austria tax at a rate of 25% will be withheld from interest payments on Notes and capital gains from the disposition or redemption of Notes held as business assets.

### Notes held by non-residents

Interest and capital gains are not subject to Austrian taxation in the case of non-residents, i.e. persons having neither their residence nor their habitual abode nor legal domicile nor place of effective management in Austria, unless the Notes form part of the business property of a permanent establishment maintained in Austria. Interest may, however, also be subject to Austrian income tax if it otherwise constitutes income taxable in Austria, such as income from the letting and leasing of certain Austrian-situs property or income from certain capital investments directly or indirectly secured by Austrian situs real estate.

Non-residents of Austria are in general exempt from Austrian withholding tax on interest and capital gains. However, if the interest or capital gain is subject to Austrian taxation and the Notes are held in a custodial account with a Domestic Disbursing Agent, withholding tax will be levied as explained above under “Notes held by tax residents as business assets” or under “Notes held by tax residents as non-business assets”, respectively.

### **Inheritance and Gift Tax**

No inheritance or gift taxes with respect to the Notes will arise under Austrian laws. Certain notification obligation of transfers *inter vivos* may arise.

### **Other Taxes**

No stamp, issue, registration or similar taxes or duties will be payable in Austria in connection with the issuance, delivery or execution of the Notes. Currently, net assets tax (“*Vermögensteuer*”) is not levied in Austria.

## **25.5. EU Savings Tax Directive**

Under the EU Council Directive 2003/48/EC dated June 3, 2003 on the taxation of savings income in the form of interest payments (the “**EU Savings Tax Directive**”) each EU Member State must require paying agents (within the meaning of such directive) established within its territory to provide to the competent authority of this state details of the payment of interest made to any individual resident in another EU Member State as the beneficial owner of the interest. The competent authority of the EU Member State of the paying agent is then required to communicate this information to the competent authority of the EU Member State of which the beneficial owner of the interest is a resident.

For a transitional period, Austria and Luxembourg may opt instead to withhold tax from interest payments within the meaning of the EU Savings Tax Directive at a rate of 35% from 1 July 2011.

In Germany, provisions for implementing the EU Savings Tax Directive were enacted by legislative regulations of the Federal Government. These provisions apply since July 1, 2005.

In Austria, provisions for implementing the EU Savings Tax Directive were enacted by legislative regulations of the Federal Government. These provisions apply since July 1, 2005. If the beneficial owner declares to the paying agent not to inform the tax authorities a withholding tax of 35% is levied on all interest payments transferred by the Austrian paying agents to non-Austrian residents of EU Member states.

In Luxembourg, the law of 21 June 2005 transposed the EU Savings Directive into domestic law. This law applies since 1 July 2005. The Luxembourg law provides for an application of a withholding tax (35% since 1 July 2011) on interest paid to Luxembourg non resident beneficial owners (individuals and certain types of entities called “residual entities”

established in another Member State of the European Union than Luxembourg or certain dependent associated territories of the European Union Member States) by a Luxembourg paying agent unless the beneficial owner agrees to an exchange of information.

The European Commission has proposed certain amendments to the EU Savings Tax Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

**26. LEGAL MATTERS**

Certain legal matters with respect to the Company will be passed upon for the Company by Noerr LLP with respect to German law and by Paul, Weiss, Rifkind, Wharton & Garrison LLP with respect to New York law.

Certain legal matters will be passed upon for the Initial Purchasers by Allen & Overy LLP, Frankfurt, with respect to German law as well as United States federal and New York law.

## 27. ENFORCEABILITY OF JUDGMENTS

The Issuer is incorporated under the laws of Germany. The members of the Management Board and the Supervisory Board live outside the United States. All of TAG's assets are located outside the United States. As a result, it may be difficult for investors to serve process on those persons or on the Issuer in the United States or to enforce judgments obtained in U.S. courts against them based on civil liability provisions of the securities laws of the United States.

The United States and Germany currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Consequently, a final judgment for payment given by any court in the United States, whether or not predicated solely upon U.S. securities laws, would not automatically be enforceable in Germany. A final judgment by a U.S. court, however, may be recognized and enforced in Germany in an action before a court of competent jurisdiction in accordance with the proceedings set forth by the German Code of Civil Procedure (*Zivilprozessordnung*). In such an action, a German court generally will not reinvestigate the merits of the original matter decided by a U.S. court, except as noted below.

A final and conclusive judgment for the payment of a specific sum of money rendered by a U.S. federal or state court (and any court of appeal of the same jurisdiction) will be recognized and enforceable by the competent German courts without review of its merits, unless:

- the courts of the jurisdiction where the relevant court is located did not have jurisdiction according to German law;
- the judgment was given in default of appearance and the defendant invokes such default or the defendant was not served with the document which instituted the proceedings properly or within sufficient time to enable him to arrange for his defense;
- the judgment is irreconcilable with a judgment given in Germany or a previous, recognizable foreign judgment or the proceedings leading to such judgment are irreconcilable with proceedings that were filed (*rechtshängig*) previously;
- such recognition entails results which are obviously irreconcilable with fundamental principles of German law (*ordre public*), including, among others, the basic rights provided by the German Constitution (*Grundgesetz*); or
- reciprocity is not guaranteed.

Subject to the foregoing, purchasers of the Notes may be able to enforce judgments in civil and commercial matters obtained from U.S. courts in Germany. The Issuer cannot, however, assure that attempts to enforce judgments in Germany will be successful.

German courts usually deny the recognition and enforcement of punitive damages. Moreover, a German court may reduce the amount of damages granted by a U.S. court and recognize damages only to the extent that they are necessary to compensate actual losses or damages.

German civil procedure differs substantially from U.S. civil procedure in a number of respects. In as far as the production of evidence is concerned, U.S. law and the laws of several other jurisdictions based on common law provide for pre-trial discovery, a process by which parties to the proceedings may prior to trial compel the production of documents by adverse or third parties and the deposition of witnesses. Evidence obtained in this manner may be decisive in the outcome of any proceeding. No such pre-trial discovery process exists under German law.

## 28. GENERAL INFORMATION / DOCUMENTS INCORPORATED BY REFERENCE

### Authorisation

The creation and issue of the Notes have been authorised by a resolution of the Management Board of the Company dated 29 July 2013, with the subsequent consent of the Supervisory Board.

### Clearance and Settlement

The Notes have been accepted for clearance by Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and/ or Clearstream Banking, *société anonyme*, 42 Avenue J.F. Kennedy, L-1855 Luxembourg. The Notes have been assigned the following securities codes: ISIN XS0954227210, WKN A1TNFU, Symbol TEGA.

### Inclusion in Trading

Inclusion in trading on the Open Market (*Freiverkehr*), Entry Standard, of the Frankfurt Stock Exchange with participation in the Prime Standard for corporate bonds segment was applied for on 23 July 2013. Commencement of trading is expected to occur on 7 August 2013. It is not intended to admit the Notes to trading on a “regulated market” pursuant to European Union Directive 2004/39 on Markets in Financial Instruments.

### No Rating

The Company has not received a credit rating.

### Expenses

The total expenses of the issue of the Notes are expected to amount to approximately €4 million.

### Incorporation by Reference

The pages specified below of the following documents which have previously been published or are published simultaneously with this Prospectus and which have been filed with the CSSF are incorporated by reference into this Prospectus: (i) the interim report of the Company as of and for the three months ended 31 March 2013, (ii) the annual report of the Company for the year ended 31 December 2012, (iii) the annual report of the Company for the year ended 31 December 2011. Information contained in the documents incorporated by reference other than information listed in the table below is either not relevant for the investor or covered by other parts of this Prospectus.

#### Interim report of the Company as of and for the three months ended 31 March 2013

Consolidated balance sheet .....	24
Consolidated income statement .....	26
Consolidated statement of comprehensive income .....	27
Consolidated cash flow statement .....	28
Statement of changes in consolidated equity .....	29
Consolidated segment report .....	30
Notes to the condensed interim consolidated financial statements .....	32

#### Annual report of the Company for the year ended 31 December 2012

Consolidated balance sheet .....	78
Consolidated income statement .....	80
Consolidated statement of comprehensive income .....	81
Consolidated cash flow statement of .....	82
Statement of changes in consolidated equity .....	84
Consolidated segment report .....	85
Notes to the consolidated financial statements .....	86
Independent auditors' report .....	149

**Annual report of the Company for the year ended 31 December 2011**

Consolidated balance sheet .....	62
Consolidated income statement .....	64
Consolidated statement of comprehensive income .....	65
Consolidated cash flow statement .....	66
Statement of changes in consolidated equity .....	67
Segment report .....	68
Notes to the consolidated financial statements .....	69
Independent auditors' report .....	127

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Company and the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

## 29. GLOSSARY

Auditors (of the consolidated financial statements)	Auditor of TAG's consolidated financial statements for the financial year 2011 was Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Valentinskamp 70, 20355 Hamburg.
A cities, B cities	Auditor of TAG's consolidated financial statements for the financial year 2012 was KPMG AG Wirtschaftsprüfungsgesellschaft, Ludwig-Erhard-Str. 11-17, 20459 Hamburg.  This classification is a criterion used in the commercial real estate sector, particularly for office buildings, to rate the quality of a property. The Company considers A cities to be the German cities that the market perceives as metropolitan regions: Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich, and Stuttgart. The Company classifies as B cities all large and mid-sized German cities that are not A cities.
A locations, B locations	In reference to commercial real estate, particularly office buildings, these criteria describe the geographical location of the property. Properties in A locations occupy prime spots in each city, such as the urban centre. B locations are also outstanding, but their geographic placement does not meet the standard for A locations. The precise classification of a location in these categories may differ according to source.
Actual rent	The actual rent is the total contractually agreed net rent payments exclusive of heating for the floor area in the respective properties during the reference period or as of the reference date.
Bau-Verein	Sub-group of TAG that includes Bau-Verein GmbH and its subsidiaries.
Bau-Verein AG	Bau-Verein GmbH, until 14 December 2012 Bau-Verein zu Hamburg AG, Hamburg, a subsidiary of TAG AG and parent company of Bau-Verein.
BVEI	Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH.
Colonia	Colonia Real Estate AG, Hamburg, subsidiary of TAG AG and parent company of the Colonia sub-group of TAG.
Company	TAG Immobilien AG, Hamburg.

conwert	This is conwert Immobilien Invest SE, Vienna, with which Bau-Verein GmbH entered into a joint venture with respect to GAG. The joint venture ended effective 30 December 2009.
D&O insurance	Insurance to protect directors and officers of legal entities if they are sued for damages that they caused through a breach of fiduciary duty, and for which they are personally liable.
Development business	Building residential and/or commercial real estate to be sold for a profit to third parties.
DKB	Deutsche Kreditbank AG, Berlin, former parent company of TAG Potsdam (at that time named as DKBI).
DKBI	DKB Immobilien Aktiengesellschaft, Berlin, which changed its company name to TAG Potsdam-Immobilien AG in August 2012 and changed its legal form in December 2012, so that its current company name is TAG Potsdam-Immobilien GmbH.
Due diligence (audit)	Complete corporate audit prior to the issuance of shares or the acquisition of companies, particularly including a systematic analysis of the strengths and weaknesses of the company, the risks associated with the purchase or the initial public offering, and the value of the company.
EBIT	Consolidated net profit before non-controlling interests, income and other taxes as well as before income from associated companies and equity-accounted investments and net interest result.
EBIT (adjusted)	The EBIT (adjusted) key figure is calculated by the Company by deducting net gains/losses from the remeasurement of investment properties as well as net-gains from first-time consolidations and deconsolidations from EBIT and adding depreciation and amortisation as well as impairment losses on inventories and on receivables. Net gains/losses from sales of inventory real estate and investment properties were not considered in the calculation of this key figure.
EBITDA (before revaluation)	Consolidated net profit before non-controlling interests, income and other taxes as well as before income from associated companies and equity-accounted investments and net interest result, less depreciation, amortisation and impairment losses and gains or net losses on the

