2012

Growing Assets

Annual Report

TAG Immobilien AG

Group Financials (IFRS)

in TEUR	2012	(adjusted) 2011	(adjusted) 2010
A. Income statement key figures			
Revenues	252,833	178,303	82,941
a) Property sales	52,914	54,468	29,464
b) Rental income	192,462	115,377	51,802
c) Property management and other services	7,457	8,458	1,675
EBIT	289,125	145,122	46,865
EBT	202,551	83,273	22,208
Consolidated net profit / loss	177,922	65,904	18,501
FFO in EUR m	39.6	–	–
FFO incl. income from sales in EUR m	69.5	–	–
FFO per share in EUR	0.42	–	–
FFO incl. income from sales per share in EUR	0.73	–	–
Earnings per share in EUR	1.88	1.05	0.48
B. Balance sheet key figures			
Total assets	3,799,962	2,047,683	1,190,507
Equity before minorities	1,136,177	547,392	356,461
Equity ratio in %	30	27	30
Bank loans	2,216,047	1,189,393	634,002
of which current	411,261	172,568	110,490
Real estate volume	3,664,867	1,968,605	978,007
LTV in %	58.6	58.6	52.9
EPRA NAV per share in EUR	9.96	8.72	6.67
C. Employees			
Number of employees	508	281	168

Further figures	
Market capitalisation on 31 December 2012 in EUR	1,242,010,962
Subscribed capital in EUR	130,737,996.00
WKN / ISIN	830350 / DE0008303504
Number of shares	130,737,996
Free Float in %	100
Index	MDAX / EPRA

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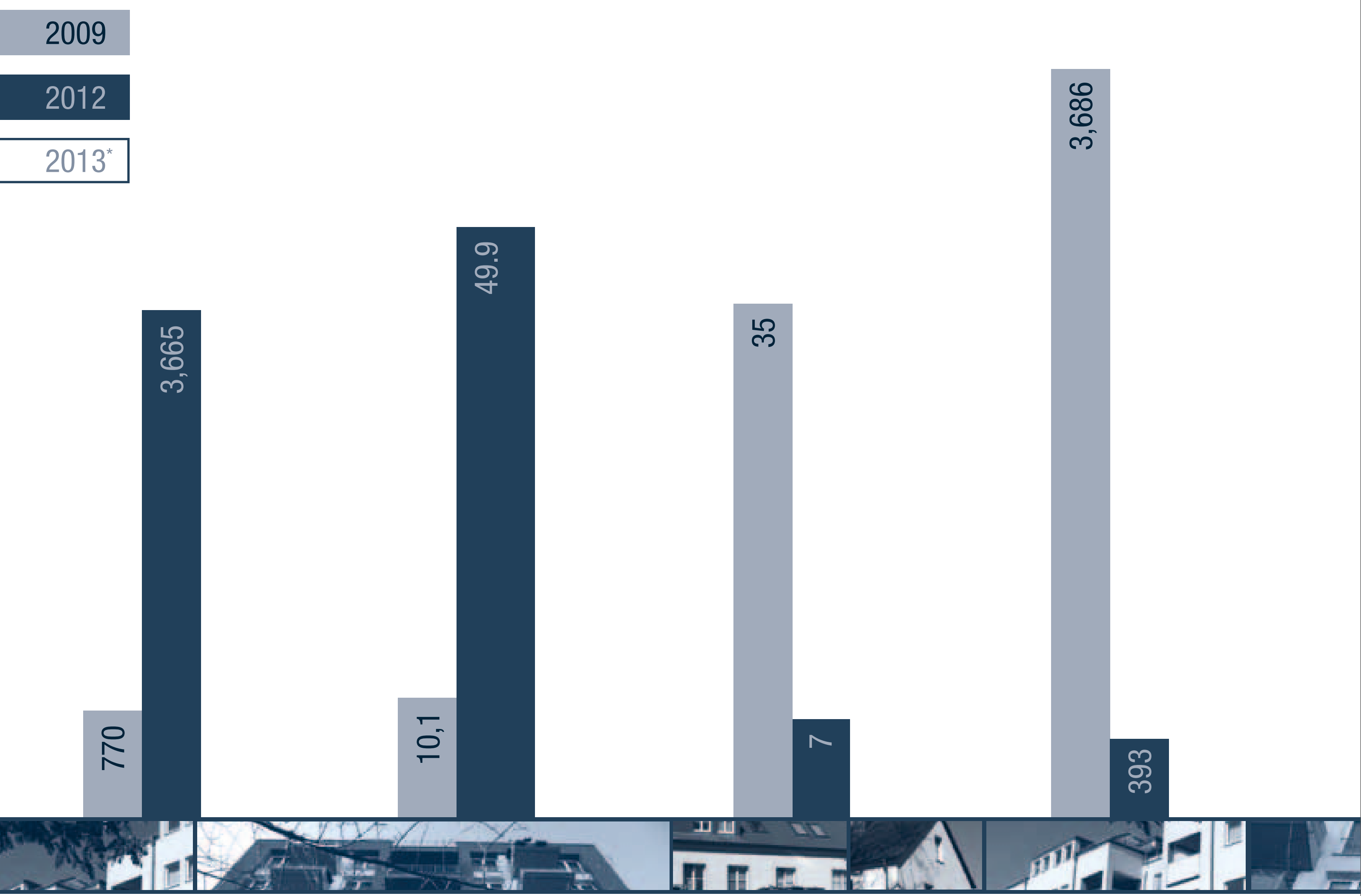


