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GROW STEADY READY

Quarterly Report

as of 30.06.2014

KEY FIGURES

LEG IMMOBILIEN AG

TABLE 1

Key figures

		01.04.–30.06.2014	01.04.–30.06.2013	+/– %/bp	01.01.–30.06.2014	01.01.–30.06.2013	+/– %/bp
RESULTS OF OPERATIONS							
Rental income	€ million	**94.7**	88.9	6.5	**189.0**	178.1	6.1
Net rental and lease income	€ million	**69.0**	64.2	7.5	**139.5**	123.7	12.0
EBITDA	€ million	**62.7**	54.3	15.5	**125.8**	104.8	20.0
EBITDA ADJUSTED	€ million	**64.5**	59.2	9.0	**129.2**	113.4	13.9
EBT	€ million	**48.3**	27.8	73.7	**77.2**	39.7	94.5
Net profit or loss for the period	€ million	**32.5**	23.4	38.9	**54.9**	34.7	58.2
FFO I	€ million	**40.6**	34.6	17.3	**81.6**	68.4	19.3
FFO I PER SHARE	€	**0.77**	0.65	17.3	**1.54**	1.29	19.3
FFO II	€ million	**40.3**	34.1	18.2	**81.3**	67.7	20.1
FFO II PER SHARE	€	**0.76**	0.64	18.2	**1.54**	1.28	20.1
AFFO	€ million	**32.7**	29.9	9.4	**65.4**	56.7	15.3
AFFO PER SHARE	€	**0.62**	0.56	9.4	**1.23**	1.07	15.3
		30.06.2014	30.06.2013	+/– %/bp	**30.06.2014**	30.06.2013	+/– %/bp
PORTFOLIO							
Number residential units		**95,783**	90,894	5.4	**95,783**	90,894	5.4
In-place rent	€/sqm	**5.07**	4.92	3.1	**5.07**	4.92	3.1
In-place rent (l-f-l)	€/sqm	**5.07**	4.91	3.3	**5.07**	4.91	3.3
Vacancy rate	%	**3.2**	3.0	20 bp	**3.2**	3.0	20 bp
Vacancy rate (l-f-l)	%	**2.9**	3.0	–10 bp	**2.9**	3.0	–10 bp
		30.06.2014	31.12.2013	+/– %/bp	**30.06.2014**	31.12.2013	+/– %/bp
STATEMENT OF FINANCIAL POSITION							
Investment property	€ million	**5,236.7**	5,163.4	1.4	**5,236.7**	5,163.4	1.4
Cash and cash equivalents	€ million	**300.3**	110.7	171.3	**300.3**	110.7	171.3
Equity	€ million	**2,217.4**	2,276.1	–2.6	**2,217.4**	2,276.1	–2.6
Total financial liabilities	€ million	**2,843.2**	2,583.7	10.0	**2,843.2**	2,583.7	10.0
Current financial liabilities	€ million	**201.4**	187.0	7.7	**201.4**	187.0	7.7
LTV	%	**48.4**	47.7	74 bp	**48.4**	47.7	74 bp
Equity ratio	%	**38.8**	42.0	–316 bp	**38.8**	42.0	–316 bp
EPRA NAV	€ million	**2,549.7**	2,571.9	–0.9	**2,549.7**	2,571.9	–0.9
EPRA NAV PER SHARE	€	**48.14**	48.56	–0.9	**48.14**	48.56	–0.9

bp = basis points

CONTENT

TABLE | FIG Visualisations are abbreviated and numbered with TABLE and FIG (figure).

Dear Shareholders,
dear Ladies and Gentlemen,

LEG's business continued to develop positively in the second quarter of 2014. This was shown by both a further acceleration in organic rent growth and continuing success in value-oriented growth through acquisitions. Thus, LEG is well on track to exceed its external growth targets for the year. LEG's growth story is intact and gathering pace.

Net cold rent increased by 6.1% year-on-year to EUR 189.0 million in the first half of 2014. Organic rent growth was the most important driver in the period under review, rising by 3.1%. On a like-for-like basis, rent growth per square metre was up significantly by 3.3% in the second quarter of 2014, demonstrating further momentum in growth. In the free-financed portfolio rents even increased by 3.8%. At the same time, the development in the occupancy rate remains positive. The vacancy rate was reduced by 10 basis points to 2.9% as against the previous year. This repeated above-average development confirms the outstanding quality of the property portfolio and LEG's management expertise.

In the first half of the year, investment in the portfolio matched the previous year's level of around EUR 5.60 per square metre. A further increase in investment is planned as the year progresses, and we are assuming total investment of around EUR 13 per square metre for the 2014 financial year.

We also continued to make successful progress with our external growth strategy in the second quarter. On the basis of strict investment criteria, a further portfolio transaction for around 2,400 residential units has been prepared and will now be signed shortly. Since its IPO, LEG has therefore already acquired around 9,400 residential units with an initial FFO I yield in excess of 8%. Other transactions are currently in the due diligence phase and LEG is confident of outperforming its growth target of 10,000 units by the end of the year.

The high operating margin and the attractive FFO yield on the basis of low gearing levels all go to show that LEG can claim leading profitability in the German residential property sector with an efficient portfolio structure and strong regional concentration. Meanwhile, the margin improvements achieved are revealing positive economies of scale from acquisitions and therefore further efficiency enhancements. In the first half of the year, FFO I – the most important financial performance indicator – increased by 19.3% year-on-year to EUR 81.6 million.

EPRA net asset value was EUR 48.14 per share at the end of the quarter. Adjusted for the effects of the dividend distribution this corresponds to an increase of 2.7% compared to year-end 2013. The portfolio will be annually remeasured in the final quarter of 2014.

LEG is counting on a sustainable growth course and assuring high planning capability for future earnings and dividend increases. A strong balance sheet and secure long-term financing at favourable conditions are the foundation for this. By sector standards, the balance sheet shows a very low loan-to-value ratio of 48.4% and the average remaining term of liabilities as at the end of the quarter was more than ten years.

Against the backdrop of this positive business performance, we are slightly raising our outlook for 2014. LEG is now forecasting FFO I in a range of EUR 158 million to EUR 161 million (previously: EUR 155 million to EUR 159 million) or EUR 2.98 to EUR 3.04 per share. For 2015, LEG is assuming a target corridor of EUR 172 million to EUR 177 million (EUR 3.25 to EUR 3.34 per share). This earnings outlook takes into account the forthcoming acquisition of 2,400 residential units, which are to be included in consolidation in line with planning in the course of 2015. Other than this, the forecast does not yet include the positive effects anticipated from further planned acquisitions.

We would like to expressly thank our shareholders, tenants and business partners for the confidence they have shown in us.

Dusseldorf, August 2014

Thomas Hegel
Chief Executive Officer

Eckhard Schultz
Chief Financial Officer

Holger Hentschel
Chief Operating Officer

LETTER TO THE SHAREHOLDERS

LEG SHARES

FIG 1

Share price development

Share price H1-2014
indexed to 100

02.01.2014 **Opening price**	**€43.00**	06.06.2014 **Highest price**	**€52.05**
04.02.2014 **Lowest price**	**€42.95**	30.06.2014 **Closing price**	**€49.20**

The German stock market showed positive trend in the second quarter. Thus, the DAX rose by 2.9% and reached a new all-time high in June. The price of LEG shares climbed by 3.3%. Including the dividend of EUR 1.73 per share, the total performance of the shares was 7.0% – a significant outperformance of the market as a whole.

Driven by the expansive monetary policy of the ECB, which cut interest rates in June, and the recovery of the economic indicators in the US, the DAX reached a new all-time high in June at 10,028.8 points. By contrast, geopolitical risk factors such as the crises in Iraq and Ukraine and weaker economic data in the euro zone weighed on markets only briefly.

In this setting, the index for German property shares, the FTSE EPRA/NAREIT Index Germany, did better than the market as a whole with an increase of 5.8% in the second quarter of 2014. The price of LEG shares rose by 3.3% in the period under review. Including the dividend of EUR 1.73 per share, which was distributed in June, the total performance of LEG shares was 7.0%. Thus, LEG shares significantly exceeded the performance of the market as a whole.

CONVERTIBLE BOND ISSUED

In April 2014 LEG issued a non-subordinated, unsecured convertible bond maturing in 2021 with a total nominal amount of EUR 300 million. The pre-emption rights of LEG shareholders were excluded. The convertible bonds can be converted into approximately 4.98 million new or existing registered ordinary shares of LEG Immobilien AG. This corresponds to around 9.4% of the outstanding share capital.

The proceeds from the issue of the convertible bonds are to be used to accelerate the selective external growth strategy. Furthermore, the capital market financing has diversified the sources of financing and improved the financial profile.

As part of a bookbuilding procedure, the coupon was set at 0.50% p.a., payable semi-annually in arrears, and the initial conversion premium was set at 30% above the reference price of EUR 47.99. The convertible bonds have a term of 7.2 years with a put option for the investors after 5.2 years. They are issued and repaid at 100% of their nominal amount.

ANALYST COVERAGE

The research coverage of LEG's shares is rising and the stock is currently actively covered by 19 investment companies. This demonstrates the rising investor interest in LEG shares. The analysts' assessment is still highly positive with 13 buy recommendations and only one recommendation to sell.

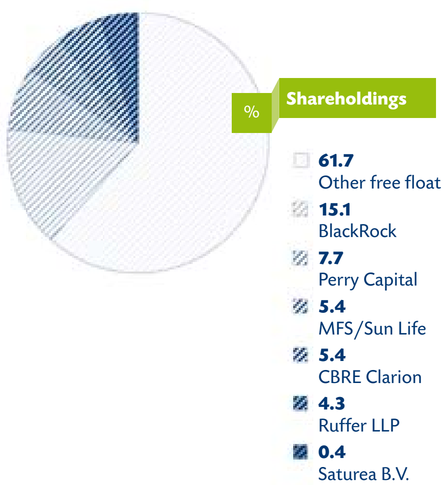
TABLE 2

Share performance indicators

Ticker symbol	**LEG**
German Securities Code Number (WKN)	**LEG111**
ISIN	**DE000LEG1110**
Number of shares	**52,963,444**
Initial listing	**1 February 2013**
Market segment	**Prime Standard**
Indices	**MDAX, FTSE EPRA/NAREIT, STOXX Europe 600, GPR Indices**
Closing price (30 June 2014)	**€49.20**
Market capitalisation (30 June 2014)	**€2,605.8 million**
Free float (30 June 2014)	**92.3%**
Weighting in the MDAX (30 June 2014)	**1.97%**
Weighting in the EPRA Europe (30 June 2014)	**1.8%**
Average single-day trading volume	**137,694**
Highest price (H1-2014)	**€52.05**
Lowest price (H1-2014)	**€42.95**