	fair value measurement of investment properties.
EBT	Consolidated net profit before non-controlling interests before income and other taxes.
EURIBOR	Euro Interbank Offered Rate; benchmark interest rate for the interbank money market.
FFO / Funds From Operations	FFO calculated by the Company by deducting net gains/losses from the remeasurement of investment properties, net-gains from first-time consolidations and deconsolidatons and share of profit of associated companies from EBT and adding depreciation and amortisation, impairment losses on inventories and on receivables and non-cash net interest results. Net gains/losses from sales of inventory real estate and investment properties are not considered in the calculation of FFO.
Financial covenants	Ancillary agreements in financing contracts in which borrowers promise to satisfy certain financial benchmarks.
FRW	FranconoWest AG, Düsseldorf; known as TAG NRW-Immobilien GmbH, Hamburg, since December 2011.
GAG	GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg.
IASs	International Accounting Standards.
IFRS	International Financial Reporting Standards (of the International Accounting Standards Board) as applied in the European Union.
Inventory	Portfolio of real estate not held by the Company as investment property over the long term, which is intended for sale.
Larus	LARUS Asset Management GmbH, Hamburg; former subsidiary of TAG AM that operated in the field of real estate services. It was merged with POLARES REAM in July 2011.
LTV / Loan to value	LTV is calculated on the basis of the non-current and current liabilities to banks plus the liabilities to banks reported under the balance sheet caption “liabilities in connection with non-current assets held for sale” less cash and cash equivalents in relation to the total real estate volume (investment properties and properties held for sale as well as real estate reported under the balance sheet captions “property, plant and equipment” and “non-

	current assets held for sale”). Liabilities from convertible bonds are not included in the calculation of LTV.
Maintenance activities	Activities intended to maintain the functionality of a building and its removable fixtures.
Market value	The market value of real estate is based on the price that could be obtained as of the reporting date in an arm’s length business transaction (also called the “fair value”).
Modernisation activities	Part of portfolio development activities; modernisation activities include all activities to improve the fittings in apartments in order to update them, such as insulation work and other work that may reduce the energy consumption of apartments, as well as the replacement of elements of fittings in apartments which are no longer contemporary, such as installing new plumbing fixtures and new heating systems.
NAV / Net asset value	The Company calculated the net asset value per share (NAV) as at 31 December 2010 by dividing the equity before non-controlling interests by the number of shares outstanding at the balance sheet date. Any dilution effects of potentially diluting financial instruments, e.g. convertible bonds, are not taken into account. Since 31 December 2011, the Company has defined NAV on the basis of equity before non-controlling interests, whereby the carrying amounts of derivative financial instruments (primarily interest rate swap agreements) and deferred taxes included in the consolidated balance sheet are eliminated from equity, divided by the number of shares outstanding at the balance sheet date.
Net base rent exclusive of heating	Contractually agreed rent payments that cover only use of the space and do not include ancillary costs such as for water, heating, rubbish collection, and the maintenance supervisor.
Non-current assets	Portfolio of real estate that the Company generally holds over the long term as investment properties.
Overall portfolio	All real estate holdings of TAG AG and its subsidiaries. Includes residential, commercial, and other real estate, including undeveloped properties.
POLARES REAM	POLARES Real Estate Asset Management GmbH, Hamburg, subsidiary of Colonia, which

	<p>resulted in July 2011 from the merger of LARUS Asset Management GmbH from the previous TAG sub-group with Colonia Real Estate Solutions GmbH from the previous Colonia sub-group, in which TAG's operations in the field of building services are pooled.</p>
Portfolio development activities	<p>Activities to modernise and renovate real estate with the objective of keeping it at or returning it to a condition corresponding to current requirements on the market, in order to ensure sustainable rentability and stable rental income. Typical renovation and modernisation activities to make apartments easier to market include combining apartments, refurbishing attics, adding new balconies, renovating bathrooms, and installing insulation to improve energy efficiency.</p>
Prime Standard	<p>Sub-segment of the Regulated Market subject to additional post-listing obligations.</p>
Privatisation	<p>Sale of residential property to former tenants.</p>
Project development	<p>Total of all planning, preparations, and construction activities involved in developing real estate and marketing the completed buildings.</p>
Real estate management	<p>Activities to rent and administer the real estate portfolio; includes renting apartments that have been vacated, entering into and managing leases, continuous monitoring and auditing of payments received in lease and security deposit accounts, collecting of outstanding receivables, invoicing operating costs, accounting, and maintenance activities.</p>
Real estate portfolio	<p>Pooling of investments in real estate at various locations.</p>
Regulated Market ( <i>Regulierter Markt</i> )	<p>Segment of the stock exchange in which listing obligations and post-listing obligations are governed by law.</p>
Renovation activities	<p>Part of portfolio development activities; renovation activities include all activities intended to fundamentally improve the building stock and during which vacant apartments are deliberately accepted. In contrast to modernisation work, which is primarily intended to increase actual rent potential, renovation activities are intended to improve future rentability and therefore to increase target rents.</p>

Serviced apartments	Fully furnished apartments to be rented over the short and medium term, for which additional services such as cleaning, towels, etc., are offered, similar to what is optionally offered in a hotel.
TAG	TAG Group, comprising TAG AG and its direct and indirect subsidiaries.
TAG AG	TAG Immobilien AG, Hamburg.
TAG AM	TAG Asset Management GmbH, Hamburg, subsidiary of TAG AG.
TAG Gewerbe	TAG Gewerbeimmobilien GmbH, until 14 December 2012 TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg, subsidiary of TAG AG.
TAG KG	TAG Beteiligungs- GmbH & Co. KG, Hamburg, subsidiary of TAG AG.
TAG Potsdam	TAG Potsdam GmbH, Berlin, subsidiary of TAG AG, previously DKBI.
TAG Potsdam Group	TAG Potsdam Group, comprising TAG Potsdam and its direct and indirect subsidiaries.
Target rent	Actual rent plus the potential rent that could be obtained from vacant floor area.
TBG	Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee.
TAG Wohnen	TAG Wohnen GmbH, Berlin.
Vacancy	Available unrented floor area in square metres.
Vacancy rate	The vacancy rate describes the percentage of available but unrented floor area in a real estate portfolio.
Valuation Reports	Reports by the independent external experts Otto & Kollegen, Kaiserdamm 82, 14057 Berlin, and CB Richard Ellis GmbH, Hausvogteiplatz 10, 10117 Berlin, appraising the market value of the real estate portfolio of TAG AG and its subsidiaries in accordance with IAS 40.

**30. VALUATION REPORTS**

**30.1. Portfolio of TAG with exception of the portfolio held by TAG Gewerbe and TAG Logistik Immobilien GmbH & Co. KG**

# VALUATION REPORT

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## “TAG Residential Portfolio”

Principal:

TAG Immobilien AG  
Steckelhörn 5  
20457 Hamburg

Effective Date of Valuation

30 September 2012

30 November 2012

31 December 2012

Valuation Report dated

31 May 2013

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# CONTENTS

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**PART I TAG IMMOBILIEN AG – RESIDENTIAL PORTFOLIO**

**PART II VALUATION CERTIFICATE**

# PART I

TAG IMMOBILIEN AG –  
RESIDENTIAL PORTFOLIO

## CONTENTS

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1	Subject Portfolio	W-5
2	Regional Allocation	W-6
3	Overview Sub Portfolios	W-7
4	Fair Value in EUR by Sub Portfolio	W-8
5	Fair Value by Sub Portfolio - EUR/sq m	W-9
6	Lettable Area in sq m by Sub Portfolio	W-10
7	Average Vacancy Rate by Sub Portfolio	W-11
8	Current Rental Income (p.a.) by Sub Portfolio	W-12
9	Key Valuation Data	W-13

## PART I TAG IMMOBILIEN AG – RESIDENTIAL PORTFOLIO

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### 1 Subject Portfolio

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- The following report only refers to the mainly residentially used portfolio of TAG Immobilien AG (hereinafter, also referred to as the “TAG Residential Portfolio”) and does not include TAG Commercial or TAG Logistic assets.
- The principal, TAG Immobilien AG (hereinafter also referred to as “Principal”), has divided the portfolio, which is subject matter of this valuation report, into seven sub portfolios (BV AG, Colonia, TAG Potsdam, TAG AG, TAG AM, together TAG Main, TAG Wohnen and TAG Stadthaus). TAG Wohnen represents the former TLG Wohnen GmbH portfolio, TAG Stadthaus represents Stadthaus am Anger in Erfurt. In total the TAG Residential Portfolio consists of 2,799 valuation units.
- The subject TAG Residential Portfolio comprises 67,578 residential units, 1,828 commercial units, 1,842 other units as well as 17,205 internal and external parking spaces. The total lettable area adds up to 4,269,351 sq m and is split into:
  - Residential: 4,044,996 square meters (“sq m”)
  - Commercial: 224,355 sq m
- The total vacancy rate amounts to 10.3% (439,876sq m).
- The TAG Residential Portfolio comprises 123 undeveloped sites (mainly within TAG Potsdam sub portfolio).
- After investigation of ownership, 2,784 (99.5%) valuation units are freehold properties, 15 (0.5%) valuation units are leasehold properties.
- 417 (14.9%) valuation units are part-owned (condominiums).

## 2 Regional Allocation

As shown in the following map, the valuation units of the subject portfolio are located in 277 cities throughout Germany. TAG has a geographically diversified portfolio of mainly residential and commercial properties, with emphases in the Berlin region, the Hamburg region, North Rhine-Westphalia, Thuringia/Saxony and Rostock/Stralsund region, as well as in the Salzgitter region.



Source: Microsoft, MapPoint Europa 2009

### 3 Overview Sub Portfolios

According to paragraph 1 of this report, the TAG Residential Portfolio consists of seven sub portfolios.

The biggest sub portfolio is the "TAG Potsdam" portfolio which comprises 1,300 valuation units. This is more than half of all valuation units. The second largest is the "Colonia" portfolio which comprises 791 valuation units.

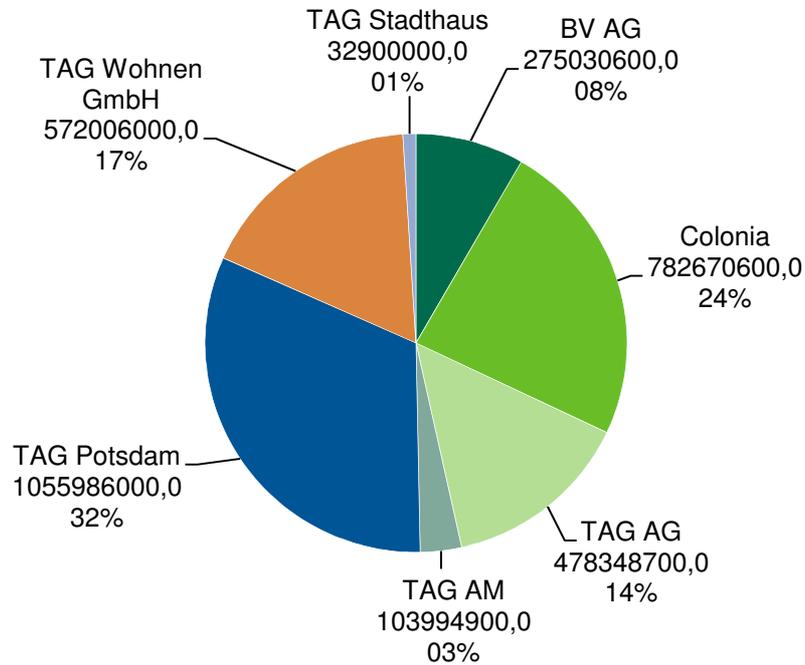
The smallest portfolio is the "TAG Stadthaus" with 1 valuation unit.

The following charts and graphics display the portfolio structure at the effective date of valuation (TAG Main: 30 September 2012, TAG Stadthaus: 30 November 2012, TAG Wohnen: 31 December 2012).