Real estate Volume (EUR m)
+376 %

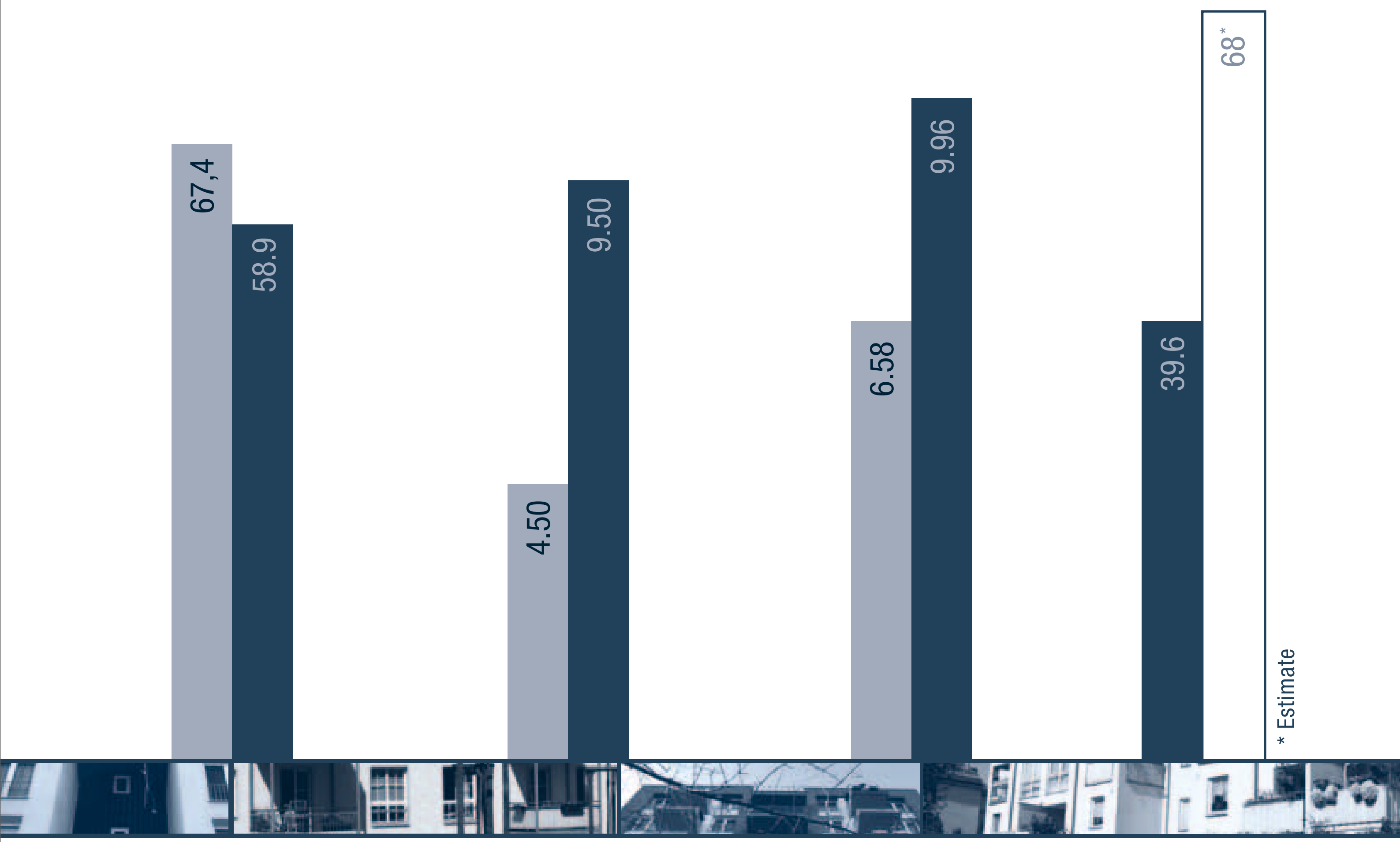
EBIT Margin (in %)
+394 %

Employees per 1,000 units
-80 %

Other operating expenses (in EUR per unit)
-89,3 %

"We have set out to become the most efficient and cashflow generative player among Germany's listed residential real estate companies."