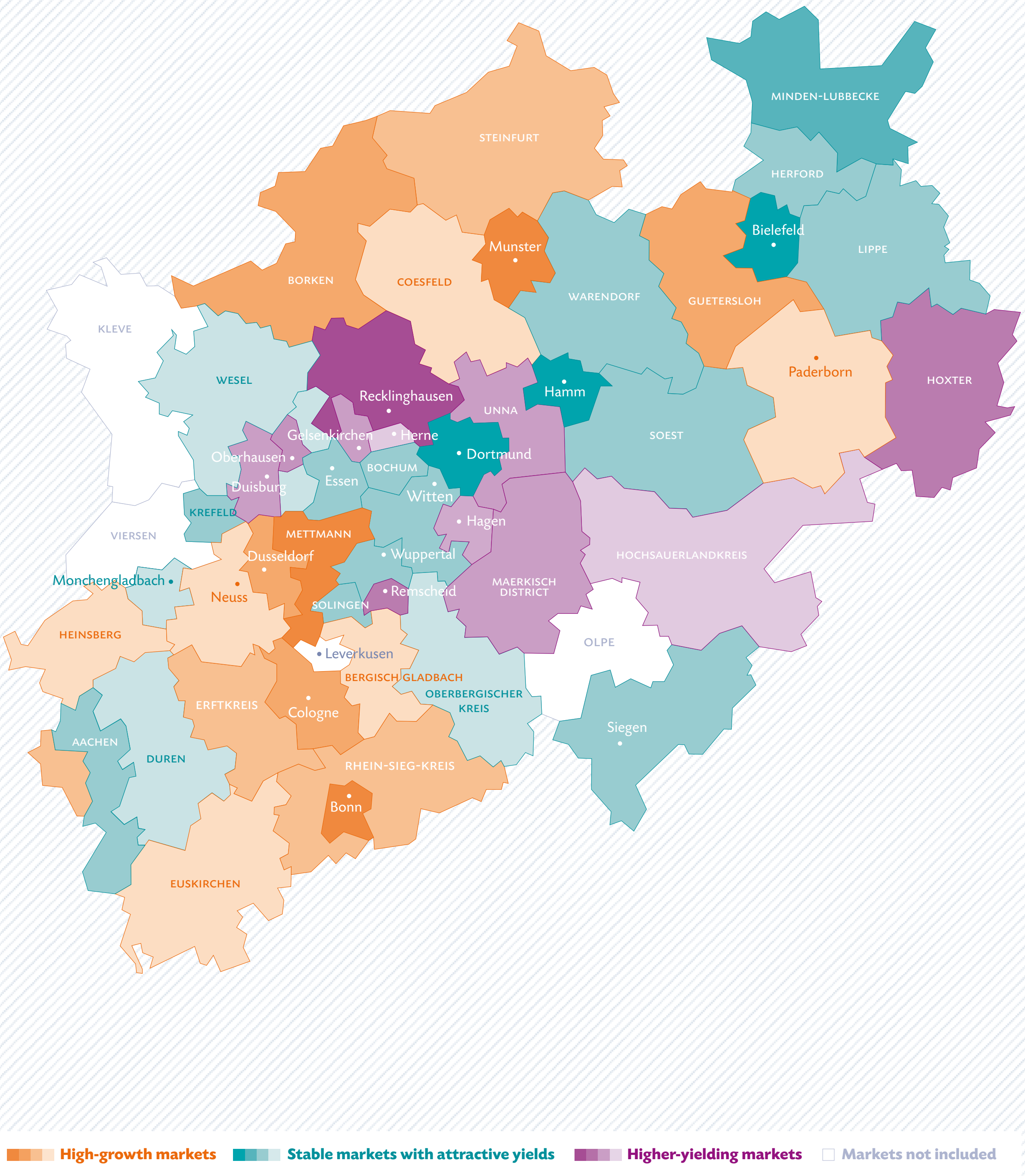
FIG 2

Shareholder structure
(as of 30.06.2014)



PORTFOLIO

LEG IN NORTH RHINE-WESTPHALIA BY MARKET SEGMENTS



As at 30 June 2014, the LEG Immobilien AG portfolio comprised 95,783 residential units, 1,001 commercial units and 23,148 garages and parking spaces. The assets are essentially distributed across around 160 locations in North Rhine-Westphalia. The average apartment size is 64 square metres and the average number of rooms is three. Buildings comprise an average of 6.5 residential units and three stories.

PORTFOLIO SEGMENTATION

The LEG portfolio is divided into three market clusters using a scoring system developed by CBRE: GROWTH MARKETS, STABLE MARKETS and HIGHER YIELDING MARKETS. All 54 municipalities and districts of North Rhine-Westphalia were analysed. The portfolio is spread across the entire state with the exception of the city of Leverkusen and the Districts of Olpe, Kleve and Viersen.

GROWTH MARKETS are characterised by a positive population trend, positive household projections and consistently high demand for residential units. STABLE MARKETS are more heterogeneous than growth markets in terms of their demographic and socio-economic development; their housing industry appeal, on average, is solid to high. HIGHER YIELDING MARKETS are subject to a considerable risk of population decline. However, a strong local presence, attractive micro-locations and good market penetration mean there are still opportunities for attractive returns in these sub-markets.

The underlying indicators are based on the following demographic, socio-economic and property market data:

- **Population development from 2000 to 2010**
- **Forecast for household numbers from 2010 to 2020**
- **Purchasing power index**
- **Number of employees subject to social security payments from 2000 to 2010**
- **Rent level in EUR per square metre**
- **Rental price multipliers for apartment buildings**

The scoring model is updated on a three-year basis and was unchanged as against the previous year. Based on this system, the market ranking is headed by Bonn followed by Muenster, the Rhein-Sieg-Kreis, Cologne and Dusseldorf. A further 15 growth markets are distributed across the Rhineland area, parts of Munsterland and the District of Paderborn. The list of the municipalities and districts classified as stable markets is headed by the District of Aachen, the District of Oberbergisch and Bielefeld; there are 20 further sub-markets spread across the state as a whole. The District of Unna heads the higher yielding market segment, followed by ten further submarkets predominantly in the Ruhr area and the more rural regions of Sauerland.

PERFORMANCE OF THE LEG PORTFOLIO

Operating performance (rents, vacancy, fluctuation)

Two portfolio acquisitions with a total of 833 residential units in stable and growth market segment were included in consolidation in the second quarter of 2014 as at 1 June.

At the same time, 38 residential units were sold in the first quarter for reasons of portfolio strategy. Furthermore, a commercial property in Cologne was sold to an institutional investor at above carrying amount.

Taking further changes into account, the size of the residential portfolio increased to 95,783 residential units in the second quarter of 2014 after 94,998 in the same quarter of the previous year.

Year-on-year, the trend towards positive rent development is continuing in all sub-markets:

As against the previous year's figure, average net rent climbed by 3.3% from EUR 4.91 per square metre to EUR 5.07 per square metre in a like-for-like analysis.

Broken down by type of financing, rents increased by 3.8% to EUR 5.38 per square metre on a like-for-like basis in the free-financed segment.

A rise in rents of 4.4% year-on-year to EUR 6.08 per square metre was generated for free-financed apartments in the growth markets. On the stable markets, rent per square metre rose by 3.1% compared to the level twelve months previously to EUR 5.01 per square metre, while growth on the higher-yielding markets was also 3.1%, now bringing rents to EUR 4.88 per square metre (on a like-for-like basis in each case).

In the rent-controlled apartment segment, the average in-place rent generated climbed to EUR 4.60 per square metre (on a like-for-like basis) as a result of the scheduled adjustment of the cost of rent in January 2014.

TABLE 3

Portfolio segments – Top 3 locations

	30.06.2014				
	Number of LEG apartments	Share of LEG portfolio %	Living space sqm	In-place rent €/sqm	Vacancy rate %
HIGH-GROWTH MARKETS	**31,679**	**33.1**	**2,090,198**	**5.67**	**1.3**
District of Mettmann	**8,092**	**8.4**	**560,966**	**5.67**	**1.5**
Muenster	**6,101**	**6.4**	**404,941**	**6.00**	**0.4**
Dusseldorf	**3,288**	**3.4**	**213,041**	**6.03**	**0.6**
Other locations	**14,198**	**14.8**	**911,249**	**5.44**	**1.7**
STABLE MARKETS WITH ATTRACTIVE YIELDS	**35,226**	**36.8**	**2,247,490**	**4.78**	**3.6**
Dortmund	**12,560**	**13.1**	**821,133**	**4.69**	**2.7**
Hamm	**3,975**	**4.2**	**239,894**	**4.57**	**2.7**
Bielefeld	**2,328**	**2.4**	**142,225**	**5.38**	**3.3**
Other locations	**16,363**	**17.1**	**1,044,238**	**4.82**	**4.6**
HIGHER-YIELDING MARKETS	**27,405**	**28.6**	**1,687,288**	**4.67**	**4.8**
District of Recklinghausen	**6,569**	**6.9**	**410,314**	**4.69**	**6.5**
Duisburg	**4,740**	**4.9**	**290,987**	**4.86**	**4.2**
Maerkisch District	**4,412**	**4.6**	**269,730**	**4.54**	**2.8**
Other locations	**11,684**	**12.2**	**716,257**	**4.62**	**4.9**
OUTSIDE NRW	**1,473**	**1.5**	**97,231**	**5.25**	**2.2**
TOTAL	**95,783**	**100.0**	**6,122,206**	**5.07**	**3.2**

TABLE 4

Performance LEG-Portfolio

		HIGH-GROWTH MARKETS			STABLE MARKETS WITH ATTRACTIVE YIELDS		
		30.06.2014	31.03.2014	30.06.2013	**30.06.2014**	31.03.2014	30.06.2013
Subsidised residential units							
Units		**11,266**	11,268	11,481	**14,141**	14,142	14,502
Area	sqm	**780,953**	781,098	795,632	**963,083**	963,153	992,005
In-place rent	€/sqm	**5.00**	5.00	4.89	**4.47**	4.47	4.34
Vacancy rate	%	**1.1**	1.2	1.4	**3.1**	3.4	3.6
Free-financed residential units							
Units		**20,413**	20,209	19,997	**21,085**	20,474	17,521
Area	sqm	**1,309,244**	1,297,720	1,283,417	**1,284,406**	1,243,549	1,072,632
In-place rent	€/sqm	**6.08**	6.01	5.84	**5.02**	4.97	4.90
Vacancy rate	%	**1.4**	1.5	1.5	**3.9**	4.4	3.7
Total residential units							
Units		**31,679**	31,477	31,478	**35,226**	34,616	32,023
Area	sqm	**2,090,198**	2,078,818	2,079,049	**2,247,490**	2,206,702	2,064,636
In-place rent	€/sqm	**5.67**	5.63	5.48	**4.78**	4.75	4.63
Vacancy rate	%	**1.3**	1.4	1.4	**3.6**	4.0	3.7
Total commercial							
Units							
Area	sqm						
Total parking							
Units							
Total other							
Units							

30.06.2013					Change in-place rent % like-for-like (30.06.2013–30.06.2014) excl. new lettings 30.06.2013–30.06.2014	Vacancy rate % like-for-like (30.06.2014)
Number of LEG apartments	Share of LEG portfolio %	Living space sqm	In-place rent €/sqm	Vacancy rate %		
31,478	**34.6**	**2,079,049**	**5.48**	**1.4**	**3.7**	**1.3**
8,096	8.9	561,254	5.49	1.8	3.3	1.5
6,105	6.7	405,199	5.80	0.5	3.6	0.4
3,221	3.5	207,640	5.80	0.4	4.2	0.6
14,056	15.5	904,956	5.24	1.9	3.6	1.7
32,023	**35.2**	**2,064,636**	**4.63**	**3.7**	**2.7**	**3.3**
11,542	12.7	765,729	4.55	2.5	2.9	2.2
3,976	4.4	239,995	4.42	3.3	3.3	2.7
2,327	2.6	142,210	5.23	2.4	2.8	3.3
14,178	15.6	916,702	4.66	4.9	2.3	4.4
26,004	**28.6**	**1,607,986**	**4.54**	**4.2**	**2.8**	**4.4**
6,407	7.0	401,168	4.56	5.7	2.9	6.4
4,727	5.2	289,845	4.68	3.7	4.0	4.2
4,412	4.9	269,730	4.45	2.6	2.0	2.8
10,458	11.5	647,243	4.51	4.2	2.5	4.1
1,389	**1.5**	**92,084**	**5.00**	**1.3**	**4.3**	**2.1**
90,894	**100.0**	**5,843,755**	**4.92**	**3.0**	**3.3**	**2.9**