Portfolio	Sub Portfolio	Valuation date	Residential Units	Commercial Units	Total Units	Total Lettable Area in m <sup>2</sup>	Vacancy Rate in %	Current Rent in EUR	Market Rent in EUR	Net Capital Value in EUR	Fair Value in EUR	Fair EUR
BV AG	2. Immo	30.09.12	32	38	70	6.334	12,6%	357.354	405.653	4.833.296	5.220.000	
	BV AG	30.09.12	2908	81	2989	183.093	3,8%	11.954.840	13.568.560	175.473.344	188.467.900	
	BV B	30.09.12	22	0	22	652	0,0%	64.396	68.153	817.942	885.000	
	BV HAWO	30.09.12	189	18	207	10.157	0,4%	1.011.570	1.133.638	16.507.247	17.700.000	
	BV JW	30.09.12	14	0	14	1.506	8,4%	155.106	172.896	2.942.672	3.164.800	
	BV ST KG	30.09.12	0	21	21	6.230	0,0%	1.260.328	1.268.232	19.721.927	20.870.000	
	BV WG	30.09.12	533	14	547	31.834	2,4%	2.154.642	2.412.162	33.480.279	36.108.300	
	WAO	30.09.12	12	1	13	998	0,0%	117.632	127.938	2.438.738	2.614.600	
<b>Subtotal</b>	<b>BV AG*</b>	<b>30.09.12</b>	<b>3.710</b>	<b>173</b>	<b>3.883</b>	<b>240.804</b>	<b>3,6%</b>	<b>17.075.867</b>	<b>19.157.232</b>	<b>256.215.445</b>	<b>275.030.600</b>	
Colonia	COL Berlin	30.09.12	4.650	83	4.733	282.744	6,6%	14.945.524	17.012.284	191.144.536	206.188.600	
	COL Bremen	30.09.12	115	0	115	7.362	8,6%	336.966	371.874	3.884.382	4.205.000	
	COL Hamburg	30.09.12	1.565	18	1.583	100.812	14,0%	5.550.857	6.784.041	79.607.597	86.207.300	
	COL Ost	30.09.12	924	4	928	54.290	13,3%	2.371.393	2.887.198	27.797.115	30.110.000	
	COL Wohnen	30.09.12	353	0	353	19.903	5,7%	858.616	973.155	9.190.238	9.950.100	
	Colonia AG Teilkonzern	30.09.12	0	8	8	6.527	51,8%	460.546	832.865	10.387.400	11.170.000	
	DOMIUS	30.09.12	998	50	1.048	79.417	6,5%	4.984.720	5.748.286	70.801.781	76.240.000	
	EMERSON	30.09.12	8.710	31	8.741	534.217	23,4%	23.489.318	30.506.013	284.637.223	307.024.600	
	GPASMIUS	30.09.12	1.386	5	1.391	78.100	10,4%	3.883.331	4.467.979	47.756.013	51.575.000	
<b>Subtotal</b>	<b>Colonia*</b>	<b>30.09.12</b>	<b>18.701</b>	<b>199</b>	<b>18.900</b>	<b>1.163.371</b>	<b>15,8%</b>	<b>56.881.271</b>	<b>69.583.694</b>	<b>725.206.285</b>	<b>782.670.600</b>	
TAG Potsdam	TAG Potsdam	30.09.12	24.278	562	24.840	1.469.813	10,7%	73.397.191	86.022.275	970.991.193	1.047.302.400	
	Wohn-Invest	30.09.12	209	13	222	16.572	48,7%	438.064	880.380	8.026.246	8.683.800	
<b>Subtotal</b>	<b>TAG Potsdam*</b>	<b>30.09.12</b>	<b>24.487</b>	<b>575</b>	<b>25.062</b>	<b>1.486.385</b>	<b>11,1%</b>	<b>73.835.255</b>	<b>86.902.655</b>	<b>979.017.439</b>	<b>1.055.986.000</b>	
TAG AG	TAG 1. NFW	30.09.12	35	1	36	2.139	0,0%	142.295	146.322	1.743.476	1.889.000	
	TAG 2. NFW	30.09.12	34	4	38	2.159	1,8%	204.406	223.308	3.373.524	3.640.000	
	TAG Magdeburg (Theta PF)	30.09.12	618	10	628	37.163	3,3%	2.000.026	2.130.854	25.252.023	27.017.000	
	TAG NFW	30.09.12	1.397	59	1.456	92.565	8,0%	5.701.574	6.436.758	79.658.816	86.380.000	
	TAG SH-IMMO (Theta PF)	30.09.12	906	1	907	54.138	7,9%	2.835.492	3.156.903	35.559.760	38.541.000	
	TAG Wolfsburg (Theta PF)	30.09.12	457	5	462	30.784	0,0%	3.673.310	2.442.082	44.518.555	47.100.000	
	TAG AG	30.09.12	14	28	42	2.479	0,0%	235.828	243.141	3.372.919	3.600.000	
	TAG_CHEM	30.09.12	430	0	430	32.217	1,7%	1.823.237	1.933.012	23.402.380	24.530.000	
	TAG_GREBEN (Theta PF)	30.09.12	886	39	925	61.375	10,1%	3.001.605	3.558.958	39.654.132	42.400.600	
	TAG_KLOSTERPLATZ (Theta PF)	30.09.12	232	155	387	25.544	14,1%	1.423.487	1.591.494	16.009.086	17.210.000	
	TAG_LEIFZIG	30.09.12	335	6	341	18.266	4,7%	1.066.456	1.162.860	14.428.491	15.416.000	
	TAG_MARZAHN	30.09.12	612	0	612	43.591	2,3%	2.271.167	2.621.327	30.601.583	32.530.000	
	TAG_NOFD	30.09.12	709	82	791	51.147	6,1%	3.029.363	3.605.412	45.190.872	48.835.100	
	TAG_SACHS	30.09.12	989	58	1.047	67.167	9,3%	3.385.119	4.010.046	47.399.591	50.960.000	
	TAG_SPFEE	30.09.12	1.059	9	1.068	59.911	8,8%	2.714.031	3.223.470	36.032.697	38.300.000	
<b>Subtotal</b>	<b>TAG AG*</b>	<b>30.09.12</b>	<b>8.713</b>	<b>457</b>	<b>9.170</b>	<b>580.644</b>	<b>6,9%</b>	<b>33.507.395</b>	<b>36.485.947</b>	<b>446.197.904</b>	<b>478.348.700</b>	
TAG AM	PAFDONA KG	30.09.12	27	0	27	1.637	0,0%	94.307	97.426	1.352.212	1.451.000	
	SLUGT FL	30.09.12	77	105	182	25.462	15,3%	3.174.746	3.628.495	63.266.640	67.250.000	
	TAG_AM	30.09.12	92	104	196	17.395	3,5%	1.914.515	2.027.426	28.174.323	29.985.200	
	WENZ THG	30.09.12	71	0	71	5.297	3,6%	339.812	361.232	4.748.564	5.068.300	
	TAG_DHESD	30.09.12	0	0	0	0	-	0	0	140.948	151.000	
	FURSTENB	30.09.12	0	0	0	0	-	0	4.800	82.234	89.400	
<b>Subtotal</b>	<b>TAG AM*</b>	<b>30.09.12</b>	<b>267</b>	<b>209</b>	<b>476</b>	<b>49.791</b>	<b>9,4%</b>	<b>5.523.379</b>	<b>6.119.379</b>	<b>97.764.920</b>	<b>103.994.900</b>	
<b>Subtotal</b>	<b>(*) TAG Main</b>	<b>30.09.12</b>	<b>55.878</b>	<b>1.613</b>	<b>57.491</b>	<b>3.520.995</b>	<b>11,4%</b>	<b>186.823.168</b>	<b>218.248.908</b>	<b>2.504.401.994</b>	<b>2.696.030.800</b>	
<b>Subtotal</b>	<b>TAG Stadthaus</b>	<b>30.11.12</b>	<b>359</b>	<b>57</b>	<b>416</b>	<b>35.986</b>	<b>10,2%</b>	<b>2.768.121</b>	<b>2.962.278</b>	<b>30.928.159</b>	<b>32.900.000</b>	
<b>Subtotal</b>	<b>TAG Wohnen GmbH</b>	<b>31.12.12</b>	<b>11.341</b>	<b>158</b>	<b>11.499</b>	<b>712.369</b>	<b>4,8%</b>	<b>42.614.723</b>	<b>46.528.060</b>	<b>532.717.125</b>	<b>572.006.000</b>	
<b>Total</b>			<b>67.578</b>	<b>1.828</b>	<b>69.406</b>	<b>4.269.351</b>	<b>10,3%</b>	<b>232.206.012</b>	<b>267.739.247</b>	<b>3.068.047.277</b>	<b>3.300.936.800</b>	

#### 4 Fair Value in EUR by Sub Portfolio

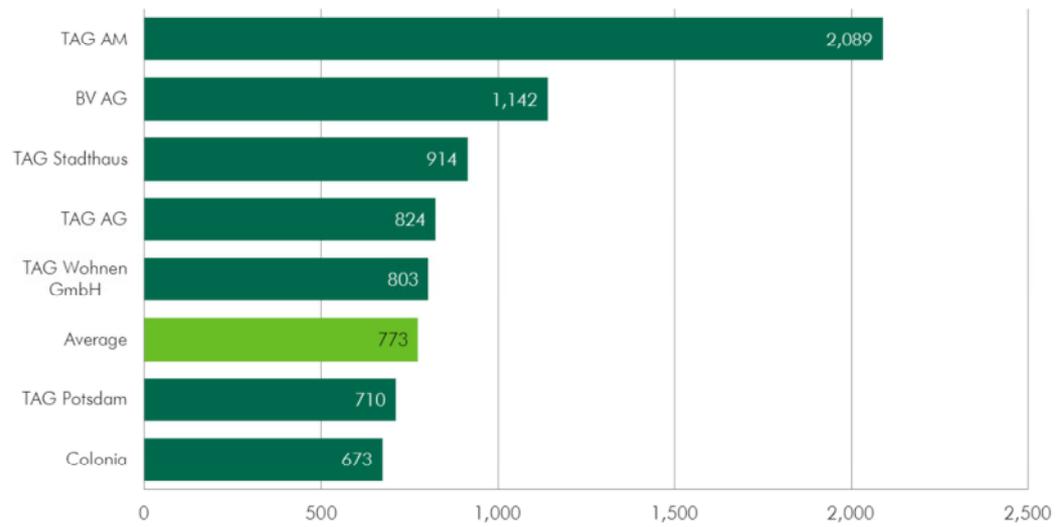
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The "TAG Potsdam" sub portfolio represents the biggest proportion of the TAG Residential Portfolio. It represents about one third of the total Fair Value (32.0%). The "TAG Stadthaus" has the smallest proportion of the total Fair Value (1.0%).

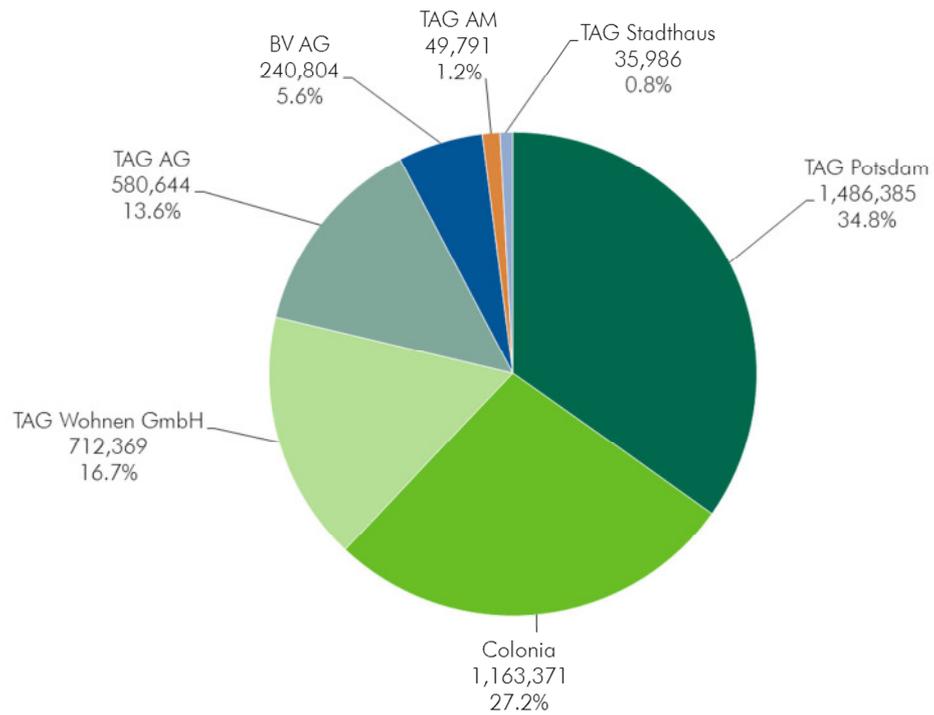
## 5 Fair Value by Sub Portfolio - EUR/sq m

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The Fair Values per sq m by sub portfolio range from EUR 673 to EUR 2,089. The "TAG AM" has the highest Fair Value per sq m with EUR 2,089. The average Fair Value is EUR 773 per sq m.