Rolf Elgeti, CEO (2011)



Loan to Value (in %)
-13 %

Share price (in EUR)
+111 %

NAV per share (in EUR)
+51 %

FFO incl. Guidance (in EUR m)
+72 %

Rolf Elgeti,
CEO

Georg Griesemann,
CFO

Claudia Hoyer,
COO

Dr. Harboe Vaagt,
CLO

Foreword

Dear shareholders, Ladies and gentlemen,

In terms of growth and development, 2012 was a very important year for TAG Immobilien AG ('TAG' or 'the Company' in the following). With the acquisitions of DKB Immobilien AG (now trading as 'TAG Potsdam Immobilien GmbH') in February 2012 and TLG Wohnen GmbH (now trading as 'TAG Wohnen GmbH.') at the end of the year, TAG emerged successful from two bidding processes. By disposing of the properties at lake Tegernsee and the sale of its shares in Tegernsee Bahn Betriebsgesellschaft (TBG), TAG has finally moved away from its historical roots. Today, the company presents itself as a company specialising in residential real estate, which uses the financial resources available on capital markets and successfully invests them in long-term value and return-oriented investments, for the benefit of its investors and tenants.

During the reporting year we were able to continue the dynamic growth of previous years and give high priority to advancing the further expansion of our residential real-estate holdings. Through the growth of our portfolio alone, our average costs continued to decrease, while our margins have increased further. This positive development is confirmed by the figures in our Group financial statement for 2012 and also by the information presented to you in this Annual Report. TAG was able to increase its FFO. At the beginning of this year it was still EUR 5.6 m, by the fourth quarter of 2012 it had risen to EUR 12.0 m. It should be noted that many of the synergies generated from the purchase of TAG Potsdam Immobilien GmbH are not yet reflected in these figures.

We achieved our FFO forecast of EUR 40 m – which had already been adjusted upward – in 2012. Based on this good operating performance we would like to take this opportunity to propose to you at the 2013 Annual General Meeting a dividend that is 25 % higher than last year.

This improvement in business operations is not only based on the above-mentioned economies of scale, but also on other factors and successes in our business development. We were able to further reduce overall vacancy in the residential portfolio, from 11.6 % at the beginning of the year to 9.9 % at year-end. Vacancy has fallen in all of our regions, especially in the often critically viewed locations: in Salzgitter, vacancy fell from 22,3 % to 21.3 %; in our eastern German inventories vacancy remained steady at 10 % taking acquisitions into account; and in the Colonia Real Estate AG portfolio the variable was reduced from 9,2 % to 8,4 %.

The company's present size not only results in immediate economic benefits, it also enables us to offer our tenants better-quality service and more comprehensive, cost-optimised products, thereby contributing to long-term customer loyalty. In many places we have reached a size that allows us to negotiate lower energy costs for our tenants, to implement smarter waste concepts and to offer various services especially to our older tenants. We see the duties and responsibilities we have taken on vis-à-vis our tenants as an important element in the business strategy of our operations.

Our strategy makes itself felt in higher tenant satisfaction, and also brings many tenants tangible economic benefits on a significant scale. In Salzgitter, for example, we have reduced the cost of utilities by several hundred euros per year, for thousands of tenants. This leads to lower tenant turnover and a more sustainable ecological and economic management of the real-estate inventory.

From this strategically and operationally very comfortable position, following the acquisition of TAG Potsdam Immobilien GmbH we decided to take a further growth step in 2012, and acquired the Germany Federal Ministry of Finance's shares in TLG Wohnen GmbH, one of the successor companies to the former Treuhand as part of the government's privatisation process. Through our successful bid in this process we acquired 11,350 residential units in eastern Germany, which will integrate well with our existing locations and administrative structures. At this point we would like to once again warmly welcome our newly acquired tenants and employees. The attractive purchase price, low-cost financing and high quality of the portfolio will give our future FFO a significant boost.

In addition to growth and operational improvements, 2012 was primarily a year of institutionalising the company and streamlining our processes and structures. For instance, we were able to sell our third-party commercial asset management arm, fully acquired the remainder of the shares held by external shareholders in Bau-Verein zu Hamburg Aktien-Gesellschaft during a 'squeeze out' process, and delisted it from the stock exchange. The aforementioned sale of shares in TBG in Tegernsee and Gmund is also to be seen in the context of the Group's continued focus on the housing industry.

In the summer we gained two new Management Board members. Claudia Hoyer took over the newly created position of Chief Operating Officer and Georg Griesemann succeeded Hans-Ulrich Sutter as CFO. Mr Sutter, who has gone into a well-earned retirement, deserves many thanks for his many years of work and his constant support for the company especially under challenging circumstances.