HIGHER-YIELDING MARKETS			OUTSIDE NRW			TOTAL		
30.06.2014	31.03.2014	30.06.2013	**30.06.2014**	31.03.2014	30.06.2013	**30.06.2014**	**31.03.2014**	**30.06.2013**
8,454	8,477	8,898	**135**	135	220	**33,996**	34,022	35,101
560,222	561,622	590,950	**10,997**	10,997	17,192	**2,315,256**	2,316,870	2,395,779
4.28	4.29	4.19	**4.30**	4.29	4.20	**4.60**	4.61	4.49
4.5	4.4	4.5	**0.0**	3.0	0.5	**2.8**	2.9	3.1
18,951	18,951	17,106	**1,338**	1,342	1,169	**61,787**	60,976	55,793
1,127,065	1,126,968	1,017,036	**86,234**	86,479	74,892	**3,806,950**	3,754,717	3,447,976
4.86	4.83	4.74	**5.37**	5.31	5.17	**5.35**	5.30	5.21
5.0	5.0	4.0	**2.4**	2.0	1.4	**3.4**	3.6	3.0
27,405	27,428	26,004	**1,473**	1,477	1,389	**95,783**	94,998	90,894
1,687,288	1,688,590	1,607,986	**97,231**	97,476	92,084	**6,122,206**	6,071,586	5,843,755
4.67	4.65	4.54	**5.25**	5.19	5.00	**5.07**	5.04	4.92
4.8	4.8	4.2	**2.2**	2.1	1.3	**3.2**	3.3	3.0
						1,001	**1,030**	**1,008**
						190,595	**195,910**	**195,709**
						23,148	**22,926**	**21,770**
						875	**858**	**776**

With an occupancy rate of 97.1% (like-for-like) as at the end of the reporting period, the positive trend continued with a year-on-year increase of ten basis points. In total, the number of vacant apartments as at 30 June 2014 was 2,645 units (like-for-like) and 3,035 units taking into account the acquisitions during the year (absolute).

The robust demand for affordable rental properties extends to all market segments. The occupancy rate on the growth markets continued to rise to a high level of 98.7% (previous year: 98.6%). Low vacancy rates of 3.3% (previous year: 3.6%) on the stable markets and 4.4% (previous year: 4.2%) on higher yielding markets (both like-for-like) also confirm the positive general development. It is also assumed that, following a temporary slight increase on the higher yielding markets, the vacancy rate will continue to fall as the year progresses.

Turnover, which serves as an indicator of tenant satisfaction, amounted to 11.3% as at 30 June 2014 (30 June 2013: 10.8%) and is thus still at a low level.

Value development

The following table shows the distribution of assets by market segment. Based on in-place rents, the rental yield of the portfolio is 7.3% (rent multiplier of 13.7x).

Investment activity

EUR 18.2 million was spent on maintenance and value-adding investments eligible as capital expenditure in the second quarter of 2014 (previous year: EUR 14.4 million), bringing the figure for the first half of 2014 to EUR 34.8 million (previous year: EUR 33.6 million). This corresponds to an average investment volume of around EUR 5.50 per square metre in the first six months (previous year: EUR 5.60 per square metre).

EUR 16.2 million (previous year: EUR 11.7 million) of total investments in the first half of the year related to capital expenditure, while maintenance recognised as an expense amounted to EUR 18.6 million (previous year: EUR 21.9 million).

The capitalisation rate in the first half of 2014 was 46.6% (previous year: 34.8%). An increase in investments is expected over the remainder of the year, and the target for the year as a whole of around EUR 13 per square metre is being reiterated. The share of value-adding investments eligible as capital expenditure in 2014 as a whole is expected to be around 50%.

TABLE 5

Market segments

	Residential units	Residential assets € million	Share residential assets %	Value/sqm (€)	In-place rent multiplier	Commercial/ other assets € million	Total assets € million
HIGH-GROWTH MARKETS	**31,679**	**2,218**	**45**	**1,062**	**15.8x**	**168**	**2,385**
District of Mettmann	8,092	544	11	971	14.5x	67	611
Muenster	6,101	504	10	1,246	17.3x	36	540
Dusseldorf	3,288	255	5	1,217	16.8x	20	275
Other locations	14,198	915	18	1,000	15.5x	44	959
STABLE MARKETS WITH ATTRACTIVE YIELDS	**35,226**	**1,583**	**32**	**703**	**12.7x**	**84**	**1,666**
Dortmund	12,560	595	12	722	13.1x	38	632
Hamm	3,975	139	3	577	10.8x	4	142
Bielefeld	2,328	132	3	922	14.8x	10	141
Other locations	16,363	718	15	687	12.5x	33	750
HIGHER-YIELDING MARKETS	**27,405**	**1,059**	**21**	**628**	**11.7x**	**43**	**1,102**
District of Recklinghausen	6,569	273	6	634	12.1x	14	288
Duisburg	4,740	198	4	677	12.0x	8	207
Maerkisch District	4,412	154	3	571	10.7x	2	156
Other locations	11,684	434	9	626	11.8x	17	451
NRW PORTFOLIO	**94,310**	**4,860**	**98**	**806**	**13.7x**	**294**	**5,154**
Portfolio outside NRW	1,473	86	2	877	14.1x	10	95
TOTAL PORTFOLIO	**95,783**	**4,945**	**100**	**808**	**13.7x**	**303**	**5,249**
Property, Plant and Equipment (IAS 16, outside property valuation)							3
Leasehold + Land Values							21
Inventories (IAS 2)							6
Prepayments for property held as an investment property							2
TOTAL PORTFOLIO							**5,281**

DETAILED INDEX INTERIM MANAGEMENT REPORT

INTERIM MANAGEMENT REPORT

ANALYSIS OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

For definitions of individual key figures and terms, please refer to the glossary in the 2013 annual report.

RESULTS OF OPERATIONS

The condensed income statement for the reporting period (1 January to 30 June 2014) and the comparative period (1 January to 30 June 2013) is as follows:

TABLE 6

Condensed income statement

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Rental and lease income	**69.0**	64.2	**139.5**	123.7
Net income from the disposal of investment properties	**–0.3**	–0.5	**–0.3**	–0.7
Net income from the disposal of inventory properties	**–0.7**	–0.8	**–1.6**	–1.7
Net income from other services	**0.5**	0.7	**0.6**	1.5
Administrative and other expenses	**–8.0**	–11.1	**–16.8**	–22.5
Other income	**0.1**	–0.3	**0.2**	0.3
OPERATING EARNINGS	**60.6**	**52.2**	**121.6**	**100.6**
Interest income	**0.4**	0.4	**0.5**	0.6
Interest expense	**–31.0**	–30.3	**–61.0**	–65.4
Net income from other financial assets and associates	**5.8**	1.3	**7.2**	1.4
Net income from the fair value measurement of derivatives	**12.5**	4.2	**8.9**	2.5
NET FINANCE EARNINGS	**–12.3**	**–24.4**	**–44.4**	**–60.9**
EARNINGS BEFORE INCOME TAXES	**48.3**	**27.8**	**77.2**	**39.7**
INCOME TAXES	**–15.8**	**–4.4**	**–22.3**	**–5.0**
NET PROFIT OR LOSS FOR THE PERIOD	**32.5**	**23.4**	**54.9**	**34.7**

Operating earnings (before taxes) amounted to EUR 121.6 million in the reporting period (previous year: EUR 100.6 million). The main drivers of the EUR 21.0 million improvement in operating earnings were net rental and lease income, which improved as a result of the higher net cold rents of EUR 10.9 million and lower maintenance expenses, and the decline in administrative expenses, which was primarily due to lower project costs.

The EUR 16.5 million improvement in net finance costs was largely a result of the change in the fair value of derivatives from the convertible bond (EUR 16.1 million) and the reimbursement of payments of income tax arrears by the former owners of the LEG Group under the external audit for periods prior to 2008 (EUR 5.7 million). The corresponding expense from these income tax payments is reported under income taxes.

Despite a rise in income taxes owing to payments of income tax arrears under the external audit for periods prior to 2008 (EUR 6.1 million) and higher expenses for deferred taxes, net income for the reporting period therefore increased significantly to EUR 54.9 million.

The condensed income statement for segment reporting in the reporting period from 1 January to 30 June 2014 is as follows:

TABLE 7

Segment reporting 01.01. – 30.06.2014

€ million	Residential	Other	Reconciliation	Group
Rental and lease income	283.6	3.2	–1.0	285.8
Costs of sales of rental and lease	–146.0	–1.4	1.1	–146.3
NET RENTAL AND LEASE INCOME	**137.6**	**1.8**	**0.1**	**139.5**
Net income from the disposal of IAS 40 property	– 0.2	– 0.1	–	– 0.3
Net income from remeasurement of IAS 40 property	–	–	–	–
Net income from the disposal of real estate inventory	– 0.2	–1.4	–	–1.6
Net income from other services	0.2	14.0	–13.6	0.6
Administrative and other expenses	–15.6	–14.8	13.6	–16.8
Other income	0.2	–	–	0.2
SEGMENT EARNINGS	**122.0**	**– 0.5**	**0.1**	**121.6**

The Residential segment generated operating segment earnings of EUR 122.0 million in the reporting period. The Other segment generated operating segment earnings of EUR –0.5 million.

The condensed income statement for the comparative period from 1 January to 30 June 2013 by segment is as follows:

TABLE 8

Segment reporting 01.01. – 30.06.2013

€ million	Residential	Other	Reconciliation	Group
Rental and lease income	257.0	3.7	– 0.4	260.3
Costs of sales of rental and lease	–136.0	– 0.1	– 0.5	–136.6
NET RENTAL AND LEASE INCOME	**121.0**	**3.6**	**– 0.9**	**123.7**
Net income from the disposal of IAS 40 property	– 0.5	– 0.2	–	– 0.7
Net income from remeasurement of IAS 40 property	–	–	–	–
Net income from the disposal of real estate inventory	– 0.2	–1.5	–	–1.7
Net income from other services	0.3	19.5	–18.3	1.5
Administrative and other expenses	–19.8	–21.8	19.1	–22.5
Other income	0.3	–	–	0.3
SEGMENT EARNINGS	**101.1**	**– 0.4**	**– 0.1**	**100.6**

The Residential segment generated operating segment earnings of EUR 101.1 million in the same period of the previous year. The Other segment generated operating segment earnings of EUR –0.4 million.

The largest share of income in the Other segment is accounted for by income from service agreements between LEG Management GmbH and property companies in the Residential segment. The resulting income in the Other segment and the corresponding expenses in the Residential segment are internal to the Group and are eliminated in the »Reconciliation« column.

Intragroup transactions between the segments are conducted at arm's length conditions.