## 6 Lettable Area in sq m by Sub Portfolio

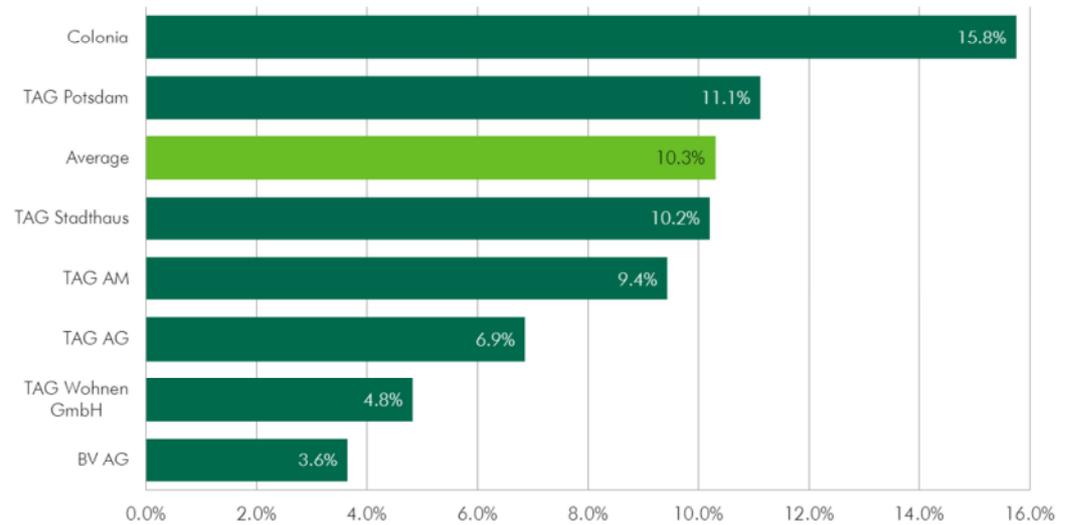


The TAG Residential Portfolio has a total lettable area of 4,269,351s qm. The biggest proportion has the "TAG Potsdam" with 1,486,385 sq m representing 34.8%.

"TAG Potsdam" and "Colonia" together represent more than 60% of the total portfolio.

## 7 Average Vacancy Rate by Sub Portfolio

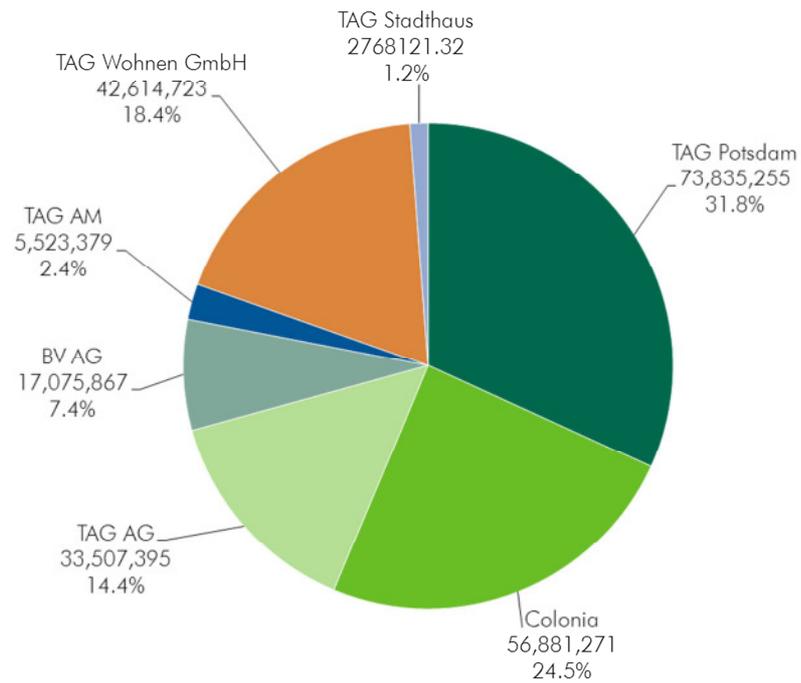
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The average vacancy rates of the sub portfolios range between 3.6% and 15.8%. The average vacancy rate of the TAG Residential Portfolio is 10.3%. The "Colonia" portfolio has the highest average vacancy rate (15.8%) and "BV AG" has the lowest (3.6%).

## 8 Current Rental Income (p.a.) by Sub Portfolio

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The total current rental income (p.a.) of the TAG Residential Portfolio amounts to EUR 232,206,012. The sub portfolios "TAG Potsdam" (31.8%) and "Colonia" (24.5%) have the biggest proportions on the current rent.

The TAG Stadthaus portfolio generates the smallest share of the rental income representing only 1.2% of the total current rent.

## 9 Key Valuation Data

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The following table shows the key valuation data on portfolio level:

Total lettable area:	4,269,351 sq m
Average Fair Value per sq m lettable area:	773 EUR
Current annual rental income (gross):	232,206,012 EUR
Potential annual rental income (gross):	257,343,471 EUR
Estimated gross rental value p.a.:	267,739,247 EUR
<b>Multiplier (based on current rent):</b>	13.2 times
Net capital value divided by current rental income (gross)	
<b>Multiplier (based on potential rent):</b>	11.9 times
Net capital value divided by potential rental income (gross)	
<b>Multiplier (based on Rental Value):</b>	11.5 times
Net capital value divided by estimated Rental Value (gross)	
<b>Net initial yield (based on current rent):</b>	5.4%
Current net rental income divided by gross capital value	
<b>Net initial yield (based on potential rent):</b>	6.8%
Potential net rental income divided by gross capital value	
<b>Net initial yield (based on Rental Value):</b>	7.1%
Market net rental income divided by gross capital value	

## PART II

## CONTENTS

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### VALUATION CERTIFICATE

1	Instruction	W-15
2	Purpose of Valuation	W-15
3	Principal	W-15
4	Valuer	W-16
5	Addressee	W-16
6	Publication	W-16
7	Dates of Valuation	W-16
8	Subject Properties	W-17
9	Concept of Value	W-17
10	Currency	W-17
11	Sources of Information	W-17
12	Inspection Units/ Inspection	W-18
13	Valuation Approach	W-18
14	General Valuation Assumptions	W-19
15	Fair Value	W-22
16	Market Instability	W-23
17	Confirmation of Independence	W-24

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## PART II VALUATION CERTIFICATE

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### 1 Instruction

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CBRE GmbH conducted a valuation of the mainly residential portfolio of the Principal, TAG Immobilien AG, which comprises 2,799 valuation units, with 67,578 residential units and 1,828 commercial units on an asset-by-asset basis as at 30 September 2012 (with respect to TAG Main), 30 November 2012 (with respect to TAG Stadthaus) and 31 December 2012 (with respect to TAG Wohnen).

CBRE assigned the 2,799 valuation units to 969 inspection units, except of the Wohn\_Invest portfolio and the undeveloped sites. (see paragraph 12).

As instructed, we compiled and delivered a Valuation Report, which will be incorporated in a securities prospectus in English language.

The assets were valued on the basis of valuation units.

### 2 Purpose of Valuation

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Our Valuation Report will be used by the Principal as one of many sources of information regarding the value of the subject properties which will be included in a securities prospectus for the public offering of notes and for internal IFRS accounting purposes. At the same time, the Valuation Report complies with the legal requirements, particularly the regulation (EG) No 809/2004 from 29 April 2004 and the given application note of the European Securities and Markets Authority (ESMA).

### 3 Principal

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TAG Immobilien AG

Steckelhörn 5

20457 Hamburg

#### 4 Valuer

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CBRE GmbH  
Hausvogteiplatz 10  
10117 Berlin  
Deutschland

(hereinafter referred to as "CBRE")

CBRE is a limited liability company (GmbH), registered in accordance with the commercial law of Germany, with the Commercial Register of the Local Court of Frankfurt am Main, under register no. HRB 13347. CBRE was founded on 3 April 1973 and has been present in Germany, with its headquarters in Feuerbachstraße 26-32 in Frankfurt/Main.

CBRE is not under a regulating regime of any public authority, however CBRE employs Members of the Royal Institution of Chartered Surveyors (RICS), a publicly appointed and sworn-in valuer and valuers accredited by HypZert GmbH in the business line valuation.

#### 5 Addressee

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This valuation statement is addressed to the Principal and may be published in a securities prospectus.

#### 6 Publication

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CBRE acknowledges and agrees that the Valuation Report will be published in an unabbreviated form in the English prospectus and will be referred to in marketing and other materials prepared in the context of the public offering of notes of the Principal. Apart from that, neither the whole nor any part of our Valuation Report nor any references thereto may be included in any published document, circular statement nor published in any way without our prior written approval of the form and context in which it will appear.

#### 7 Dates of Valuation

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As instructed the dates of valuation are

- 30 September 2012 (TAG Main)

- 30 November 2012 (TAG Stadthaus) and
- 31 December 2012 (TAG Wohnen).

## 8 Subject Properties

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The subject TAG Residential Portfolio comprises 67,578 residential units, 1,828 commercial units, 1,842 other units as well as 17,205 internal and external parking spaces. The total lettable area adds up to 4,269,351 sq m and is split into:

- Residential: 4,044,996 square meters ("sq m")
- Commercial: 224,355 sq m

The portfolio also comprises 123 undeveloped sites.

## 9 Concept of Value

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The subject properties have been valued to "Fair Value" according to IAS 40.5 in conjunction with IAS 40.37 of "International Financial Reporting Standards" (IFRS) that are published by the "International Accounting Standards Board" (IASB) and is defined as follows:

*"Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction."*

In the course of ascertaining the Fair Value, we incorporated the Principal's and its financial auditor's opinion and thereby identified the Fair Value as Gross Capital Value.

## 10 Currency

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The reporting currency is Euro (EUR).

## 11 Sources of Information

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The assessment of Fair Value was carried out based upon the information provided to us by the Principal or third parties instructed by the Principal in terms of a physical data room, data carriers and comprehensive correspondence. In addition the assessment is based on the inspection of the subject properties (inspection unit basis).

## 12 Inspection Units/ Inspection

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All 2,799 valuation units were assigned to 969 inspection units with similar age, condition, location, use type, building type and fitting.

Within the scope of the initial valuation all inspection units, representing approximately 75% of the current rental income, were inspected between 10 September 2012 and 2 October 2012. The inspection units were inspected both internally and externally. The remaining properties were inspected externally only in the same period of time, except of the Wohn\_Invest portfolio and the undeveloped sites.

## 13 Valuation Approach

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The determination of the Fair Value of the individual assets has been carried out using the internationally recognised Discounted Cash Flow (DCF) method. This method, which is based on dynamic investment calculations, allows valuation parameters to be reflected explicitly and, therefore, provides a transparent arithmetical determination of Fair Value. In the DCF method, the future income and expenditure flows associated with the subject asset are explicitly forecasted over a 10-year period of detailed consideration, assuming a letting scenario which is not taking into account any potential privatisations of individual apartments. The cash flows calculated for the period of detailed consideration are discounted, monthly in advance, to the effective date of valuation, allowing the effect on the current Fair Value of the receipts and payments at varying dates during the 10-year period to be properly reflected.

The discount rate chosen reflects not only the market situation, location, condition and letting situation of the asset and the yield expectations of a potential investor but also the level of security of the forecast future cash flows. As the discounting process means that the effect of future cash flows reduces in importance while at the same time the uncertainty of forecasting tends to increase over time, it is usual in real estate investment considerations for the sustainable net rental income after a ten-year time horizon (the period of detailed consideration) to be capitalised, using a growth-implicit yield, and then discounted to the effective date of valuation.

The assumptions adopted in the valuation model reflect the average estimates that would be made at the respective effective date of valuation by investors active in the market.