On the capital market, we were able to report the promotion of the TAG share onto the MDAX in September 2012. The associated challenge of increased demands on transparency and professionalism are a challenge that we will face both gladly and confidently. You, our shareholders, have always supported us on our growth path and you supported us last year in three other corporate actions – with a capital increase in the spring and autumn and a convertible bond in June. Your confidence and support in our growth strategy has helped to minimise the dilutive effect in financing our acquisitions and thus also contributed to the NAV growth. At the beginning of the year NAV was at EUR 8.72 per share and closed the year at EUR 9.96 per share.

We not only buy and manage properties, but also used the year 2012 make selective sales. In December, we sold two small apartment buildings in Berlin clearly above our book value, mainly because we simply could not resist the price offered for these properties. Even though the real estate sold represented only about 2 % of our total assets, the re-investment of the released equity will in all likelihood lead to an approximately 10 % increase in FFO. In such situations, we will continue to take a positive view of the sale of real estate, even though our overall strategy is geared to long-term retention.

A long-term strategy requires a solid balance sheet, which we are pleased to present to you in this report. Our loan-to-value (LTV) ratio decreased from 64.0 % at the beginning of the year to 63.7 %. Not counting the convertible bonds – which are all ‘in money’ because the conversion price is below the current share price – the LTV ratio is actually only 58.9 % at this point, so our growth has neither occurred at the expense of a solid balance sheet, nor did we have to dilute our NAV per share.

Looking ahead at 2013, we can say that our company finds itself in an environment of rising rents, falling vacancy, falling costs and declining interest rates, so 2013 is likely be another record year in TAG‘s history with regard to FFO, and should improve options for our future dividend policy. Our FFO forecast for 2013 is approximately EUR 68 m.

We hope that the figures, measures and information described in the following will show that we are on track to creating more value for you. We thank you for your confidence in these unusual and exciting times.

Yours sincerely,

Rolf Elgeti
CEO

Georg Griesemann
CFO

Claudia Hoyer
COO

Dr. Harboe Vaagt
CLO

Elstal, Radelandberg

Business operations

Over the course of the 2012 business year, TAG became one of the leading listed real-estate companies in the German housing industry, continuing its dynamic development and strong growth of recent years. Listed on the MDAX since September 2012, the Company represents an attractive investment for capital market lenders and investors. For tenants and prospective tenants, companies in the TAG Group offer attractive housing at affordable prices at numerous locations, having now expanded its residential real estate portfolio to a total of 69,000 units.

The focus of the residential property portfolio is on the regions of Thuringia / Saxony, Berlin, Hamburg, North Rhine-Westphalia and the Salzgitter region and on attractive and high-yield residential real estate in select locations that sport positive economic growth or development data, promise stable rental income, and possess potential for value creation. Other key factors in purchasing decisions are synergy effects and whether the new housing inventory can be managed by existing structures, for maximum cost effectiveness.

Following the acquisition of TAG Potsdam-Immobilien GmbH (formerly DKB Immobilien AG) and TAG Wohnen GmbH (formerly TLG Wohnen GmbH), the real estate volume amounts to EUR 3.66 billion. The Company's market capitalisation totalled EUR 1.2 billion at 31 December 2012.

TAG also made good progress with its continued focus on residential real estate during the year under review. The indirect investment in POLARES Real Estate Asset Management GmbH, which concentrates on the administration and asset management of commercial real estate, was sold in September 2012 under a management buy-out. TAG also increased its stake in Colonia Real Estate AG on 31 December 2012 to approximately 79 % and by squeezing out the minority shareholders acquired full ownership of Bau-Verein zu Hamburg Aktien-Gesellschaft in November 2012.

TAG Group has offices in Hamburg, Berlin, Leipzig, Dusseldorf, Salzgitter, Nauen, Döbeln, Erfurt and Gera, and employs a total of 508 people as of the end of 2012.

Group strategy

In its growth strategy, TAG specialises in the acquisition, development and management of residential real estate. Besides acquisition and property management, the Group's business activities include the leasing and management of residential properties as well as targeted measures to develop inventories with the goal of maximising the value and returns of the portfolio. The strategy focuses on:

- cost-conscious implementation of potential rent increases, and reduction of vacancy
- investments in real estate inventories with potential for development and earnings
- strengthening tenant relations by steadily improving services, staying close to the customer, and operating local management units
- ongoing review and adjustment of internal and external processes to achieve cost efficiencies and economies of scale.

The basis for increasing the company's value long-term are: a high-quality, high-yield, actively managed real-estate portfolio; secure payment flows; secure third-party financing of the inventory; and not least transparent, clear Corporate Governance. At the same time, we want financial investors to regard the TAG share as an attractive, safe asset class that is fungible at all times, and to develop it for the benefit of shareholders.

The strategy centres on residential real estate in selected regions, which have an attractive location and positive prospects, and can be managed by the Group's existing locations without significant additional costs. The portfolio is also to be culled of less strategically important properties, so as to realise profits once the value creation is complete, or when a favourable opportunity arises. The successful realisation of the Group's strategy is based on the management and staff's long years of expertise and in-depth knowledge of the market.