NET RENTAL AND LEASE INCOME

TABLE 9

Net rental and lease income

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Gross rental income	**127.2**	101.9	**221.6**	191.3
of which: rental income	**94.7**	88.9	**189.0**	178.1
Other income	**16.5**	26.9	**64.2**	69.0
RENTAL AND LEASE INCOME (GROSS)	**143.7**	**128.8**	**285.8**	**260.3**
Purchased services	**–61.1**	–52.2	**–118.9**	–110.9
Staff costs	**–8.3**	–7.7	**–16.7**	–17.5
thereof IPO costs	**–**	–	**–**	–2.1
Depreciation and amortisation expenses	**–1.1**	–0.9	**–2.1**	–2.0
Other operating income	**–4.2**	–3.8	**–8.6**	–8.3
Reimbursement of IPO costs by shareholders	**–**	–	**–**	2.1
COSTS OF SALES IN CONNECTION WITH RENTAL AND LEASE INCOME	**–74.7**	**–64.6**	**–146.3**	**–136.6**
NET RENTAL AND LEASE INCOME	**69.0**	**64.2**	**139.5**	**123.7**
NET OPERATING INCOME – MARGIN %	**72.9**	**72.2**	**73.8**	**69.5**

In the first six months of 2014, the LEG Group increased its net rental and lease income by EUR 15.8 million compared with the same period of the previous year. The main drivers of this development were the EUR 10.9 million rise in net cold rent and the lower maintenance expenses (down EUR 3.3 million).

Rent increases, a slight reduction in vacancies on a like-for-like basis and acquisitions of property portfolios contributed to an annual increase in net cold rent of 6.1% to EUR 189.0 million in the reporting period, meaning that the positive trend recorded in the first quarter continued in the second quarter. Organic rental growth for residential properties was 3.1%.

The LEG Group invested selectively in its assets in the reporting period. At EUR 34.8 million, total investment in the year to date has been EUR 1.2 million higher than in the same period of the previous year. EUR 1.5 million of total investments related to acquisitions.

TABLE 10

Maintenance and modernisation of investment properties

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Maintenance expenses for investment properties	**10.3**	9.7	**18.6**	21.9
Capital expenditure	**7.9**	4.7	**16.2**	11.7
TOTAL INVESTMENT	**18.2**	**14.4**	**34.8**	**33.6**
Area of investment properties in million sqm	**6.30**	6.04	**6.30**	6.04
AVERAGE INVESTMENT PER SQM (€/SQM)	**2.9**	**2.4**	**5.5**	**5.6**

There were fewer major projects in the second quarter of the comparative period in particular, which was the main reason for the rise in value enhancing capital expenditure from a total of EUR 11.7 million in the same period of the previous year to EUR 16.2 million in the reporting period.

Maintenance expenses in the second quarter of 2014 were also higher than the prior-year level. One key area of maintenance work was in connection with renovation work for successful new lettings.

Overall, maintenance expenses therefore climbed from EUR 33.6 million in the same period of the previous year to EUR 34.8 million in the reporting period. The growth in the portfolio meant that investment per square metre remained at a constant level.

The planned modernisation activities are set to increase as the financial year progresses, and thus a slight rise in investment is anticipated for the remainder of the year. This will entail a planned increase in value enhancing measures eligible for capitalisation. Compliance with the requirements of the social charter relating to the minimum investment volume is assured.

NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES

TABLE 11

Net income from the disposal of investment properties

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Income from the disposal of investment properties	**17.6**	2.7	**20.1**	4.5
Carrying amount of the disposal of investment properties	**–17.6**	–2.9	**–19.9**	–4.6
Costs of sales of investment properties sold	**–0.3**	–0.3	**–0.5**	–0.6
NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**–0.3**	**–0.5**	**–0.3**	**–0.7**

A residential and commercial property for which the purchase agreement was signed in December 2013 was transferred to the buyer in the second quarter of 2014. The purchase price and the carrying amount were both EUR 14.2 million.

As a result of selective portfolio streamlining, a few investment properties were sold in the reporting period again. While sale prices were consistently slightly below the carrying amount in the same period of the previous year, the sale prices achieved in the reporting period were sometimes higher and sometimes lower than the carrying amount. Sales with gross book losses of EUR 0.6 million were offset by sales with gross book profits of EUR 0.8 million. Overall, this meant that the LEG Group sold these properties at slightly above their carrying amount.

Minor savings in staff costs for the sale of investment property contributed to a slight decline in the cost of sales.

NET INCOME FROM THE DISPOSAL OF REAL ESTATE INVENTORY PROPERTIES

TABLE 12

Net income from the disposal of inventory properties

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Income from the disposal of inventory properties	**3.6**	0.4	**3.9**	0.8
Carrying amount of inventory properties sold	**–3.5**	–0.2	**–3.7**	–0.5
Costs of sales in connection with inventory properties sold	**–0.8**	–1.0	**–1.8**	–2.0
NET INCOME FROM THE DISPOSAL OF INVENTORY PROPERTIES	**–0.7**	**–0.8**	**–1.6**	**–1.7**

The sale of the remaining properties of the former Development division continued successfully in the reporting period. The sale of developed land in Bonn contributed to this result with proceeds of EUR 3.2 million and the disposal of a carrying amount of EUR 3.1 million. The remaining real estate inventory properties as at 30 June 2014 amounted to EUR 5.8 million, EUR 4.1 million of which related to properties under development.

The cost of sales of the real estate inventory properties sold therefore matched the level in the same period of the previous year. Provisions for services yet to be performed for a property already sold were increased slightly by EUR 0.2 million. This was offset by a drop in staff costs for the disposal of real estate inventory properties.

NET INCOME FROM OTHER SERVICES

TABLE 13

Other services

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Income from other services	**2.3**	2.4	**4.6**	4.9
Expenses in connection with other services	**–1.8**	–1.7	**–4.0**	–3.4
NET INCOME FROM OTHER SERVICES	**0.5**	**0.7**	**0.6**	**1.5**

Net income from other services primarily includes income from electricity and heat fed into the grid, as well as IT services for third parties.

The drop in income is due to lower electricity production. Rising costs of materials for the generation of electricity and heat are contributing to the increase in expenses in connection with other services.

ADMINISTRATIVE AND OTHER EXPENSES

TABLE 14

Administrative and other expenses

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Other operating expenses	**–2.0**	– 6.3	**– 4.4**	–16.7
Staff costs	**–5.3**	– 4.9	**–11.0**	–13.3
Purchased services	**– 0.2**	– 0.3	**– 0.4**	– 0.6
Depreciation and amortisation	**– 0.5**	– 0.7	**–1.0**	–1.2
IPO costs reimbursement	**–**	1.1	**–**	9.3
ADMINISTRATIVE AND OTHER EXPENSES	**– 8.0**	**–11.1**	**–16.8**	**–22.5**

The decline in other operating expenses is primarily due to the consulting and non-staff operating costs of EUR 6.8 million incurred in connection with the IPO in the same period of the previous year. The reduction in project-related, non-recurring costs of EUR 3.5 million in the reporting period also contributed to a drop in non-staff operating costs. The lower number of Supervisory Board members at LEG Immobilien AG and a reduction in the costs of consulting and third-party services also had a positive impact on non-staff operating costs.

The main reason for the reduction in staff costs is the absence of the performance bonuses paid in connection with the IPO in 2013. The share attributable to administrative and other expenses amounted to EUR 2.5 million. The long-term incentive (LTI) programme resulted in EUR 1.0 million lower expenses in the reporting period. This was offset by rising current staff costs, which were impacted amongst others by higher expenses under the short-term incentive (STI) programme (increase of EUR 0.3 million).

In particular, current administrative expenses reflect the reduction in the number of Supervisory Board members and the decline in non-staff operating costs. This compensated for the slight rise in current staff costs. In the reporting period, current administrative and other expenses amounted to EUR 14.8 million and were therefore slightly below previous year (EUR 15.4 million).

NET FINANCE COSTS

TABLE 15

Net finance costs

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Interest income	**0.4**	0.4	**0.5**	0.6
Interest expenses	**–31.0**	–30.3	**– 61.0**	– 65.4
NET INTEREST INCOME	**–30.6**	**–29.9**	**– 60.5**	**– 64.8**
Net income from other financial assets and other investments	**5.8**	1.3	**7.2**	1.4
Net income from the fair value measurement of derivatives	**12.5**	4.2	**8.9**	2.5
NET FINANCE COSTS	**–12.3**	**–24.4**	**– 44.4**	**– 60.9**

The reduction in interest expenses from EUR 65.4 million in the same period of the previous year to EUR 61.0 million in the period under review is primarily due to the decline in interest expenses from loan amortisation.

This development is due in particular to the refinancing activities in 2013 and the refinancing of high fixed-rate WFA loans.

Interest expenses from loan amortisation include the measurement of the convertible bond at amortised cost in the amount of EUR 1.7 million.

After adjustment for prepayment penalties and other items, cash interest expenses thus increased to EUR 46.7 million (previous year: EUR 45.2 million). The main factors behind this development were new loans in the context of acquisition financing.

The rise in net income from investment securities primarily results from the reimbursement of payments of tax arrears by the former shareholder for external tax audits for the years 2005 to 2008 in the amount of EUR 5.7 million. The cost of EUR 6.1 million is reported in income taxes. Provisions were recognised in previous years for the risk of the portion to be paid by the company in the amount of EUR 0.4 million. The utilisation of the provision is reported in administrative expenses.

Net income from the fair value measurement of derivatives primarily results from changes in the fair value of derivatives from the convertible bond in the second quarter (EUR 16.1 million).

The average interest rate for the entire loan portfolio declined to 2.94% (30 June 2013: 3.3%) based on an average term of around 10 years.

INCOME TAXES

TABLE 16

Income taxes

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
Current income taxes	**–6.5**	–0.1	**–6.6**	0.2
Deferred taxes	**–9.3**	–4.3	**–15.7**	–5.2
INCOME TAXES	**–15.8**	**–4.4**	**–22.3**	**–5.0**

The rise in income taxes from EUR –5.0 million in the previous year to EUR –22.3 million in the reporting period is primarily due to payments of tax arrears from external audits and the increase in deferred taxes.

The current income taxes of EUR 6.1 million as at 30 June 2014 include payments of tax arrears from external audits for the years 2005 to 2008. Around EUR 5.7 million of this figure was reimbursed by the then shareholder on the basis of an obligation under the sale agreement. The amount reimbursed is reported in net income from investment securities.

Furthermore, deferred tax income of EUR 3.3 million from the recognition of deferred tax assets on tax loss carryforwards was reported in the first half of 2013. As a partial utilisation of tax loss carryforwards is assumed for the 2014 financial year, a deferred tax expense of EUR 0.9 million was recognised in the reporting period.

RECONCILIATION TO FFO

One of the key performance indicators at the LEG Group is FFO I. The LEG Group distinguishes between FFO I (not including net income from the disposal of investment property), FFO II (including net income from the disposal of investment property) and AFFO (FFO I adjusted for capex). Details of the calculation system for each indicator can be found in the glossary in the annual report.