## 14 General Valuation Assumptions

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### 14.1 Floor Areas

If not otherwise stated, we have not measured the properties but have relied upon the schedules of area that were provided to us within the tenancy lists and additional information. In undertaking our work, we have assumed that these floor areas are correct.

### 14.2 The Property

Landlord's fixtures such as lifts, escalators, central heating and other normal service installations have been treated as an integral part of the building and are included within our valuations. Tenant-specific process plant and machinery, tenants' fixtures and specialist trade fittings have been excluded from our valuations.

### 14.3. Contamination and site condition

If no information to the contrary has been brought to our attention, we have assumed that the subject properties are not contaminated and that no contaminative or potentially contaminative use is, or has ever been, carried out at the properties. Since no information to the contrary has been brought to our attention, we are not aware of any environmental audit or other environmental investigations or soil surveys which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination.

As we had not been specifically instructed, we have not undertaken any investigation into the past or present uses of either the properties or any adjoining or nearby land, to establish whether there is any potential for contamination from these uses and assume that none exists.

Should it, however, be subsequently established that such contamination exists at the properties or on any adjoining land or that any premises have been or are being put to contaminative use, this may have a detrimental effect on the value reported.

### 14.4 Technical Survey

CBRE inspected most of the properties but did not carry out any building surveys. The properties have not been measured as part of CBRE's inspection nor have the services or other installations been tested.

#### **14.5 Legal Requirements / Consents and Authorization for the Use of the Property**

An investigation of the compliance of the properties with legal requirements (including (permanent) planning consent, building permit, acceptance, restrictions, building, fire, health and safety regulations etc.) or with any existing private-law provisions or agreements relating to the existence and use of the site and building have not been carried out.

In preparing our valuation, we have assumed that all necessary consents and authorizations for the use of the property and the processes carried out on the properties are in existence, will continue to subsist and are not subject to any onerous conditions.

#### **14.6 Title, Tenure, Planning and Lettings**

The Fair Value assessment is based on the rent roll provided, the extracts from the land register as well as information from the Principal.

Thus:

- 15 of the properties are built on sites which are subject to heritable building rights and 417 of the valuation units are subject to German Condominium Law (WEG).
- The remainder of the properties inclusive of their sites is in the freehold of the Principal or its sub companies;
- there are no major circumstances which have a major negative impact on Fair Values resulting from encumbrances and limitations in section II of the land register;
- we assume that the lease contracts listed in the rent roll were in existence at the effective date of valuation;
- there are no entries in the land charges register with a negative impact on Fair Values.

#### **14.7 Rent Control**

According to the information provided to us by the Principal, 3,604 of a total of 67,578 residential units (about 5.3%) are subject to rent controls (publicly subsidized).

#### **14.8 Monument Protection**

According to the information provided to us by the Principal, there are 283 valuation units which are listed monuments.

#### **14.9 Tenants**

No investigations have been carried out concerning either the status of payments of any contractually agreed rent at the effective date of valuation, or of the creditworthiness of any tenant(s). Since no information to the contrary has been brought to our attention, we have assumed that there are no outstanding rental payments and that there are no reservations concerning the creditworthiness of any of the tenants.

#### **14.10 Taxes, Contributions, Charges**

Since no information to the contrary has been brought to our attention, we have assumed that all public taxes, contributions, charges etc. which could have an effect on value, have been levied and paid as at the effective date of valuation.

#### **14.11 Insurance Policy**

Since no information to the contrary has been brought to our attention, we have assumed that the subject properties are covered by a valid insurance policy that is adequate both in terms of the sum assured and the types of potential loss covered.

#### **14.12 Assumptions regarding the Future**

For the purpose of determining the Fair Value of the subject properties, we have assumed that the existing business will continue (as regards both the manner and the extent of usage of the subject properties) for the remainder of the useful life determined for the buildings, or that comparable occupants would be available to take over the use of the subject properties.

#### **14.13 Pending Litigation, Legal Restrictions (Easements on Real Estate, Rent Regulation etc.)**

Since no information to the contrary has been brought to our attention, we have assumed that the properties are free from any pending litigation, that the ownership is unencumbered and that there are no other legal restrictions such as easements on real estate, rent regulations, restrictive covenants in leases or other outgoings which might adversely affect value.

#### **14.14 Comment on Serviced Apartments**

Three properties in Leipzig are serviced apartments (located in Feuerbachstr. 17,17a; Nonnenstraße 21, 21a; Markgrafenstr. 10). The gross turnover of these buildings was reduced by a lump sum of 3.50 EUR/sq m/p.m. in order to calculate the gross rental income. This amount is based on experience numbers from comparable properties and valuations.

### **15 Fair Value**

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Based upon the provided information, the specific comments and assumptions, we are of the opinion that the aggregate of the individual Fair Values of the assets of the TAG Residential Portfolio, rounded on an asset-by-asset basis, as at the specific dates of valuation, is:

**EUR 3,300,936,800**

**(Three billion three hundred million and nine hundred thirty six thousand eight hundred Euros)**

The unrounded gross capital value is 3,300,933,535EUR. The net capital value is 3,068,047,277 EUR excluding 233,151,235 EUR purchaser's costs (7.6% of the net capital value).

The aggregate of the individual Fair Values presented here takes into account the marketing period of the individual properties and does not reflect any discount or premium on the sale of the whole portfolio.

In the course of ascertaining the Fair Value, we incorporated the Principal's and its financial auditor's opinion and thereby identified the Fair Value as Gross Capital Value.

There are no negative values to report.

The following table below shows the split of values between freehold and leasehold assets:

	Number of Valuation Units	Fair Value
Freehold	2.784	3,208,657,900 EUR
Leasehold	15	92,278,900 EUR

## 16 Market Instability

We would draw your attention to the following comment regarding current market conditions.

The values stated in this report represent our objective opinion of Fair Value in accordance with the definition set out above as of the effective date of valuation. Amongst other things, this assumes that the properties had been properly marketed and that exchange of contracts took place on this date.

Going forward, we would draw your attention to the fact that the current volatility in the global financial system has created a significant degree of turbulence in commercial real estate markets across the world. Furthermore, the lack of liquidity in the capital markets means that it may be very difficult to achieve a sale of property assets in the short-term. We would therefore recommend that the situation and the valuations are kept under regular review, and that specific marketing advice is obtained should you wish to effect a disposal.

## 17 Confirmation of Independence

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Hereby, we affirm that CBRE has carried out the Fair Value assessment to the best of our knowledge as an external valuer, by order of the Principal and that all previous valuations for the Principal represent less than 5% of the annual turnover of the business line Valuation of CBRE GmbH. In addition, we point out that we have no actual or potential conflict of interest that could have influenced CBRE's independence.

Yours faithfully

Yours faithfully

**Dr. Henrik Baumunk**

Managing Director

Head of Residential Valuation Germany

For and on behalf of  
CBRE GmbH

**ppa. Andreas Polter**

Director

Team Leader Residential Valuation

For and on behalf of  
CBRE GmbH

**30.2. Portfolio held by TAG Gewerbe and TAG Logistik Immobilien GmbH & Co. KG**



OTTO & KOLLEGEN · Kaiserdamm 82 · 14057 Berlin

Date: 24 May 2013

## Valuation Report

of the property portfolio containing 27 properties owned by



hereinafter referred to as „TAG“.

Effective date of  
valuation: 30 September 2012

## Property Overview

<b>AREA</b>	Area in square meters	284.809
	Untenanted square metres	7.309
	Percentage untenanted space	2,6
<b>EFFEC-TIVE RENT</b>	Effective rent on areas	21.950.988
	Effective overall rent per sqm	6,6
	Total effective rent p.a.	23.114.953
<b>ATTAINABLE RENT</b>	Attainable rent on areas	23.327.725
	Attainable overall rent/sqm	6,8
	Attainable total rent	24.722.175
	Over-/ Underrent % Flächen	-5,9%
	Total operating cost (%)	13,0%
	Total operating cost (€)	3.214.527
	Property return (%)	5,4
	Market value (€)	354.060.000
	Market value per sqm	1.243
	Effective RoE	15,3
	Net yield	6,5
	RoE multiplier	14,3
Attainable net yield	7,0	
<b>TOTAL "RESIDENTIAL"</b>	Area in sqm	3.223
	Unoccupied sqm	180
	Unoccupied %	23,8
	Total effective rent p.a.	308.028
	Effective rent per sqm	8,4
<b>TOTAL "COMMERCIAL"</b>	Area in sqm	281.587
	Unoccupied sqm	7.129
	Unoccupied %	2,5
	Total effective rent p.a.	21.642.960
	Effective rent per sqm	6,6
<b>TOTAL "VARIOUS"</b>	pieces	3.825
	Unoccupied pieces	406
	Unoccupied %	10,6
	Total effective rent p.a.	1.163.940
	Effective rent per piece	28,4

## Table of contents

<b>1</b>	<b>Preliminary Remarks.....</b>	<b>W-29</b>
<b>2</b>	<b>Determination of commercial values .....</b>	<b>W-31</b>
2.1	Choice of procedure and justification.....	W-31
<b>3</b>	<b>Annotations about the market data used in this appraisal .....</b>	<b>W-32</b>
<b>4</b>	<b>Overview commercial properties .....</b>	<b>W-34</b>
4.1	Rental income of commercial properties .....	W-34
4.2	Market value of commercial properties .....	W-34
4.3	Market value of commercial properties .....	W-35
4.4	Allocation of commercial properties .....	W-35
4.5	Unoccupied commercial properties .....	W-36
<b>5</b>	<b>Abstract and commercial value.....</b>	<b>W-37</b>
<b>6</b>	<b>Bibliography .....</b>	<b>W-38</b>
<b>7</b>	<b>German Legal foundations of the appraisal of commercial values .....</b>	<b>W-38</b>
<b>8</b>	<b>Detailed attachment to the Summary Valuation Report .....</b>	<b>W-39</b>
<b>9</b>	<b>Explanation of the applied appraisal methods.....</b>	<b>W-41</b>
9.1	Gross earning method (according to article 18 ImmoWertV) .....	W-41
9.2	Cost of operation (according to article 19 ImmoWertV) .....	W-41
9.3	“Yield on property“ (according to article 14, paragraph 3 ImmoWertV) .....	W-41
9.4	Remaining useful life (according to article 6, paragraph 6 ImmoWertV) .....	W-41
9.5	Special, property-specific features (according to article 8, paragraph 3 ImmoWertV) .....	W-41
9.6	Capitalized earnings value.....	W-41
<b>10</b>	<b>The “comparative model“ used in the appraisal of properties.....</b>	<b>W-42</b>

## 1 Preliminary Remarks

Client:	TAG Immobilien AG, represented by Mr. Rolf Elgeti, Mr. Georg Griesemann, Dr. Harboe Vaagt and Ms. Claudia Hoyer
Coverage of appraisal:	Assessment of the TAG's commercial property portfolio held by its subsidiaries TAG Gewerbeimmobilien AG and TAG Logistik Immobilien GmbH & Co. KG
Inducement of assignment:	Preparation of a securities prospectus
Appraisal's recipients :	TAG Immobilien AG
Effective date of valuation:	30 September 2012: Properties of: <ul style="list-style-type: none"> <li>- TAG Gewerbeimmobilien AG</li> <li>- TAG Logistik Immobilien GmbH &amp; Co. KG</li> </ul>
Days of viewing:	10 May 2010 through 13 September 2012
Specifics:	<p>The assessment was conducted according to the ordinance of IAS 40 using the corresponding criteria which were employed during the establishment of the annual consolidated financial statements. Except one property, all properties are freehold.</p> <p>The "key date" (under German law referred „Qualitätsstichtag“ according to §4 Paragraph 1 ImmoWertV) is equivalent to the effective date of valuation. There are no known legal or other reasons implying that the condition of the assessed properties should be valued in regard of an earlier or later point in time.</p> <p>Considering the size of the given appointment, some properties had to be inspected by external appraisers. In part, some properties could only be inspected from the outside. Data concerning actual rents were delivered by TAG and summarized. This data is the foundation of our determination regarding the capitalised values found below. Any abatement of rent or arrears of rent known have been taken into account where applicable. Any irregularities unknown to Otto &amp; Kollegen (hereinafter also referred to as "OuK") could not be taken into account. OuK is also not responsible for any uncharted information or rights regarding liabilities not recorded in the register of real estate (i.e. fixed rents or fixed contracts).</p> <p>Some real estates are bound by building lease. These were considered appropriately. Outstanding building measures have been communicated by TAG and were also included in the appraisal.</p> <p>On some landed properties the conservation of the inspected buildings is economically not justifiable, because the cost of reconstruction would exceed the expectable rent. Therefore, in these cases, OuK substituted the commercial value with "land value plus cost of stripping" (in accordance with article 16, paragraph 31 ImmoWertV).</p> <p>Hereby, we affirm that Otto und Kollegen has carried out the Fair Value assessment to the best of our knowledge as an external valuer, by order of the Principal and that all previous valuations for the Principal represent less than 10% of the annual turnover of the business line Valuation of Otto und Kollegen. In addition, we point out that we have no actual or potential conflict of interest that could have influenced Otto und Kollegen's independence.</p>

Bounds of the appraisal:

For one property a part of the property is leasehold and a part is freehold. This is considered in the valuation. With the above mentioned exception there are no leasehold properties.