Group structure

Simplification of the TAG Group's corporate structure - Bau-Verein zu Hamburg Aktien-Gesellschaft squeeze-out

In February 2012 TAG Immobilien AG submitted a voluntary offer to the minority shareholders of the subsidiary Bau-Verein zu Hamburg to acquire their shares. The Annual General Meeting of Bau-Verein on 29 August 2012 ratified the squeeze-out of minority shareholders for a cash settlement of EUR 4.55 per share. Outside shareholders received a cash compensation of EUR 4.55 per share. The squeeze-out procedure was successfully concluded with the entry of this resolution in the commercial register on 9 November 2012. This step further simplifies TAG's structure and fully integrates another limited company after FranconoWest AG in 2011. At present, Colonia Real Estate AG is the only TAG Group subsidiary listed in the Entry Standard of the German Stock Exchange.

Focus on the core business – sale of POLARES Real Estate Asset Management GmbH and TBG

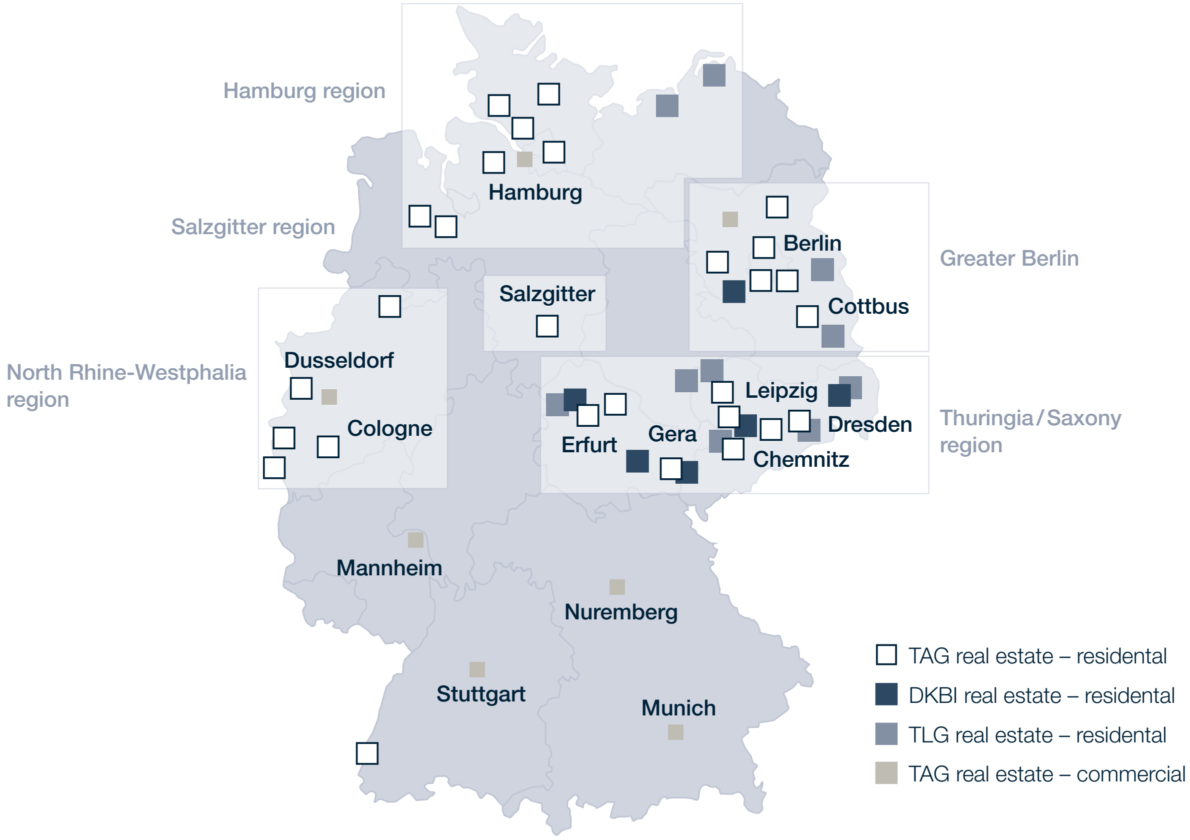
Als Bestandsimmobilienhalter fokussiert sich die TAG auf das Segment Wohnimmobilien, daher hat die TAG im dritten Quartal 100 % der Geschäftsanteile der POLARES Real Estate Asset Management GmbH veräußert. Mit diesem Schritt ist gleichzeitig die Aufgabe des Geschäftsbereiches Dienstleistungen für gewerbliche Immobilien verbunden.