FFO I, FFO II and AFFO were calculated as follows in the reporting period and the same period of the previous year:

TABLE 17

Calculation of FFO I, FFO II and AFFO

€ million	**01.04. – 30.06.2014**	01.04. – 30.06.2013	**01.01. – 30.06.2014**	01.01. – 30.06.2013
NET PROFIT OR LOSS FOR THE PERIOD (IFRS)	**32.5**	**23.4**	**54.9**	**34.7**
Interest income	**–0.4**	–0.4	**–0.5**	–0.6
Interest expenses	**31.0**	30.3	**61.0**	65.4
NET INTEREST INCOME	**30.6**	**29.9**	**60.5**	**64.8**
Other financial expenses	**–18.3**	–5.5	**–16.1**	–3.9
Income taxes	**15.8**	4.4	**22.3**	5.0
EBIT	**60.6**	**52.2**	**121.6**	**100.6**
Depreciation and amortisation expenses	**2.1**	2.1	**4.2**	4.2
EBITDA	**62.7**	**54.3**	**125.8**	**104.8**
Measurement at fair value of investment properties	**–**	–	**–**	–
LTIP (long-term incentive programme)	**0.3**	0.8	**0.6**	1.8
Non-recurring project costs	**0.5**	2.9	**0.8**	4.7
Extraordinary and prior-period expenses and income	**–**	–0.1	**0.1**	–0.3
Net income from the disposal of investment properties	**0.3**	0.5	**0.3**	0.7
Net income from the disposal of real estate inventory	**0.7**	0.8	**1.6**	1.7
ADJUSTED EBITDA	**64.5**	**59.2**	**129.2**	**113.4**
Cash interest expenses and income	**–23.1**	–24.6	**–46.7**	–45.2
Cash income taxes	**–0.8**	0.0	**–0.9**	0.2
FFO I (NOT INCLUDING DISPOSAL OF INVESTMENT PROPERTIES)	**40.6**	**34.6**	**81.6**	**68.4**
Net income from the disposal of investment properties	**–0.3**	–0.5	**–0.3**	–0.7
FFO II (INCL. DISPOSAL OF INVESTMENT PROPERTIES)	**40.3**	**34.1**	**81.3**	**67.7**
Capex	**–7.9**	–4.7	**–16.2**	–11.7
CAPEX-ADJUSTED FFO I (AFFO)	**32.7**	**29.9**	**65.4**	**56.7**

At EUR 81.6 million in the reporting period, FFO I (not including net income from the disposal of investment property) was 19.3% higher than in the same period of the previous year (EUR 68.4 million). In particular, this development reflects the rise in net cold rent including the effects of the acquisitions conducted and the lower level of maintenance expenses as against the same period of the previous year. An increase in maintenance expenses is expected in the remainder of the 2014 financial year.

NET ASSETS (CONDENSED STATEMENT OF FINANCIAL POSITION)

The condensed statement of financial position is as follows:

TABLE 18

Net assets (condensed balance sheet)

€ million	30.06.2014	31.12.2013
Investment properties	**5,236.7**	5,163.4
Prepayments for investment properties	**2.0**	6.9
Other non-current assets	**93.6**	91.9
Non-current assets	**5,332.3**	5,262.2
Receivables and other assets	**65.7**	33.8
Cash and cash equivalents	**300.3**	110.7
Current assets	**366.0**	144.5
Assets held for disposal	**10.7**	16.4
TOTAL ASSETS	**5,709.0**	**5,423.1**
Equity	**2,217.4**	2,276.1
Non-current financial liabilities	**2,641.8**	2,396.7
Other non-current liabilities	**526.8**	443.9
Non-current borrowed capital	**3,168.6**	2,840.6
Current financial liabilities	**201.4**	187.0
Other current liabilities	**121.6**	119.4
Current borrowed capital	**323.0**	306.4
TOTAL EQUITY AND LIABILITIES	**5,709.0**	**5,423.1**

Total assets amounted to EUR 5,709.0 million as at the end of the reporting period (31 December 2013: EUR 5,423.1 million).

The largest item on the asset side is non-current assets at EUR 5,332.3 million. The main assets of the LEG Group are its investment property, which amounted to EUR 5,236.7 million as at 30 June 2014 (31 December 2013: EUR 5,163.4 million). This corresponds to 91.7% of total assets as at 30 June 2014 (31 December 2013: 95.2%).

Prepayments for the acquisition of further property portfolios in the amount of EUR 2.0 million were reported as investment property as at the end of the interim reporting period. These approximately 2,000 units will be transferred in the course of 2014.

The successful issue of the convertible bond and, offsetting this, the dividend distribution (EUR 91.6 million) were key factors in the development of cash and cash equivalents, which rose to EUR 300.3 million compared with 31 December 2013.

The main items of equity and liabilities were the reported equity in the amount of EUR 2,217.4 million (31 December 2013: EUR 2,276.1 million) and financial liabilities of EUR 2,843.2 million (31 December 2013: EUR 2,583.7 million).

The net income for the period (EUR 54.9 million), the dividend distribution of EUR 91.6 million and losses on the fair value measurement of interest rate derivatives reported in other comprehensive income (EUR 22.8 million) were the main reasons for the slight temporary decline in equity. The increase in financial liabilities between 31 December 2013 and 30 June 2014 is primarily due to the convertible bond (EUR 252.0 million).

NET ASSET VALUE (NAV)

Another key performance indicator at the LEG Group is NAV. Details of the calculation system can be found in the glossary in the 2013 annual report.

The LEG Group reported EPRA NAV of EUR 2,549.7 million as at 30 June 2014.

TABLE 19

EPRA-NAV

€ million	30.06.2014	31.12.2013
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	**2,189.8**	**2,248.8**
NON-CONTROLLING INTERESTS	**27.6**	**27.3**
EQUITY	**2,217.4**	**2,276.1**
Effect of exercising options, convertible bonds and other rights	**–**	–
NAV	**2,189.8**	**2,248.8**
Fair value measurement of derivative financial instruments	**74.0**	52.0
Deferred taxes	**285.9**	271.1
EPRA NAV	**2,549.7**	**2,571.9**
Number of shares	**52,963,444**	52,963,444
EPRA NAV PER SHARE IN €	**48.14**	**48.56**

LOAN-TO-VALUE (LTV) RATIO

Net debt in relation to property assets rose slightly compared with 31 December 2013. The loan-to-value ratio (LTV) is therefore 48.4% (31 December 2013: 47.7%).

TABLE 20

Loan-to-value ratio

€ million	30.06.2014	31.12.2013
Financial liabilities	**2,843.2**	2,583.7
less cash and cash equivalents	**300.3**	110.7
NET FINANCIAL LIABILITIES	**2,542.9**	**2,473.0**
Investment properties	**5,236.7**	5,163.4
Assets held for disposal	**10.7**	16.4
Prepayments for investment properties	**2.0**	6.9
REAL ESTATE ASSETS	**5,249.4**	**5,186.7**
LOAN TO VALUE RATIO (LTV) IN %	**48.4**	**47.7**

FINANCIAL POSITION

Net income of EUR 54.9 million was generated in the reporting period (previous year: EUR 34.7 million). Equity amounted to EUR 2,217.4 million as at the end of the reporting period (31 December 2013: EUR 2,276.1 million). This corresponds to an equity ratio of 38.8% (31 December 2013: 42.0%).

In April 2014, LEG Immobilien AG issued a non-subordinated, unsecured convertible bond maturing in 2021 with a total nominal amount of EUR 300 million.

The condensed statement of cash flows of the LEG Group for the reporting period is as follows:

TABLE 21

Statement of cash flows

€ million	01.01. – 30.06.2014	01.01. – 30.06.2013
Cash flow from operating activities	**53.5**	40.3
Cash flow from investing activities	**– 68.1**	–15.7
Cash flow from financing activities	**204.2**	–7.3
CHANGE IN CASH AND CASH EQUIVALENTS	**189.6**	**17.3**

In a year-to-date comparison, the cash flow from operating activities has been impacted in particular by higher receipts of net basic rent and advances on incidental costs. Proceeds from the sale of developed land also contributed to the rise in cash flow from operating activities. This was offset by higher payments for operating costs, cash interest expenses and payments for maintenance.

Acquisitions of property portfolios contributed to the cash flow from investing activities with payments of EUR 46.4 million. There were also payments for the modernisation of the property portfolio and proceeds of EUR 14.2 million from the sale of a residential/commercial property, resulting in a cash flow from investing activities of EUR 68.1 million.

The rise in cash flow from financing activities to EUR 204.2 million was primarily due to the issue of the convertible bond. EUR 295.9 million was recognised from the issue of the convertible bond less all incidental costs of acquisition in the second quarter of 2014. This was offset in particular by the dividend distribution in June 2014 in the amount of EUR 91.6 million.

The LEG Group was solvent at all times in the reporting period.

SUPPLEMENTARY REPORT

The transfer of a portfolio of 1,922 residential units in NRW and the company behind them was closed as at 1 July 2014. The purchase price including incidental acquisition costs is around EUR 106 million. The portfolio currently generates annual net rent of EUR 7.9 million. When the agreement was signed, the average rent on the portfolio was EUR 4.96 per square metre with a vacancy rate of 3.0%. The initial FFO I yield on the portfolio was over 8.0%.

There were no other significant events after the end of the interim reporting period on 30 June 2014.

RISK AND OPPORTUNITY REPORT

The risks and opportunities faced by LEG in its operating activities were described in detail in the 2013 annual report. To date, no further risks that would lead to a different assessment have arisen or become discernible in the fiscal year 2014.

FORECAST REPORT

Thanks to its positive business performance in the first half of the year, LEG feels it is well on its way to achieving – and in some cases surpassing – its goals for the year as a whole.

In light of the anticipated positive effects from the acquisitions concluded and the convertible bond, the target corridor for forecast FFO I can be raised slightly for 2014. Thus, LEG is projecting earnings in a range of EUR 158 million to EUR 161 million (previously: EUR 155 million to EUR 159 million), corresponding to FFO I per share of EUR 2.98 to EUR 3.04.

The development in the first half of the year also confirms the outlook for like-for-like rent growth per square metre. LEG is therefore assuming growth of around 3% in the 2014 financial year. The occupancy rate for the current portfolio is expected to continue developing positively. Not including the additional effects of acquisitions, the target for investment in the portfolio is still around EUR 13 per square metre.

LEG has acquired around 7,000 residential units since its IPO and will shortly close a further portfolio transaction for around 2,400 residential units. On this basis, LEG is confident of exceeding its acquisition target of 10,000 units in total by the end of 2014.

In some respects, the effects of the acquisitions performed and multimedia business will not become fully apparent until the next financial year. The prospects for organic rent growth remain positive. In light of this, LEG is assuming FFO I of EUR 172 million to EUR 177 million (EUR 3.25 to EUR 3.34 per share) for the 2015 financial year. This base scenario takes into account the acquisition of the portfolio with around 2,400 units and its inclusion in consolidation in the course of 2015. This outlook does not yet include any other effects anticipated from planned acquisitions.