**Defects or deficiencies in construction and/or structural damage:**

These deficits were only captured as far as they appeared to be relevant to the commercial value. The deficiency statement is limited to visual and non-destructive analysis. Specialized examinations regarding directly visible hidden faults or inaccessible parts have not been conducted. Any mentioning of found deficiencies does not exclude the probability of further deficits. This appraisal and all of its parts do not constitute a final statement about constructional defects. Functional checks of technical equipment or installation were not part of the assignment. Known defects and problems have been forwarded to OuK by TAG's asset managers and were incorporated in the evaluation.

**Description of buildings and features:** Only features which can be inspected without destruction or comparable hardship are mentioned. Statements about non-visible parts or details refer to information found in accompanying documents, instructions given during the inspection or assumptions on standards given at the time of the construction. Functional capabilities of individual building elements, components, features and installations were not verified. In this expertise, a fully working condition is assumed. Basic descriptions were submitted by TAG's asset management.

**Vermin and harmful substances:** Explorations on vermin of plant or animal origin and harmful materials (i.e. wood preservatives or formaldehyde) as well as residual waste with regard to the "Law about soil conservation" ("Bundesbodenschutzgesetzes") were not carried out.

**Building ground:** Special ground situations and given locations were included as far as they influenced the standard ground value. Further research has not been executed.

**Building law:** Appraisements have been carried out based on actual existing buildings. Accordance of the structural works and their usage with building law and building permissions are presupposed.

**Tenancy agreements:** In order to appraise the portfolio, lawfulness and validity of the rental agreements are implied. An estimation of the legal validity of these contracts is subject to attorneys at law.

**Disclosures:** Existing documents and files have been given to OuK by TAG and their employees. Any missing information crucial to fulfilling the assignment were obtained via telephone.

## 2 Determination of commercial values

### 2.1 Choice of procedure and justification

The goal of every determination according to article 194 of the German building law code (“BauGB”) is “the finding of a price in line with the market”, otherwise known as “commercial value”.

This commercial value is, by definition, “determined by the price which could be successfully realized on the market, at the time the appraisal relates to, in an ordinary course of business, conforming to legal conditions, consistent with the actual features and characteristics of the estate or the other subject of the assessment without any consideration of (according to article 7 ImmoWertV) unusual or personal circumstances.”

To ascertain a value as close to the market as possible (meaning a value which is equal to a realistic selling price), the appropriate procedure suiting the property at hand has to be chosen. The commercial value has to be derived from the result of the chosen procedure considering its meaningfulness.

There are two major criteria on which the evaluation procedure is chosen (see article 8, paragraph 1 ImmoWertV):

1. Which procedures are able to reconstruct the pricing mechanisms for this property?
2. Which procedures are suitable based on the general data available on the property as well as on the surrounding market?

#### Determination of land values

Usually, the land value is determined by the „standard land value<sup>1</sup>“, in some cases by comparison of prices paid for land close to the property in question. By adjusting the chosen “standard land value“ and/or the found reference prices to the current real estate, the individual features of the assessed property are balanced.

**For the properties given in this assignment, suitable “standard land values“ were available. The range of the standard land values were compared with common indexes and the quality of the locations in general and found to be plausible. Therefore, the determination of the land values was conducted on these grounds. Wherever existing buildings should be demolished, the cost of demolition was subtracted from the land value as mandated in article 16, paragraph 31 ImmoWertV.**

#### Capitalized value

Properties which usually serve as a source of revenue and are not intended to be used by the owner himself are usually appraised using the procedure called „capitalized value“.

**In TAG’s case, all properties intend to yield return on managed assets. Therefore, this procedure was chosen on principle.**

#### Comparative value method

If a sufficient supply of actual market prices or comparison coefficients<sup>2</sup> can be found, the attainable price for a property can be found individually using the comparative value method.

**There is not enough comparison data present fitting the properties held by TAG. Partly, known data was used or actual market prices of surrounding objects were obtained to back up comparisons.**

#### Asset value method

Property which is used by its owner for his or her own purposes, regardless of the realization of any profits is valued using the asset value method.

**The objects insides TAG’s portfolio did not necessitate using the asset value method.**

<sup>1</sup> The standard land value represents a price per square meter for properties with a similar use in a determined zone.

<sup>2</sup> Most times this is an average price per square meter for a certain kind of property.

### 3 Annotations about the market data used in this appraisal

#### Land areas

The applying land areas were gathered from the appropriate cadastral registers.

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#### Standard ground value

The standard ground values were taken from publications by the responsible „advisory committee for ground values“.

The zonal standard ground value is an average value of the ground contained in a variety of consolidated properties („zone“), which essentially shares the kind of common usage and value (article 196 BauGB). The „advisory committee for ground values“ is obliged to develop and publish standard ground values derived from actually realized market prices (see article 193, paragraph 3 BauGB). These values are expressed on a square meter basis (Euro/square meter).

Anomalies of an assessed property to reference values such as:

- value-altering factors (i.e. building site preparation, special location, degree of constructional usage, soil condition, overall appearance) as well as
- differences between the time of the appraisal and the point in time when a comparable property was sold or the standard ground value was determined

will result in a difference of the ground value from the compared market price respectively the standard ground value.

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#### Gross earning

The signatories have received unsigned lists containing contractual rental prices. A verification of de facto received rental receipts has not been the matter of this appraisal.

The gross earning is defined as „the commercially available basic rent“ (see article 18, paragraph 2 ImmoWertV).

For any untenanted units, a realistic achievable rent is applied.

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#### Operating cost

It was held in greatest respect that the same basis of calculation was employed which was used to deduct the property return, otherwise projections based on expert experience, inspired by the „II. Berechnungsverordnung“ (German computation ordinance) were considered.

The costs of maintenance were calculated to maintain the „Earnings found at time of assessment“ (see article 19, paragraph 2 ImmoWertV).

Implied cost of refurbishment is serving the purpose to increase standards and therefore enforceable rental fees are also noted under „specific property attributes“.

Buildings placed under preservation order, if applicable, resulted in an addition to the ascertained operating costs.

## **All risks property yield**

The all risks property yields were extracted from the property market reports or national publications.

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## **Remaining useful life**

An approach to the remaining useful life of a property is defined by the difference between "usually expected useful life" and "actual age on report date". This period is extended (meaning the building is considered "younger" than it actually is) if relevant measures of modernization have been taken or if there is reason to imply that certain necessary measures of modernization can be taken as a given.

To determine the „usually expected useful life“– especially considering upcoming or immediate refurbishments – we chose the mathematical model of the “Upper advisory committee North Rhine-Westphalia“ („Oberer Gutachterausschusses Nordrhein-Westfalen“) or accommodated the default values for the remaining useful life by the local advisory committee.

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## **Present value factor**

The present value factor is an operand belonging to „the gross rental method“ and includes the fact that earnings from a property (rents) are not collected at once but over a time frame of several years, hence effects of interest and inflation have to be taken into account. The present value factor is defined by the property return and the remaining useful life. It is calculated subsequent to the formula explained in Addendum 1 or 2 (see article 20 ImmoWertV).

---

## **Further object-specific property features**

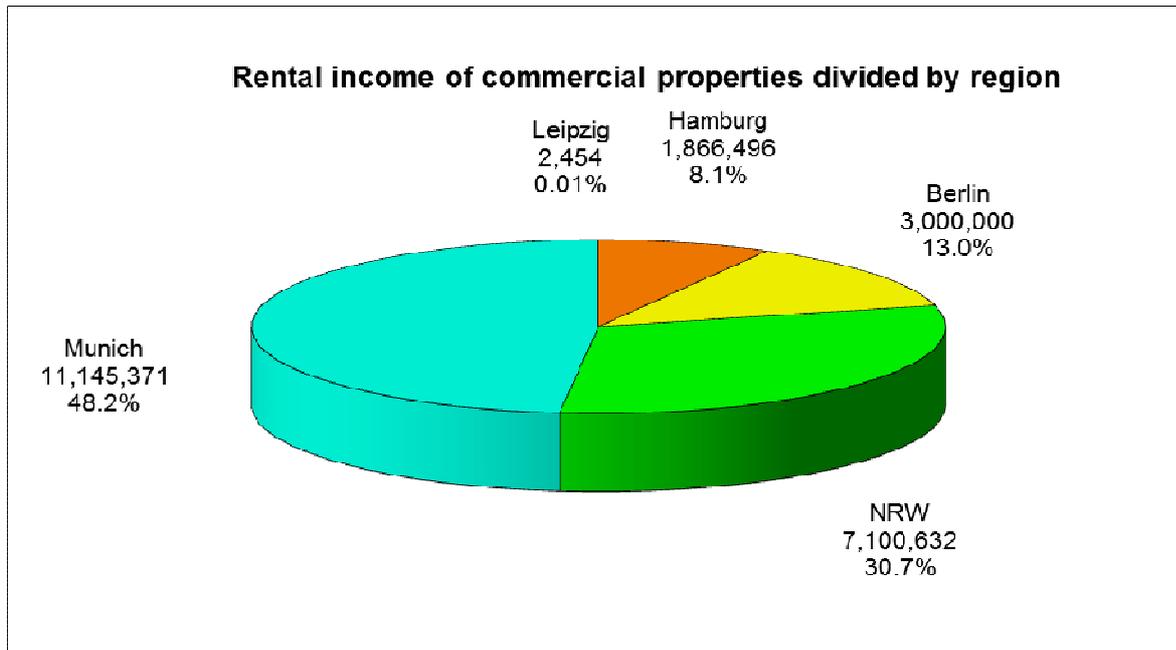
Some facts which impact the value of a property and which have not been considered during the calculation during the gross rental method are clarified in this section. These facts are weighted to the degree as they were obvious or conveyed by TAG or their personnel.

Assessed costs for maintenance and repair are sufficient to secure the properties' condition to yield commercially available rents.