In its role as a holder of investment properties, TAG focuses on the residential real estate segment, therefore in the third quarter TAG sold 100 % of the shares of POLARES Real Estate Asset Management GmbH. This step simultaneously marked the Group's exit from the commercial real-estate services business. At the end of 2012, the town of Tegernsee and the municipality of Gmund accepted the notarial offer to take over the shares in Tegernsee Bahnbetriebsgesellschaft (TBG) and its properties on Lake Tegernsee that TAG had submitted to the purchasers in 2010. With the conclusion of the contracts on 28 February 2013, TAG has made its final exit from the railway-related business.

Webergasse, Gera

Total portfolio

The total portfolio of TAG reflects the successful acquisitions of the past year. The acquisitions of TAG Potsdam-Immobilien GmbH and TAG Wohnen GmbH more than doubled the inventory from 30,958 to 69,661 units. Most of TAG's real estate portfolio is located in good urban locations in German growth regions, promises continued stable rental income, and has a high potential for value creation. Commercial properties are no longer the focus of the Group's strategy. The commercial portfolio is situated in locations such as Hamburg, Berlin and Munich and will be sold gradually and opportunistically. An overview of the key indicators of the total portfolio is presented on the following pages.



Successful reduction of vacancy through active asset and property management

By reducing vacancy across all regions, the Group effectively increases the value of its inventory. At year-end 2012, the following successes had been achieved:

In the **overall Group** (residential and commercial), vacancy was 10.3 % at year-end 2012 (11.1 % in 2011). As before, this rate is due to vacancy in the Salzgitter portfolio where vacancy was 24.4 % when the portfolio was acquired in early 2011 and had been reduced to 21.3 % by year-end 2012. The vacancy level is also explained by vacant space in the **commercial portfolio,** where vacancy increased from 8.2 % at the end of 2011 to 15.1 % at 31 December 2012. This is partly due to a property in northern Germany, which has been awaiting rental since the middle of the year and to land in Munich, which has been vacated as part of a re-designation process as housing is to be built there.

In the **residential portfolio,** the situation is positive through and through: vacancy in the Group fell from 11.6 % at the end of 2011 to 9.9 % after the acquisition of TAG Potsdam and TAG Wohnen, reflecting a vacancy reduction across all core regions and stable vacancy rates in Thuringia/Saxony:

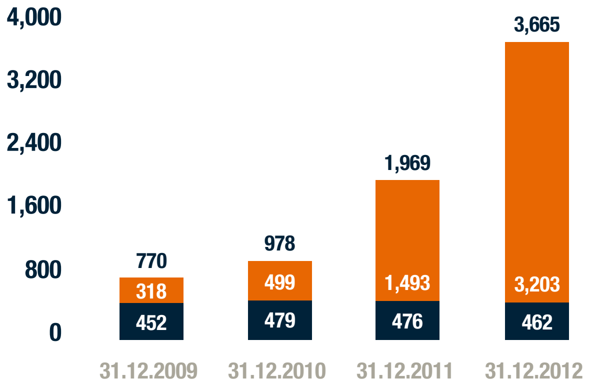
- Hamburg region from 9.0 % to 8.3 %
- Greater Berlin from 6.2 % to 5.1 %
- Thuringia / Saxony unchanged at 10 % taking into account the acquisition of TAG Potsdam with this regional focus
- North Rhine-Westphalia from 5.6 % to 4.6 %
- Salzgitter region from 22.3 % to 21.3 %

At the same time, rents in the TAG portfolio (ex TAG Wohnen) were increased by 3.2 % in 2012 thanks to active rental and asset management.

Thus in 2012, TAG again proved its skill at successfully reducing vacancy across its diversified portfolio in all regions through active asset and property management. The resulting reduction in vacancy costs and the additional rental income help increase the value of the portfolio in the long run.

Real estate volume over time / in EUR m

Volume in EUR m



■ Portfolio of commercial real estate including undeveloped properties
■ Portfolio of residential real estate including undeveloped properties

Total portfolio as of 31 December 2012

Portfolio	Numbers of buildings	Units	Floor area sqm	Vacancy sqm	Vacancy %	Annualized net actual rental TEUR	Net actual EUR / sqm	Target rent TEUR p.a.	Book value TEUR	Maintenance costs EUR / sqm p.a.*	Management costs EUR / sqm p.a.	Return on target rent p.a. at IFRS book value %
Residential portfolio												
2012	2,606	68,781	4,201,135	415,411	9.9	225,968	4.97	246,865	3,164,470	11.05	8.53	7.8
2011	1,075	30,697	1,898,890	220,624	11.6	101,488	5.04	113,121	1,449,428	10.41	9.15	7.8
Commercial portfolio												
2012	31	738	348,560	52,740	15.1	26,911	7.58	30,961	458,199	11.04	7.12	6.8
2011	32	738	348,403	28,463	8.2	28,847	7.51	30,636	467,066	8.58	6.17	6.6
Subtotal Portfolio												
2012	**2,637**	**69,519**	**4,549,695**	**468,151**	**10.3**	**252,879**	**5.16**	**277,826**	**3,622,669**	**11.03**	**8.39**	**7.7**
2011	1,107	30,727	2,247,293	249,087	11.1	130,335	5.44	143,757	1,916,494	10.10	8.64	7.5
Others**												
2012	123	142	10,370			3,148		3,778	42,225			
2011	18	261	21,157			3,665		3,623	52,859			
Overall portfolio												
2012	**2,760**	**69,661**	**4,560,066**			**256,027**		**281,604**	**3,664,894**			7.7
2011	1,123	30,958	2,268,450			134,000		147,380	1,969,353			7.5