DETAILED INDEX CONSOLIDATED INTERIM FINANCIAL STATEMENT

CONSOLIDATED INTERIM FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TABLE 22

Assets

€ million	30.06.2014	31.12.2013
Non-current assets	**5,332.3**	5,262.2
Investment properties	**5,236.7**	5,163.4
Prepayments for investment properties	**2.0**	6.9
Property, plant and equipment	**64.9**	66.7
Intangible assets	**3.6**	4.3
Investments in associates	**9.2**	9.2
Other financial assets	**2.5**	3.6
Receivables and other assets	**0.9**	2.8
Deferred tax assets	**12.5**	5.3
Current assets	**366.0**	144.5
Real estate inventory and other inventory	**5.8**	10.1
Receivables and other assets	**57.1**	21.0
Income tax receivables	**2.8**	2.7
Cash and cash equivalents	**300.3**	110.7
Assets held for sale	**10.7**	16.4
TOTAL ASSETS	**5,709.0**	**5,423.1**

Equity and liabilities

€ million	30.06.2014	31.12.2013
Equity	**2,217.4**	2,276.1
Share capital	**53.0**	53.0
Capital reserves	**441.5**	440.9
Cumulative other reserves	**1,695.3**	1,754.9
Equity attributable to shareholders of the parent company	**2,189.8**	2,248.8
Non-controlling interests	**27.6**	27.3
Non-current liabilities	**3,168.6**	2,840.6
Pension provisions	**111.9**	112.3
Other provisions	**13.6**	12.7
Financing liabilities	**2,641.8**	2,396.7
Other liabilities	**130.5**	63.5
Tax liabilities	**24.8**	24.2
Deferred tax liabilities	**246.0**	231.2
Current liabilities	**323.0**	306.4
Pension provisions	**6.1**	6.1
Other provisions	**16.3**	17.9
Provisions for taxes	**0.1**	0.0
Financing liabilities	**201.4**	187.0
Other liabilities	**78.4**	77.6
Tax liabilities	**20.7**	17.8
TOTAL EQUITY AND LIABILITIES	**5,709.0**	**5,423.1**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

TABLE 23

Consolidated statement of comprehensive income

€ million	01.04. – 30.06.2014	01.04. – 30.06.2013	01.01. – 30.06.2014	01.01. – 30.06.2013
Net rental and lease income	**69.0**	64.2	**139.5**	123.7
Rental and lease income	**143.7**	128.8	**285.8**	260.3
Cost of sales in connection with rental lease income	**–74.7**	–64.6	**–146.3**	–136.6
Net income from the disposal of investment properties	**–0.3**	–0.5	**–0.3**	–0.7
Income from the disposal of investment properties	**17.6**	2.7	**20.1**	4.5
Carrying amount of the disposal of investment properties	**–17.6**	–2.9	**–19.9**	–4.6
Cost of sales in connection with disposed investment properties	**–0.3**	–0.3	**–0.5**	–0.6
Net income from the disposal of real estate inventory	**–0.7**	–0.8	**–1.6**	–1.7
Income from the real estate inventory disposed of	**3.6**	0.4	**3.9**	0.8
Carrying amount of the real estate inventory disposed of	**–3.5**	–0.2	**–3.7**	–0.5
Costs of sales of the real estate inventory disposed of	**–0.8**	–1.0	**–1.8**	–2.0
Net income from other services	**0.5**	0.7	**0.6**	1.5
Income from other services	**2.3**	2.4	**4.6**	4.9
Expenses in connection with other services	**–1.8**	–1.7	**–4.0**	–3.4
Administrative and other expenses	**–8.0**	–11.1	**–16.8**	–22.5
Other income	**0.1**	–0.3	**0.2**	0.3
OPERATING EARNINGS	**60.6**	**52.2**	**121.6**	**100.6**
Interest income	**0.4**	0.4	**0.5**	0.6
Interest expenses	**–31.0**	–30.3	**–61.0**	–65.4
Net income from investment securities and other equity investments	**5.8**	1.3	**7.2**	1.4
Net income from the fair value measurement of derivatives	**12.5**	4.2	**8.9**	2.5
EARNINGS BEFORE INCOME TAXES	**48.3**	**27.8**	**77.2**	**39.7**
Income taxes	**–15.8**	–4.4	**–22.3**	–5.0
NET PROFIT OR LOSS FOR THE PERIOD	**32.5**	**23.4**	**54.9**	**34.7**
Change in amounts recognised directly in equity				
Fair value adjustment of interest rate derivatives in hedges	**–11.8**	16.2	**–22.8**	24.8
Change in unrealised gains/losses	**–16.0**	21.6	**–30.9**	32.7
Income taxes on amounts recognised directly in equity	**4.2**	–5.4	**8.1**	–7.9
TOTAL COMPREHENSIVE INCOME	**20.7**	**39.6**	**32.1**	**59.5**
Net profit or loss for the period attributable to:				
Non-controlling interests	**0.2**	0.2	**0.3**	0.5
Parent shareholders	**32.3**	23.2	**54.6**	34.2
Total comprehensive income attributable to:				
Non-controlling interests	**0.1**	0.4	**0.1**	0.7
Parent shareholders	**20.6**	39.2	**32.0**	58.8
EARNINGS PER SHARE (BASIC AND DILUTED) IN €	**0.6**	**0.4**	**1.0**	**0.6**
ERGEBNIS JE AKTIE VERWÄSSERT IN €	**0.6**	**0.4**	**1.0**	**0.6**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

TABLE 24

Statement of changes in consolidated equity

€ million	Share capital	Capital reserves	Revenue reserves
AS OF 01.01.2013	**53.0**	**436.1**	**1,653.4**
Net profit or loss for the period	–	–	34.2
Other comprehensive income	–	–	–
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**34.2**
Change in consolidated companies	–	–	–
Capital increase	–	40.5	–
Withdrawals from reserves	–	–	–
Distributions	–	–	–
Contribution in connection with Management and Supervisory Board	–	1.8	–
AS OF 30.06.2013	**53.0**	**478.4**	**1,687.6**
AS OF 01.01.2014	**53.0**	**440.9**	**1,805.9**
Net profit or loss for the period	–	–	54.6
Other comprehensive income	–	–	–
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**54.6**
Change in consolidated companies	–	–	–
Capital increase	–	–	–
Withdrawals from reserves	–	–	–
Distributions	–	–	–91.6
Contribution in connection with Management and Supervisory Board	–	0.6	–
AS OF 30.06.2014	**53.0**	**441.5**	**1,768.9**

Cumulative other reserves				
Actuarial gains and losses from the measurement of pension obligations	Fair value adjustment of interest derivatives in hedges	Equity attributable to shareholders of the Group	Non-controlling interests	Consolidated equity
–22.3	**–59.6**	**2,060.6**	**24.9**	**2,085.5**
–	–	34.2	0.5	34.7
–	24.6	24.6	0.2	24.8
–	**24.6**	**58.8**	**0.7**	**59.5**
–	–	–	–	–
–	–	40.5	0.4	40.9
–	–	–	–0.1	–0.1
–	–	–	–	–
–	–	1.8	–	1.8
–22.3	**–35.0**	**2,161.7**	**25.9**	**2,187.6**
–16.6	**–34.4**	**2,248.8**	**27.3**	**2,276.1**
–	–	54.6	0.3	54.9
–	–22.6	–22.6	–0.2	–22.8
–	**–22.6**	**32.0**	**0.1**	**32.1**
–	–	–	–	–
–	–	–	0.2	0.2
–	–	–	–	–
–	–	–91.6	–	–91.6
–	–	0.6	–	0.6
–16.6	**–57.0**	**2,189.8**	**27.6**	**2,217.4**

CONSOLIDATED STATEMENT OF CASH FLOWS

TABLE 25

Consolidated statement of cash flows

€ million	01.01. – 30.06.2014	01.01. – 30.06.2013
Operating earnings	**121.6**	100.6
Depreciation on property, plant and equipment and amortisation on intangible assets	**4.2**	4.3
(Gains)/Losses from the disposal of assets held for sale and investment properties	**–0.2**	0.1
(Reduction)/Increase in pension provisions and other non-current provisions	**0.4**	–0.4
Other non-cash income and expenses	**2.9**	3.8
(Reduction)/Increase in receivables, inventories and other assets	**–28.9**	–4.6
Reduction/(Increase) in liabilities (not including financing liabilities) and provisions	**–0.2**	–19.4
Interest paid	**–47.1**	–45.8
Interest received	**0.5**	0.6
Received income from investments	**4.6**	1.4
Taxes received	**0.3**	0.3
Taxes paid	**–4.6**	–0.6
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	**53.5**	**40.3**
Cash flow from investing activities		
Investments in investment properties	**–86.6**	–20.5
Proceeds from disposals of non-current assets held for sale and investment properties	**20.1**	4.5
Investments in intangible assets and property, plant and equipment	**–1.8**	–0.3
Proceeds from disposals of financial assets and other assets	**0.2**	0.6
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	**–68.1**	**–15.7**
Cash flow from financing activities		
Borrowing of bank loans	**59.9**	332.8
Repayment of bank loans	**–59.0**	–338.6
Emission of convertible bonds	**296.1**	–
Repayment of lease liabilities	**–1.6**	–1.5
Investments via shareholders	**0.4**	–
Distribution to shareholders	**–91.6**	–
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	**204.2**	**–7.3**
Change in cash and cash equivalents	**189.6**	17.3
Cash and cash equivalents at beginning of period	**110.7**	133.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**300.3**	**151.0**
Composition of cash and cash equivalents		
Cash in hand, bank balances	**300.3**	151.0
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**300.3**	**151.0**

SELECTED NOTES ON THE IFRS CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 30 JUNE 2014

1. BASIC INFORMATION ON THE GROUP

LEG Immobilien AG, Dusseldorf (hereinafter: »LEG Immo«), its subsidiary LEG NRW GmbH, Dusseldorf (hereinafter: »LEG«) and the subsidiaries of the latter company (hereinafter referred to collectively as the »LEG Group«) are among the largest housing companies in Germany. As at 30 June 2014, the LEG Group had a portfolio of 96,784 units (residential and commercial).

LEG Immo, Hans-Boeckler-Strasse 38, 40476 Dusseldorf, Germany, was formed on 9 May 2008 and is entered in the commercial register of the Dusseldorf Local Court under HRB 69386. LEG NRW, the main subsidiary of LEG Immo, was formed in 1970. The company is also domiciled at Hans-Boeckler-Strasse 38, 40476 Dusseldorf, Germany, and is entered in the commercial register of the Dusseldorf Local Court under HRB 12200.

As an integrated property company, LEG Immo and its subsidiaries perform three core activities: the long-term, value-adding management of its residential property portfolio, the strategic acquisition of residential portfolios to generate long-term value enhancement and the expansion of tenant-oriented services.

By way of entry in the commercial register on 11 January 2013, LEG Immobilien GmbH underwent a change in legal form and was renamed LEG Immobilien AG.

LEG Immo went public on 1 February 2013 with the initial listing of its shares in the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange.

The consolidated interim financial statements have been prepared in euro. Unless indicated otherwise, all figures are rounded to millions of euro (EUR million). For technical reasons, tables and references may contain rounded figures that differ from the exact mathematical values.

2. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

LEG Immo has prepared its consolidated interim financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) for interim reporting, as endorsed in the EU, and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC). The notes have been presented in condensed form in accordance with the option under IAS 34.10. The condensed consolidated interim financial statements have neither been audited nor reviewed by an auditor.

The LEG Group primarily generates income from the rental and letting of investment property. Rental and letting is largely unaffected by seasonal and economic influences.

3. ACCOUNTING POLICIES

The accounting policies applied in the consolidated interim financial statements of the LEG Group are the same as those presented in the IFRS consolidated financial statements of LEG Immo as at 31 December 2013. These consolidated interim financial statements as at 30 June 2014 should therefore be read in conjunction with the consolidated financial statements as at 31 December 2013.

The new standards and interpretations effective from 1 January 2014 have been adopted by the LEG Group in full, though their application has no significant effect on the net assets, financial position or results of operations.