## 4 Overview commercial properties

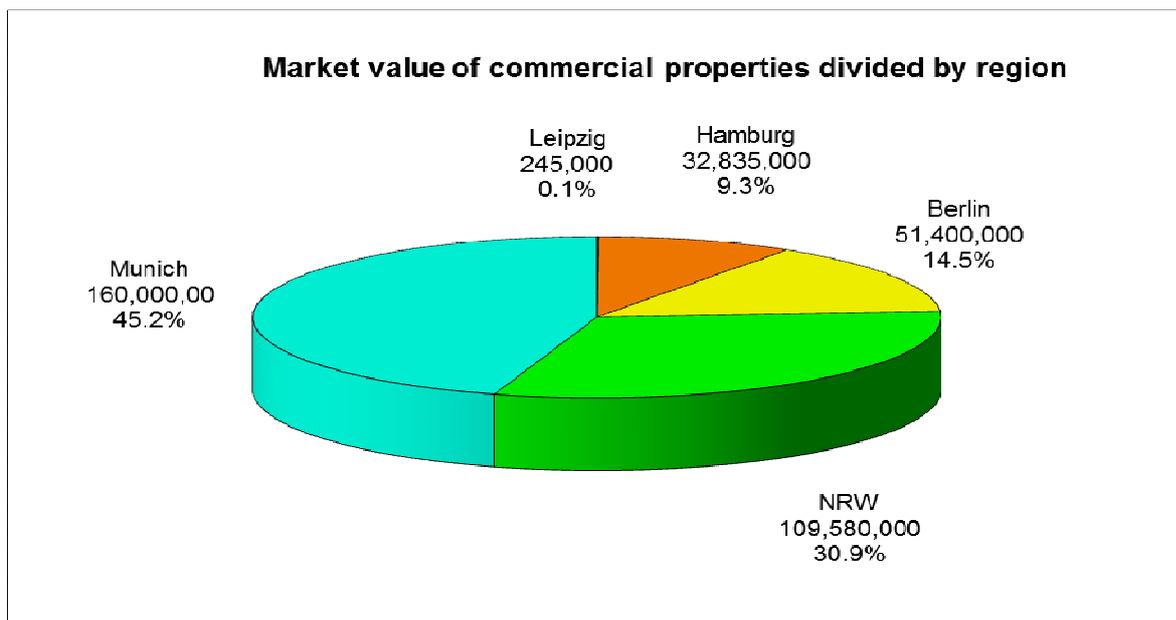
### 4.1 Rental income of commercial properties

Divided by region  
(Total: 23,114,953 €)



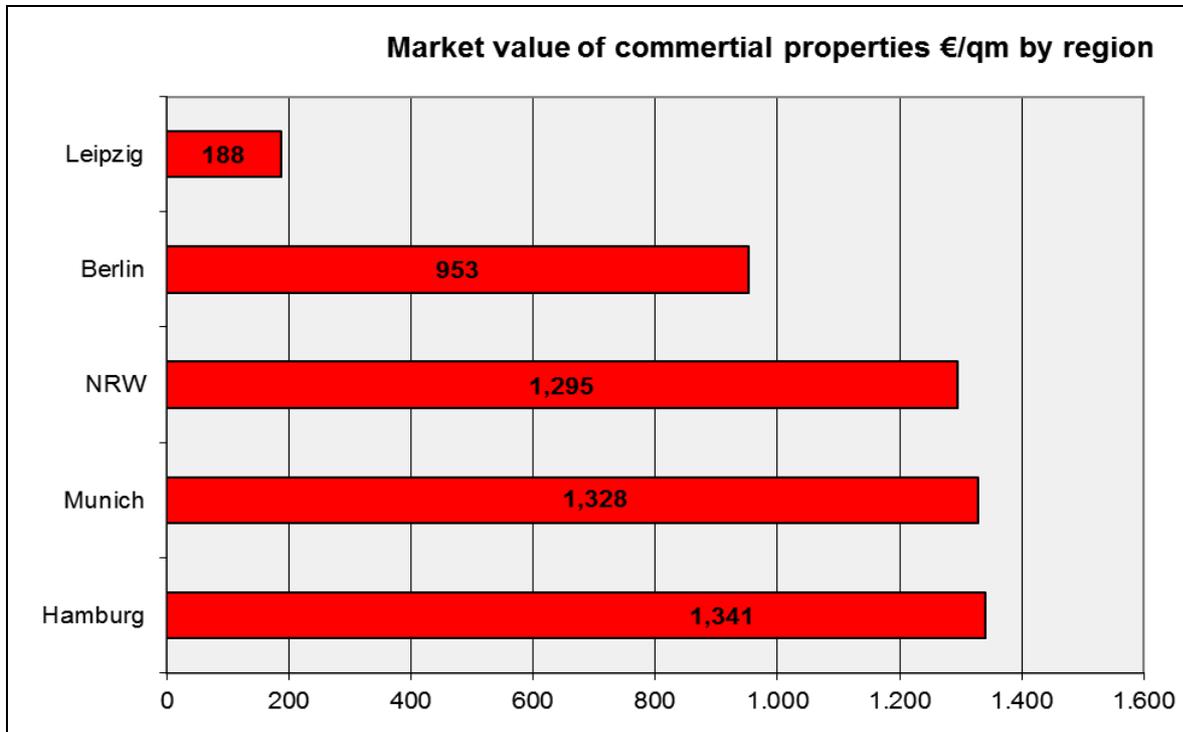
### 4.2 Market value of commercial properties

Divided by region  
(Total: 354,060,000 €)



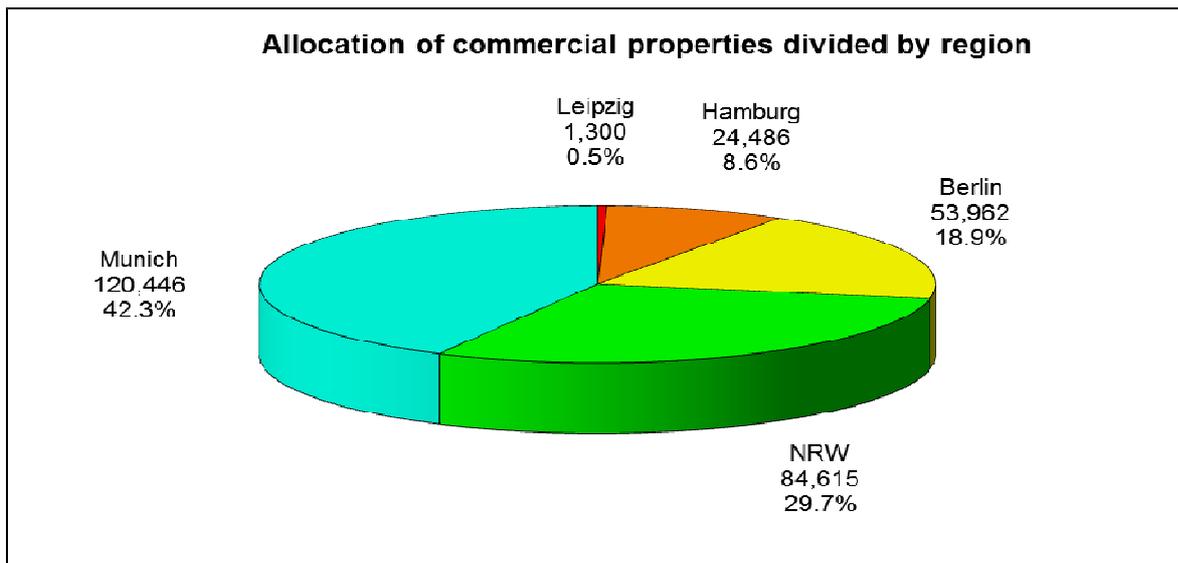
### 4.3 Market value of commercial properties

Market price in euros per square meter, divided after region



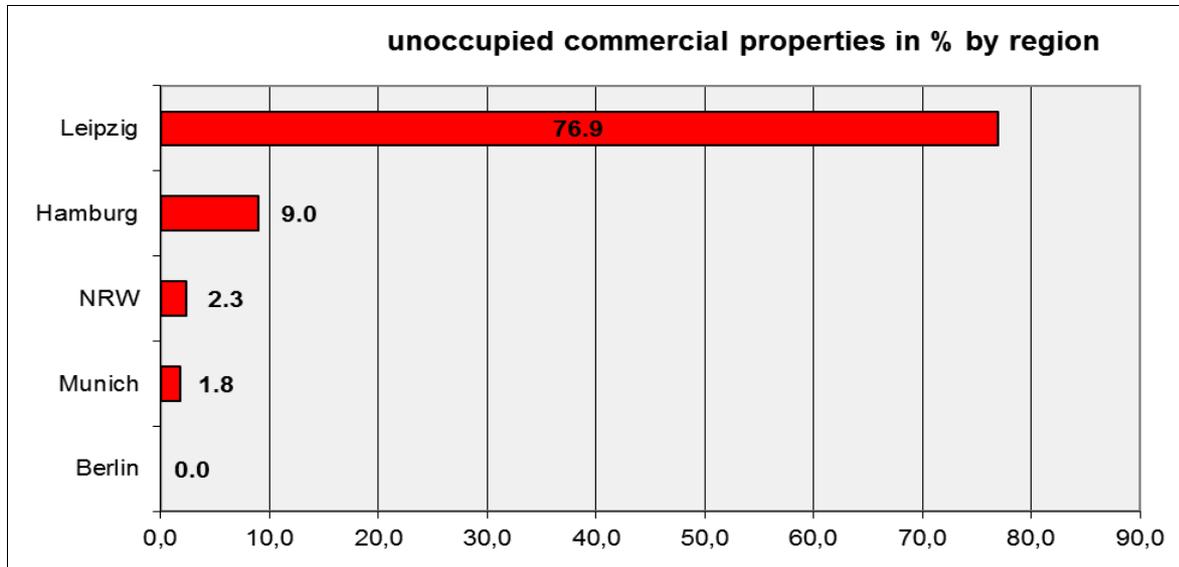
### 4.4 Allocation of commercial properties

Square Meters owned in commercial properties, divided by region  
(Total: 284,809)



#### 4.5 Unoccupied commercial properties

Percentage of untenanted commercial properties, divided by region



## 5 Abstract and commercial value

**The given portfolio consists of mixed apartment and commercial buildings, office and business buildings and straight commercial properties.**

**According to our findings, the commercial value/market value of TAG's property portfolio dating to the effective date of valuation 30 September 2012 aggregates to a total of**

**354,060,000.00 Euro**

**(three-hundred-fifty-four-million-sixty-thousand Euro)**

The preceding appraisal has been conducted following detailed inspection of the properties and their circumstances and thorough examination und in all best conscience. We hold neither personal nor economical ties to any involved party. We have no vested interest in the outcome of this appraisal.

The appraisers also certify through their signature that no reasons for refusal whatsoever are existent, which could construe any doubtfulness of any of us or of our statements.

Berlin, 24 May 2013

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**Mirko Otto**

Graduated industrial engineer  
(University of applied sciences)

Officially appointed by the Berlin chamber of commerce and industry and sworn appraiser, competent for the assessment developed and undeveloped real estate.

Certified also by "WertermittlungsForum Zertifizierungsgesellschaft für Grundstückssachverständige mbH" Sinzig, Germany, for the assessment developed and undeveloped real estate, with the main focus on commercial and market values, including assessments for financial purposes, Certificate number. 0102-004

CIS Hyp Zert (F)

## 6 Bibliography

- [L 1] **Sprengnetter Immobilienbewertung (Hrsg.):** Loseblattsammlung Marktdaten und Praxishilfen, Sinzig
- [L 2] **Sprengnetter Immobilienbewertung (Hrsg.):** WF-Bibliothek, EDV-gestützte Entscheidungs-, Gesetzes-, Literatur- und Adresssammlung zur Grundstücks- und Mietwertermittlung, WertermittlungsForum, Sinzig
- [L 3] **Kleiber, Simon, Weyers:** Verkehrswertermittlung von Grundstücken, Bundesanzeigerverlag, Köln
- [L 4] **Gerardy, Möckel, Troff:** Praxis der Grundstücksbewertung, Verlag Moderne Industrie, Loseblattsammlung, Landsberg am Lech
- [L 5] **Schmitz, Krings, Dahlhaus, Meisel:** Baukosten 2010, Instandsetzung / Sanierung / Modernisierung / Umnutzung, Verlag für Wirtschaft und Verwaltung Hubert Wingen, Essen
- [L 6] **Geschäftsstelle des Gutachterausschusses für Grundstückswerte in den jeweiligen Landkreisen:** Der Grundstücksmarktbericht

## 7 German Legal foundations of the appraisal of commercial values

- BauGB:** „Baugesetzbuch“ (“Building law code”) as amended on its announcement on 23 September 2004 (Federal law gazette I Page 2414), last amended on 22 July 2011 (Federal law gazette I S. 1509)
- BauNVO:** „Baunutzungsverordnung“ („Federal land utilization ordinance – Act on constructional use of properties“) of 23 Januar 1990 (Federal law gazette I 1990, Page 132), last amended by article 3 of the “Investitionserleichterungs- und Wohnbaulandgesetzes” (“Law for the alleviation of investment and on residential building land”), 22 April 1993 (Federal law gazette I 1993, Page 466)
- ImmoWertV:** „Immobilienwertermittlungsverordnung“ („Act on the appraisal of real estate values“), 19 May 2010
- WertR:** „Richtlinien für die Ermittlung der Verkehrswerte (Marktwerte) von Grundstücken“ („Guidelines on the appraisal of commercial values (market values) on real estate“ as amended 19 June 2002 (Federal Bulletin No. 238a, December 20th, 2002) including the notification from 1 July 2006 (BAnz No. 121 P. 4798)
- BGB:** „Bürgerliches Gesetzbuch“ („civil law code“) from 2 January 2002 (BGBl. I P. 42, 2909), last amended by article 1 of the law from 27 July 2011 (BGBl. I P. 1600)