* including investments
** properties and serviced apartments

Residential Portfolio

The TAG Group residential portfolio was further augmented by several purchases in 2012, and at year-end comprises a total of 68,781 residential units. Acquisitions included TAG Potsdam Immobilien GmbH (formerly DKB Immobilien AG) with approximately 25,000 units, a portfolio in Erfurt with approximately 360 units, and TLG Wohnen GmbH with approximately 11,350 units. The properties of the newly acquired companies and portfolios are almost exclusively in eastern Germany, with a concentration in Thuringia, Saxony and Greater Berlin. TAG Group's five residential real estate portfolio locations are in Hamburg, Salzgitter, Greater Berlin, North Rhine-Westphalia and Thuringia / Saxony.

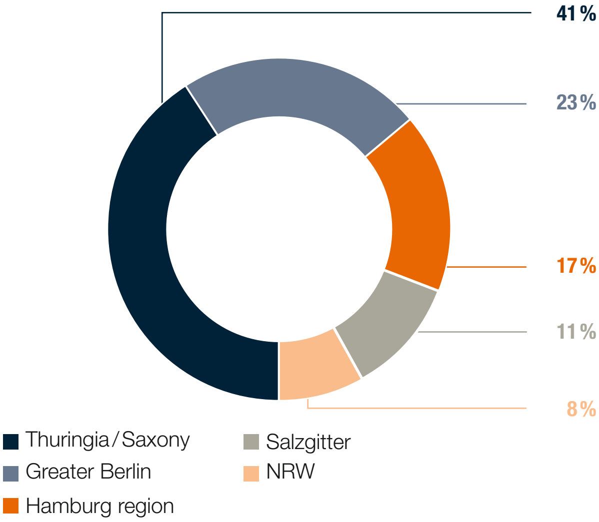
The acquisition of TAG Potsdam Immobilien GmbH - formerly DKB Immobilien AG

In the first half of the year, TAG acquired TAG Potsdam Immobilien GmbH (formerly DKB Immobilien AG) with a property portfolio of approximately 25,000 units at locations in eastern Germany. The core portfolios are located in Greater Berlin, Thuringia and Saxony. The purchase price was EUR 960 m including liabilities to banks of around EUR 800 m. The loan agreements were extended until 2022, so that TAG can expect ten years' of secured financing for the real estate inventories. The cash portion of the purchase price totalled EUR 160 m.

The integration of TAG Potsdam-Immobilien GmbH into the TAG group is largely complete

The integration of TAG Potsdam Immobilien GmbH into the TAG Immobilien group was carried out faster than expected and was successfully completed within just three months in many areas, e.g. the merger of the admin and head office departments, and the standardisation of accounting and financing. Preparagraphtions for the optimisation of organisational processes in the IT department have been taken. Initial synergies – mainly personnel costs – were being realised by the third quarter of 2012.

Residential real estate portfolio by region*



* as of 31 December 2012 according to balance sheet value

As TAG is focusing on locations that are already in its portfolio, such as Hamburg, Salzgitter, Greater Berlin, North Rhine-Westphalia and Thuringia / Saxony, the takeover of the TAG Potsdam Immobilien portfolio was possible without much difficulty. The infrastructure needed for its management was already in place and the newly acquired units and asset and property management teams were simply integrated into the existing structure. This ensured a cost-effective management of the entire portfolio in the short term. In future, the merging of the respective asset and property management teams offers potential to realise synergistic effects and economies of scale, while improving the operating profitability of the entire Group. In total the synergies that can be raised as a result of the acquisition of TAG Potsdam Immobilien GmbH are in the order of EUR 12 m and will primarily be reflected in earnings from 2013.

TAG Immobilien AG acquires portfolio of 360 residential units in Erfurt

In November 2012, TAG acquired 360 residential units centrally located in the Thuringian capital, Erfurt. The purchase price was approximately EUR 29 m and included the assumption of liabilities.

The newly acquired properties are in a contiguous residential complex of five buildings plus an underground car park and a multi-storey car park. The total lettable area of this portfolio acquired as part of a share deal is over 36,000 sqm. On the ground floor the floor space is leased to retail outlets and the first floor contains offices. All other floors with a total floor space of 21,000 sqm are contain residences: 1–4-room apartments with a high occupancy rate of 97 %. The leasehold properties were built in the early 1980s and renovated between 1999-2001.