4. CHANGES IN THE GROUP

There were three mergers within the Group in the first quarter of 2014, with the result that the number of subsidiaries included in consolidation in the LEG Group was reduced accordingly. The changes in consolidation have no effect on the net assets, financial position and results of operations of the Group.

5. JUDGEMENTS AND ESTIMATES

The preparation of IFRS interim consolidated financial statements requires assumptions and estimates affecting the carrying amounts of the assets and liabilities recognised, income and expenses and the disclosure of contingent liabilities. In particular, these assumptions and estimates relate to the measurement of investment property, the recognition and measurement of provisions for pensions, the recognition and measurement of other provisions, the measurement of financial liabilities and the recognition of deferred tax assets.

Although the management believes the assumptions and estimates to be appropriate, unforeseeable changes to these assumptions can influence the Group's net assets, financial position and results of operations.

For further information, please see the consolidated financial statements as at 31 December 2013.

6. SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014, the LEG Group had a portfolio of 95,783 residential units and 1,001 commercial units.

Investment property developed as follows in the 2013 financial year and in 2014 up to the date of the consolidated interim financial statements:

TABLE 26

Investment properties

€ million	30.06.2014	31.12.2013
CARRYING AMOUNT AS OF 01.01.	**5,163.4**	**4,937.1**
Acquisitions	**71.5**	128.5
Other additions	**16.2**	43.7
Reclassified to assets held for sale	**–14.2**	–28.4
Reclassified to property, plant and equipment	**–0.2**	–0.3
Reclassified from property, plant and equipment	**–**	1.2
Fair value adjustment	**–**	81.6
CARRYING AMOUNT AS OF 30.06/31.12.	**5,236.7**	**5,163.4**

The reclassification of assets held for sale essentially relates to three block sales and individual sales from the residential portfolio.

The additions include the capitalisation of a property portfolio of around 735 residential units by way of purchase agreement dated 7 November 2013. The annual in-place rent is EUR 2.1 million. The average inplace rent is EUR 4.6 per square metre; the vacancy rate is 5.2%. The purchase price including incidental costs of acquisition is around EUR 26.0 million. The transaction was closed on 1 February 2014.

A property portfolio of around 537 residential units was acquired by way of a purchase agreement dated 16 December 2013. The annual in-place rent is EUR 2.2 million. The average in-place rent is EUR 5.20 per square metre; the vacancy rate is 0.4%. The purchase price including incidental costs of acquisition is EUR 26.0 million. The transaction was closed on 1 June 2014.

The acquisition of a property portfolio of around 300 residential units was notarised on 16 April 2014. The portfolio generates annual in-place rent of EUR 1.4 million. The average net rent is EUR 5.43 per square metre; the initial vacancy rate is 3.2%. The purchase price is around EUR 19.0 million. The transaction was closed on 1 June 2014.

As the measurement of investment property was not updated as at the end of the interim reporting period, the fair values were not adjusted. Please see the consolidated financial statements as at 31 December 2013 for details of the measurement methods and parameters.

The LEG Group's portfolio also includes land and buildings accounted for in accordance with IAS 16.

The cash and cash equivalents essentially include bank balances.

The changes in the components of consolidated equity can be seen in the statement of changes in consolidated equity.

Financial liabilities are composed as follows:

TABLE 27

Financing liabilities

€ million	30.06.2014	31.12.2013
Financing liabilities from real estate financing	**2,818.8**	2,558.9
Financing liabilities from lease financing	**24.4**	24.8
FINANCING LIABILITIES	**2,843.2**	**2,583.7**

Financial liabilities from property financing serve the financing of investment property.

The increase in financial liabilities from property financing results from the placement of the convertible bond with a nominal value of EUR 300.0 million. The convertible bond was classified as a financial liability on account of the issuer's contractual cash settlement option and recognised in accordance with IAS 39. There are several embedded and separable derivatives that are treated as a single compound derivative in accordance with IAS 39.AG29 and carried at fair value. The underlying debt instrument is recognised at amortised cost.

There was refinancing with a total volume of EUR 15.2 million in the first six months of 2014, which essentially served to replace the high fixed-rate WFA loans. This also led to a reduction in the number of loans. Other loans extended in the amount of EUR 44.8 million resulted in increased loan liabilities. This was offset by scheduled and unscheduled repayments.

TABLE 28

Maturity of financing liabilities from real estate financing

€ million	30.06.2014	31.12.2013
Remaining term <1 year	**197.6**	183.2
Remaining term >1 and 5 years	**1,446.5**	1,279.1
Remaining term >5 years	**1,174.7**	1,096.6
TOTAL	**2,818.8**	**2,558.9**

The LEG Group uses derivative financial instruments to hedge interest rate risks from property financing. Freestanding derivative financial instruments are recognised at fair value through profit or loss. Derivatives used in hedge accounting are recognised pro rata for the designated portion of the hedge in other comprehensive income and in profit or loss for the undesignated portion including accrued interest.

7. SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Rental and lease income is broken down as follows:

TABLE 29

Rental and lease income

€ million	01.01.–30.06.2014	01.01.–30.06.2013
Rental income	**285.7**	259.9
Other income	**0.1**	0.4
RENTAL AND LEASE INCOME	**285.8**	**260.3**

TABLE 30

Cost of sale in connection with rental and lease income

€ million	01.01.–30.06.2014	01.01.–30.06.2013
Purchased services	**–100.4**	–89.0
Ongoing maintenance	**–18.6**	–21.9
Staff costs	**–16.7**	–17.5
Depreciation and amortisation	**–2.1**	–2.0
Other operating expenses	**–8.5**	–8.3
Reimbursement of IPO costs by shareholders	**–**	2.1
COST OF SALE IN CONNECTION WITH RENTAL AND LEASE INCOME	**–146.3**	**–136.6**
NET RENTAL AND LEASE INCOME	**139.5**	**123.7**

The rise in rental income in the first half of 2014 as against the same period of 2013 was due to an organic increase in net rent, a slight decline in the vacancy rate on a like-for-like basis and acquisitions of property portfolios.

Performance bonuses of EUR 4.7 million were granted to employees following the company's successful IPO in 2013. The share of these staff costs allocated to the cost of sales of rental and letting was EUR 2.1 million and was charged in full to the shareholders Saturea B.V. and Perry Luxco RE.

Net income from the disposal of investment property is composed as follows:

TABLE 31

Net income from the disposal of investment properties

€ million	01.01.–30.06.2014	01.01.–30.06.2013
Income from the disposal of investment properties	**20.1**	4.5
Carrying amount of investment properties disposed of	**–19.9**	–4.6
INCOME (+)/LOSS (–) FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**0.2**	**–0.1**
Staff costs	**–0.3**	–0.4
Other operating expenses	**–0.2**	–0.2
Purchased services	**–**	–
COST OF SALE IN CONNECTION WITH INVESTMENT PROPERTIES SOLD	**–0.5**	**–0.6**
NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**–0.3**	**–0.7**

Administrative and other expenses are composed as follows:

TABLE 32

Administrative and other expenses

€ million	01.01.–30.06.2014	01.01.–30.06.2013
Other operating expenses	**–4.4**	–16.7
Staff costs	**–11.0**	–13.3
Purchased services	**–0.4**	–0.6
Depreciation, amortisation and write-downs	**–1.0**	–1.2
Reimbursement of IPO costs by shareholders	**–**	9.3
ADMINISTRATIVE AND OTHER EXPENSES	**–16.8**	**–22.5**

The decline in other operating expenses essentially results from the consulting and non-staff operating costs of EUR 6.8 million incurred by the IPO in the same period of the previous year. The reduction in project-related, non-recurring costs of EUR 3.5 million in the reporting period also contributed to a drop in non-staff operating costs. The lower number of Supervisory Board members at LEG Immobilien AG and a reduction in the costs of consulting and third-party services also eased non-staff operating costs.

A main reason for the reduction of staff costs is the absence of performance bonuses, which were paid as part of the IPO in 2013. The share attributable to administrative and other expenses amounted to EUR 2.5 million. The long-term incentive (LTI) programme resulted in EUR 1.0 million lower expenses in the reporting period. This was offset by rising ongoing staff costs, which were affected by higher expenses under the short-term incentive (STI) programme (increase of EUR 0.3 million).

In particular, the current administrative expenses show the effects of the reduction in the number of Supervisory Board members and the decline in non-staff operating costs. This compensated for a slight rise in ongoing staff costs. In the reporting period, ongoing administrative and other expenses amounted to EUR 14.8 million and were therefore slightly below previous year (EUR 15.4 million).

Net interest income breaks down as follows:

TABLE 33

Interest income

€ million	01.01.–30.06.2014	01.01.–30.06.2013
Interest income from bank balances	**0.3**	0.6
Other interest income	**0.2**	0.0
INTEREST INCOME	**0.5**	**0.6**

TABLE 34

Interest expenses

€ million	01.01.–30.06.2014	01.01.–30.06.2013
Interest expenses from real estate financing	**–34.9**	–35.4
Interest expense from loan amortisation	**–10.4**	–13.8
Interest expense from interest derivatives for real estate financing	**–12.0**	–12.4
Interest expense from change in pension provisions	**–2.0**	–1.9
Interest expense from interest on other assets and liabilities	**–1.0**	–1.0
Interest expenses from lease financing	**–0.7**	–0.8
Other interest expenses	**0.0**	–0.1
INTEREST EXPENSES	**–61.0**	**–65.4**

The decline in interest expenses from property financing and from loan amortisation is due to the refinancing transactions in the previous year. The drop in interest expenses from loan amortisation results in particular from the refinancing activities in 2013 and the refinancing of high fixed-rate WFA loans in the 2014 financial year. This was countered by the effects of acquisition financing.

The interest expenses from loan amortisation include the measurement of the convertible bond at amortised cost in the amount of EUR 1.7 million.

In addition, lower general interest rates compared to 2013 also led to a further reduction in interest expenses from property financing.

INCOME TAXES

TABLE 35

Income taxes

€ million	01.01.–30.06.2014	01.01.–30.06.2013
Current income taxes	**–6.6**	0.2
Deferred taxes	**–15.7**	–5.2
INCOME TAXES	**–22.3**	**–5.0**

As in the same period of the previous year, an effective Group tax rate of 21.3% was assumed for the first half of 2014 in accordance with tax planning.

As at 30 June 2014, a deferred tax expense of EUR 0.9 million was recognised for the change in deferred tax assets on tax loss carryforwards as against 31 December 2013 (previous year: deferred tax income of EUR 3.3 million).

The current income taxes as at 30 June 2014 of EUR 6.1 million include payments of tax arrears from external audits for the years 2005 to 2008. Around EUR 5.7 million of this was reimbursed by the former shareholder on the basis of an obligation under the sale agreement. The reimbursement amount is reported in net income from investment securities.

Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the shareholders by the average number of shares outstanding during the financial year.

TABLE 36

Earnings per share – undiluted

	01.01.–30.06.2014	01.01.–30.06.2013
Net profit or loss attributable to shareholders in € million	**54.6**	34.2
Average number of shares outstanding	**52,963,444**	52,963,444
UNDILUTED EARNINGS PER SHARE IN €	**1.0**	**0.6**

Diluted earnings per share are calculated by increasing the average number of shares outstanding by the number of all potentially dilutive shares. The net profit for the period is adjusted for the expenses no longer incurred for the interest coupon and the resulting tax effect in the event of conversion rights being exercised in full.

As at 30 June 2014, LEG AG had potentially dilutive shares outstanding from a convertible bond, which authorise the bearer to convert it into up to 1.1 million shares.