## **8 Detailed attachment to the Valuation Report**

	Property type	Segment/region	City	Address	TAG subgroup	Identcode	WE	Area (sqm)	Effective rent p.a.	Attainable rent p.a.	Over-/Underrent percentage of area	Market value in €	Average value per sqm
1	Sonstige	Leipzig	Leipzig	Grundstück Heiterblickstr. 26	TAG-GI	GI-AG	7003	1.300	2.454	2.454	0,0%	245.000	188
2	Gewerbe	Hamburg	Norderstedt	Oststraße 73c (bebaut)	TAG-GI	GI-AG	7005	12.358	620.356	620.356	0,0%	8.020.000	649
3	Sonstige	Hamburg	Norderstedt	Grundstück Oststraße 73c (unbebaut)	TAG-GI	GI-AG	7005	0	0	0	0,0%	2.200.000	0
4	Gewerbe	NRW	Köln	Neue Eilerstr. 50-52	TAG-GI	GI-AG	7006	4.613	264.704	271.184	0,0%	3.250.000	705
26	Gewerbe	NRW	Heilbronn	Titotstraße 7-11	TAG-GI	GI-AG	7009	4.178	400.002	401.802	-0,5%	4.970.000	1.190
5	Gewerbe	NRW	Köln	Innere Kanalstraße 69	TAG-GI	GI-AG	7011	4.255	479.387	503.740	-2,4%	6.700.000	1.575
6	Gewerbe	Hamburg	Hannover	Vahrenwalder Straße 12-14	TAG-GI	GI-AG	7012	1.422	21.156	104.856	-79,3%	1.100.000	774
7	Gewerbe	NRW	Arnsberg	Steinweg 13	TAG-GI	GI-AG	7013	1.698	27.664	70.674	-60,9%	710.000	418
8	Gewerbe	München	Puchheim	Boschstr. 1	TAG-GI	GI-AG	7040	2.716	386.751	386.752	0,0%	5.500.000	2.025
27	Gewerbe	Hamburg	Oldenburger	Klostermark 70-80	TAG-GI	GI-AG	7053	0	0	0	0,0%	845.000	4
9	Gewerbe	München	Starnberg	Osswaldstr.	TAG-GI	GI-AG	7057	5.492	942.428	1.029.104	-8,0%	13.400.000	2.440
10	Gewerbe	München	Dachau	Hochstr. 27	TAG-GI	GI-AG	7058	3.625	514.662	561.483	-8,3%	7.500.000	2.069
11	Gewerbe	München	Gersthofen	Porchestr. 5	TAG-GI	GI-AG	7059	1.995	365.392	365.392	0,0%	4.500.000	2.256
12	Gewerbe	NRW	Bendorf	Hauptstraße 186	TAG-GI	GI-AG	7060	1.536	86.970	86.970	0,0%	950.000	618
13	Gewerbe	München	Nürnberg	Bartholomäusstraße	TAG-GI	GI-AG	7063	15.455	1.499.549	1.562.809	-4,0%	23.500.000	1.521
14	Gewerbe	München	Nürnberg	Königstorgraben	TAG-GI	GI-AG	7064	2.595	303.147	304.667	-0,6%	4.900.000	1.888
15	Gewerbe	München	Unterschleißheim	Gutenbergstr. 5	TAG-GI	GI-AG	7070	21.465	1.932.991	1.959.390	0,0%	29.200.000	1.360
16	Gewerbe	Hamburg	Stelle	Harburger Str. 1	TAG-GI	GI-AG	7071	1.608	81.149	105.029	-22,6%	920.000	572
17	Gewerbe	NRW	Wuppertal	Kleiner Werth 30, Kohlgarten 7	TAG-GI	GI-AG	7075	9.811	1.068.676	1.068.676	0,0%	16.800.000	1.712
18	Gewerbe	Hamburg	Hamburg	Planckstr. 13-15	TAG-GI	GI-AG	7080	6.259	781.604	842.096	-6,2%	14.400.000	2.301
19	Gewerbe	Hamburg	Hamburg	Stahlwiete	TAG-GI	GI-AG	7085	2.839	362.231	362.231	0,0%	5.350.000	1.884
20	Gewerbe	Berlin	Berlin	Siemensdamm	TAG-GI	GI-AG	7101	53.962	3.000.000	4.013.208	-24,8%	51.400.000	953
21	Gewerbe	NRW	Mannheim	Dynamostr. 4	TAG-GI	GI-AG	7102	32.032	2.373.229	2.373.229	0,0%	41.000.000	1.280
22	Gewerbe	München	München	St.-Martin-Str. 53	TAG-GI	GI-AG	7103	19.987	2.276.753	2.402.376	-1,4%	37.000.000	1.851
23	Gewerbe	München	München	Hofmannstr. 51	TAG-GI	GI-AG	7104	23.152	1.826.570	1.826.572	0,0%	26.500.000	1.145
24	Gewerbe	NRW	Köln	Franz-Geuer-Str. 10	TAG-GI	GI-AG	7105	26.492	2.400.000	2.400.000	0,0%	35.200.000	1.329
25	Gewerbe	München	Fürth	Gründlacher Str.	TAG-GI	LOG	7106	23.964	1.097.128	1.097.125	0,0%	8.000.000	334
	<b>Durchschnitt Sonstige</b>							<b>284.809</b>	<b>23.114.953</b>	<b>24.722.175</b>	<b>-5,9%</b>	<b>354.060.000</b>	<b>1.243</b>

## 9 Explanation of the applied appraisal methods

### The "capitalized value" method

The articles 17 through 20 of the "Act on the appraisal of real estate values" (German: "ImmoWertV") both define and describe how the capitalized value of a property is being calculated.

Here it is explained step by step:

Earnings
(income from rent)
-
Cost of operation
(all costs remaining with the owner)
-
Profit share of the ground
(NOT the building)
=
Profit share of the building
(being capitalized over the expected useful life)
+
Present ground value
=
Capitalized value

#### 9.1 Gross earning method (according to article 18 ImmoWertV)

The "gross earnings" cover all commercially available income which can be achieved given the designated use of a property. While determining the gross earnings, all usual and sustainable means of gathering income are taken into account.

#### 9.2 Cost of operation (according to article 19 ImmoWertV)

The cost of operation are defined as costs which are burdened solely on the owner of a property and cannot be over-turned to the charterer and which also are necessary to administer both ground and building(s). Costs of operation also include cost of maintenance, cost of administration and possible losses of rent.

#### 9.3 "Yield on property" (according to article 14, paragraph 3 ImmoWertV)

The „yield on property“ is a central operand within the „gross earning method“. It marks the relation between the net yield and its purchase price. Simplified, it is determined by dividing the net yield by the purchase price.

#### 9.4 Remaining useful life (according to article 6, paragraph 6 ImmoWertV)

The remaining useful life of a property is expressed by the number of years in which the building can be used to generate income in a usual manner, supposing regular maintenance. The remaining useful life is determined by the economic and technical condition of the property. The age of the buildings and/or their parts also is of an important, but secondary meaning.

#### 9.5 Special, property-specific features (according to article 8, paragraph 3 ImmoWertV)

This term describes all individual features which deviate from comparable properties. For example, these might be drastic discrepancies of the normal building condition, especially construction defects or structural damage. Likewise, above-average modernizations and refurbishments may increase the available rent.

#### 9.6 Capitalized earnings value

This value is bound to the date of the appraisal. It expresses in one single amount today's value of all expectable income which will be earned by this property in the future. It summarizes all income, including interest and compound interest.

## 10 The "comparative model" used in the appraisal of properties

The comparative model is described in Article 15 of the "Immobilienwertermittlungsverordnung (ImmoWertV)" ("Act on the appraisal of real estate values").

Actual purchases
±
adjustments
=
"adjusted comparison value"
average
x
area of property
=
comparison value

### On which deliberations is this "comparative model" based?

Whenever people are planning on buying things of any kind, they tend to compare prices to find the best offer at hand.

When it comes to real estate, the difficulty lies in the fact that properties hold so many different features that a simple comparison is almost impossible. Take two apartments in the same house for example: They might be of the same size, have identical kitchen equipment and bathroom designs. The location is obviously identical. But the very same apartment one story higher might have better daylight. Someone else might argue it is one more story to walk every day... Who is right?

One might think, if you increase the number of properties to compare an object with, the closer you get to a „realistic value“. Even if you find identical buildings (like serial houses built within the same year): More comparable properties bring up more differences between each other and therefore more complexity and in the end, they are even more incomparable.

### What might be considered „comparable“?

According to the German "ImmoWertV" the appraiser has to "consult purchasing prices of properties which are concordant to the evaluated property regarding the key elements determining their value."

Those „value-dominating features“ are the „juristical actualities“, the „actual features“ and the „miscellaneous appearances“ of the property, as found in the definition of the commercial value in article 194 of the "building law code" ("BauGB") and which are described further in the "Act on the appraisal of real estate values (ImmoWertV)".

## Comparison prices and comparison factors

There are two kinds of comparison values:

- Comparison *prices*, meaning actual values, which have been realized for actual properties.
- Comparison *factors*<sup>1</sup>, derived from actual comparison prices.

**Comparison prices** are specified by the advisory committee according to the prices found in the appropriate notarial agreement of sale. Details like the size, type of property, location, floor, year of construction, overall condition, existing balconies and of course the price.<sup>2</sup> In addition, a declaration of a price per square meter is imaginable.

**Comparison factors** may be noted in various styles.

The most known comparison factor is the „standard ground value“. It is an average of all applying prices regarding a fixed zone, specified in “Euro per square meter”.

Prices concerning apartments and commercial properties are put in average values in Euro per square meter of the usable space”. A possible statement might be:

“Two-room apartments ranging from 50-70 square meters in this location (“zone”) were sold around € 880 to € 1,760, averaging<sup>3</sup> a price of € 1,190 per square meter.”

### How does one use these comparison values?

The properties compared to the object in question are adjusted in value. Please note: the appraiser pretends as if you could “fictionally” change the features of a compared property to those of the property at hand.

This is being done on a plain mathematical level, using so-called “*conversion-coefficients*”.

### Conversion coefficients

The coefficients are being discussed in article 12 of the “Act on the appraisal of real estate values“ (ImmoWertV). These are used to compare different values.

### Example of a conversion of comparing factors – the “target tree method”

This method is based on the idea of dividing a comparison factor into five criteria (hence the tree) and to then add certain weight or importance to these criteria. While conducting the actual comparison, the appraiser determines to what degree there are differences between the property to be valued and a property whose purchase price is already known.

For instance, a known comparison factor might read:

1. *“A two-room apartment*
2. *in a rather simple location of Berlin,*
3. *built during the 1950s/1960s*
4. *at the size of 50 square meters*
5. *was sold for an average price of € 1,000 per square meter.”*

<sup>1</sup> Not “factor“ as in “aspect”, but as in “coefficient”.

<sup>2</sup> The quality and the usability of the comparison prices are determined by the multitude of features beside the price. In most cases, this level of detail will not be achieved through available data.

<sup>3</sup> Average does not mean „The middle between highest and lowest price“, but the arithmetic mean over all purchase prices.

This statement is rather imprecise. It compares ground floors to upper floors, quiet and busy environments, different boroughs and a majority of differing features. The average value of € 1,000 is as correct as it is useless.

Put another way: No one can really tell what exactly buyers received for this € 1,000 per square meter. What has to be done is to imagine an average and "create" this fictitious apartment. This problem can be compared with the situation of imagining a not precisely defined property while finding a standard ground value. This situation is even easier, because at least objects within a relatively isolated zone can be inspected.

Since it is not possible to identify the various sold apartments in our example, it is also impossible to find more details about these very apartments. Therein lies the weakness of this method: In order to gain a wide variety of comparison prices, closeness of the features to the property at hand become more and more imprecise.

Therefore, any utilization of the „target tree method“ needs much more data and much more work in order to be accurate.

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