The diluted earnings per share are calculated as follows:

TABLE 37

Earnings per share – diluted

	01.01.–30.06.2014	01.01.–30.06.2013
Net profit or loss attributable to shareholders in € million	**54.6**	34.2
Convertible bond coupon after taxes	**0.3**	–
Net profit or loss for the period for diluted earnings per share	**54.9**	34.2
Average weighted number of shares outstanding	**52,963,444**	52,963,444
Number of potentially new shares in the event of exercise of conversion rights	**1,134,160**	–
Number of shares for diluted earnings per share	**54,097,604**	52,963,444
DILUTED EARNINGS PER SHARE IN €	**1.0**	**0.6**

8. NOTES TO THE CONSOLIDATED SEGMENT REPORT

Group segment reporting for the period from 1 January to 30 June 2014 (TABLE 38)

Group segment reporting for the period from 1 January to 30 June 2013 (TABLE 39)

TABLE 38

Segment reporting 01.01. – 30.06.2014

€ million	Residential	Other	Reconciliation	Group
Rental and lease income	283.6	3.2	–1.0	285.8
Cost of sales of rental and letting	–146.0	–1.4	1.1	–146.3
NET RENTAL AND LEASE INCOME	**137.6**	**1.8**	**0.1**	**139.5**
Net income from the disposal of IAS 40 property	–0.2	–0.1	–	–0.3
Net income from the measurement of IAS 40 property	–	–	–	–
Net income from the disposal of real estate inventory	–0.2	–1.4	–	–1.6
Net income from other services	0.2	14.0	–13.6	0.6
Administrative and other expenses	–15.6	–14.8	13.6	–16.8
Other income	0.2	–	–	0.2
SEGMENT EARNINGS	**122.0**	**–0.5**	**0.1**	**121.6**
Statement of financial position item				
SEGMENT ASSETS (IAS 40)	5,177.9	58.8	–	5,236.7
Key figures				
Rentable area in sqm	6,118,579	3,627		6,122,206
Monthly target rents as of end of reporting period	31.0	0.1		31.1
Vacancy rate by residential units in %	3.2	–		3.2

TABLE 39

Segment reporting 01.01. – 30.06.2013

€ million	Residential	Other	Reconciliation	Group
Rental and lease income	257.0	3.7	–0.4	260.3
Cost of sales of rental and letting	–136.0	–0.1	–0.5	–136.6
NET RENTAL AND LEASE INCOME	**121.0**	**3.6**	**–0.9**	**123.7**
Net income from the disposal of IAS 40 property	–0.5	–0.2	–	–0.7
Net income from the measurement of IAS 40 property	–	–	–	–
Net income from the disposal of real estate inventory	–0.2	–1.5	–	–1.7
Net income from other services	0.3	19.5	–18.3	1.5
Administrative and other expenses	–19.8	–21.8	19.1	–22.5
Other income	0.3	–	–	0.3
SEGMENT EARNINGS	**101.1**	**–0.4**	**–0.1**	**100.6**
Statement of financial position item				
SEGMENT ASSETS (IAS 40)	**4,870.3**	**75.9**	**–**	**4,946.2**
Key figures				
Rentable area in sqm	5,840,127	3,627		5,843,754
Monthly target rents as of end of reporting period	28.7	–		28.7
Vacancy rate by residential units in %	3.0	3.3		3.0

TABLE 40

Classes of financial instruments for financial assets and liabilities 2014

€ million	Measurement (IAS 39)			Measurement (IAS 17)	
	Carrying amounts as per statement of financial positions 30.06.2014	Amortised cost	Fair value through profit or loss	Carrying amounts as per statement of financial positions 30.06.2014	Fair value 30.06.2014
Assets					
Other financial assets	**2.5**				**2.5**
LaR	0.1	0.1	0.0		0.1
AfS	2.4	2.4			2.4
Receivables and other assets	**58.0**				**32.6**
LaR	32.6	32.6			32.6
Other non-financial assets	25.4				25.4
Cash and cash equivalents	**300.3**				**300.3**
LaR	140.5	140.5			140.5
TOTAL	**360.8**	**175.6**	**0.0**		**335.4**
Of which IAS 39 measurement categories					
LaR	173.2	173.2			168.9
AfS	2.4	3.5			3.5
Equity and liabilities					
Financial liabilities	**−2,843.2**				**−3,153.7**
FLAC	−2,818.8	−2,818.8			−3,128.9
Liabilities from lease financing	−24.4			−24.4	−24.8
Other liabilities	**−208.9**				**−208.9**
FLAC	−37.3	−37.3			−37.3
Derivatives HfT	−38.9		−38.9		−38.9
Hedge accounting derivatives	−80.6				−80.6
Other non-financial liabilities	−52.1				−52.1
TOTAL	**−3,052.1**	**−2,856.1**	**−38.9**	**−24.4**	**−3,362.6**
Of which IAS 39 measurement categories					
FLAC	−2,856.1	−2,621.8			−3,166.2
Derivatives HfT	−38.9		−38.9		−38.9

LaR = Loans and Receivables
HfT = Held for Trading
AfS = Available for Sale
FLAC = Financial Liabilities at Cost

TABLE 41

Classes of financial instruments for financial assets and liabilities 2013

€ million	Measurement (IAS 39)			Measurement (IAS 17)	
	Carrying amounts as per statement of financial positions 31.12.2013	Amortised cost	Fair value through profit or loss	Carrying amounts as per statement of financial positions 31.12.2013	Fair value 31.12.2013
Assets					
Other financial assets	**3.6**				**3.6**
LaR	0.1	0.1	0.0		0.1
AfS	3.5	3.5			3.5
Receivables and other assets	**23.8**				**23.8**
LaR	21.8	21.8			21.8
Other non-financial assets	2.0				2.0
Cash and cash equivalents	**110.7**				**110.7**
LaR	110.7	110.7			110.7
TOTAL	**138.1**	**136.1**	**0.0**		**138.1**
Of which IAS 39 measurement categories					
LaR	132.6	132.6			132.6
AfS	3.5	3.5			3.5
Equity and liabilities					
Financial liabilities	**–2,583.7**				**–2,738.0**
FLAC	–2,558.9	–2,558.9			–2,713.1
Liabilities from lease financing	–24.8			–24.8	–24.9
Other liabilities	**–141.1**				**–141.1**
FLAC	–29.7	–29.7			–29.7
Derivatives HfT	–2.3		–2.3		–2.3
Hedge accounting derivatives	–49.7	0.0	0.0		–49.7
Other non-financial liabilities	–59.4				–59.4
TOTAL	**–2,724.8**	**–2,588.6**	**–2.3**	**–24.8**	**–2,879.1**
Of which IAS 39 measurement categories					
FLAC	–2,588.6	–2,588.6			–2,742.8
Derivatives HfT	–2.3		–2.3		–2.3

LaR = Loans and Receivables
HfT = Held for Trading
AfS = Available for Sale
FLAC = Financial Liabilities at Cost

9. FINANCIAL INSTRUMENTS

The previous table shows the financial assets and liabilities broken down by measurement category and class. Receivables and liabilities from finance leases and derivatives used as hedging instruments are included even though they are not assigned to an IAS 39 measurement category. With respect to reconciliation, non-financial assets and non-financial liabilities are also included although they are not covered by IFRS 7.

The fair values of financial instruments are determined on the basis of corresponding market values or measurement methods. For cash and cash equivalents and other short-term primary financial instruments, the fair value is approximately the same as the carrying amount at the end of the respective reporting period.

For non-current receivables, other assets and liabilities, the fair value is calculated on the basis of the forecast cash flows, applying the reference interest rates as at the end of the reporting period. The fair values of derivative financial instruments are calculated using the reference interest rates as at the end of the reporting period.

For financial instruments at fair value, the discounted cash flow method is used to determine fair value using corresponding quoted market prices, with individual credit ratings and other market conditions being taken into account in the form of standard credit and liquidity spreads when calculating present value. If no quoted market prices are available, the fair value is calculated using standard measurement methods applying instrument-specific market parameters.

When calculating the fair value of derivative financial instruments, the input parameters for the valuation models are the relevant market prices and interest rates observed as at the end of the reporting period, which are obtained from recognised external sources. Accordingly, derivatives are assigned to level 2 of the fair value hierarchy set out in IFRS 13.72 ff (measurement on the basis of observable input data).

Both the Group's own risk and the counterparty risk were taken into account in the calculation of the fair value of derivatives in accordance with IFRS 13.

10. RELATED PARTY TRANSACTIONS

On 23 January 2014, the shareholder Saturea B.V. sold a package of almost 15.2 million shares in an accelerated book-building procedure, thereby reducing its interest from 28.65% to approximately 0.41%. Thus, Saturea B.V. and its officers are no longer related parties within the meaning of IAS 24.

Please see the IFRS consolidated financial statements as at 31 December 2013 for the presentation of the IFRS 2 programmes: long-term incentive plan with former shareholders, LTI Management Board agreements and the settlement agreements for Supervisory Board members.

The Management Board agreements for the 2014 financial year provide for a long-term incentive programme under the same contractual premises as the LTI remuneration in 2013. On 25 March 2014, the Supervisory Board resolved at the recommendation of the Executive Committee of the Supervisory Board to prolong Holger Hentschel's Management Board agreement until 1 January 2017 and to increase his remuneration retroactively to 1 January 2014. Other than this, there were no significant changes in related parties compared to 31 December 2013.

11. OTHER

There were no changes in contingent liabilities as against 31 December 2013.

12. MANAGEMENT BOARD AND SUPERVISORY BOARD

The composition of the Management Board as at 30 June 2014 did not change as against the information provided as at 31 December 2013.

On 4 March 2014, the Supervisory Board members Heather Mulahasani, James Garman and Dr. Martin Hintze of the former major shareholder Saturea B.V. stepped down from their positions effective 2 April 2014. The Management Board and the Supervisory Board of LEG Immobilien AG resolved to reduce the Supervisory Board to six persons at the Annual General Meeting on 25 June 2014.

13. EVENTS AFTER THE REPORTING DATE

The transfer of a portfolio of 1,922 residential units in NRW and the company behind them was closed as at 1 July 2014. The purchase price including incidental acquisition costs is around EUR 106 million. The portfolio currently generates annual net rent of EUR 7.9 million. When the agreement was signed, the average rent on the portfolio was EUR 4.96 per square metre with a vacancy rate of 3.0%. The initial FFO I yield on the portfolio was over 8.0%.

There were no other significant events after the end of the interim reporting period on 30 June 2014.

Dusseldorf, 12 August 2014

LEG Immobilien AG

Der Vorstand

Thomas Hegel, Erftstadt (CEO)

Eckhard Schultz, Neuss (CFO)

Holger Hentschel, Erkrath (COO)

RESPONSIBILITY STATEMENT

»To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the LEG Group, and the Group management report includes a fair review of the development and performance of the business and the position of the LEG Group, together with a description of the principal opportunities and risks associated with the expected development of the LEG Group.«

Dusseldorf, 12 August 2014

LEG Immobilien AG, Dusseldorf

The Management Board

Thomas Hegel (CEO)

Eckhard Schultz (CFO)

Holger Hentschel (COO)

FURTHER INFORMATION

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FINANCIAL CALENDAR

LEG Financial Calendar 2014

Publication of interim financial report as of 30 June 2014	**12 August**
Publication of interim financial report as of 30 September 2014	**14 November**

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