This newly acquired portfolio, too, can be cost-effectively managed by the existing TAG Group branch office in Erfurt. The net annual rent without incidental and heating costs is approximately EUR 3 m, so this acquisition leads to a further increase in FFO (funds from operations).

Portfolio Residential*

Region	Units	Floor area sqm	Vacancy sqm	Vacancy %	Net actual TEUR p.a.	Net actual EUR/sqm	Target rent TEUR p.a.	Book value TEUR	Maintenance costs EUR/sqm p.a.**	Management costs EUR/sqm p.a.	Return on target rent p.a. at IFRS book value %
Overall portfolio	**68,781**	**4,201,135**	**415,411**	**9,9**	**225,968**	**4.97**	**246,865**	**3,164,470**	**11.05**	**8.53**	**7.8**
Hamburg region	11,240	681,246	56,826	8.3	38,341	5.12	41,383	543,363	9.40	10.30	7.6
Greater Berlin	14,758	894,731	45,896	5.1	50,357	4.94	52,477	743,996	12.40	6.80	7.1
Thuringia/Saxony	29,692	1,800,435	180,285	10.0	93,584	4.81	101,911	1,283,753	10.40	8.80	7.9
NRW	3,888	259,782	12,050	4.6	16,364	5.50	17,256	239,941	7.60	7.90	7.2
Salzgitter region	9,203	564,942	120,354	21.3	27,322	5.12	33,838	353,417	13.50	9.10	9.6

* as of 31 December 2012 according to balance sheet value
** including investments

TAG Immobilien AG acquires TLG Wohnen GmbH with 11,350 units

Also in November, TAG won the bid to acquire the Germany Federal Ministry of Finance's shares in TLG Wohnen GmbH, now renamed TAG Wohnen GmbH - a successor to the former Treuhand - as part of the federal government's privatisation process at the proposed purchase price of EUR 471 m, which includes of the assumption of TLG Wohnen's liabilities totalling approximately EUR 256 m. To finance the cash purchase share of EUR 218 m, a capital increase of 30 m new TAG shares was carried out.

As part of its acquisition of TLG, TAG can take over existing loans of around EUR 256 m. However, the plan is to further optimise the debt structure in early 2013. TAG believes that it can significantly improve the financing terms through its own network of banks. Preliminary contracts to this end have already been negotiated. During the planned refinancing and capital measures, the Management Board will take care to ensure a reasonable balance ratio and further strengthen the balance sheet. The contract was finalised and the property transferred by the end of 2012.

The TLG Wohnen portfolio comprises 11,350 residential units with total floor space of approximately 700,000 sqm. The current annual rental income is approximately EUR 42.4 m. The portfolio is almost entirely comprised of residential units and has a geographic focus on Greater Berlin, Dresden and Rostock – i.e. existing TAG locations. The vacancy level is 4.8 %.

The integration of TLG Wohnen's operating units into the existing platform and infrastructure has been prepared and should be completed by the end of March 2013. The new employees are already enhancing local teams with their know-how, enabling TAG to further expand its property management expertise in eastern Germany.

The acquisition of TLG Wohnen also contributes to significantly increasing the TAG Group's funds from operations (FFO), which is an important indicator for the real estate industry. This includes synergies of several m per year, which TAG expects to realise within six months. These are mainly due to the fact that the purchased property inventories are in almost geographically identical locations to the existing TAG portfolio, and that on the basis of its corporate structure TLG Wohnen could essentially be acquired without a central administrative apparagraphtus.

Residential real estate portfolio – an overview of the five regions

In the following, we present the five regions of our residential real estate portfolio and show how we invest in our existing properties by using an example of a particular measure of our asset management strategies of the past year.

Altenburger Straße, Gera

Hamburg region

For the purposes of TAG's management, the 'Hamburg region', with the city of Hamburg as its economic and cultural centre in northern Germany extends across Bremen to Wilhelmshaven, northwards to Schleswig-Holstein and east along the coastal region of Mecklenburg-Vorpommern. Hamburg is the second largest city in Germany after Berlin, with a population of about 1.8 m. The attractiveness of Hamburg is reflected among other things by its ever-increasing population, which has grown very positively in the last five years. Hamburg's sharp increase in the number of households and low level of construction activity, combined with a low vacancy rate is leading to an increase in rents. With a total of 11,240 units, the northern region is TAG's third-largest location; average net annual rent without incidental and heating costs is EUR 5.12 per sqm.

Energy-efficient and age-appropriate renovation instead of demolition – Konrad-Struve-Strasse 41 in Elmshorn undergoes refurbishment

Last year, after an in-depth review, TAG saved an Elmshorn property from demolition and opted for a renovation instead. This year, the vacant, dilapidated buildings in Konrad-Struve-Straße in Elmshorn are to be renovated to make them energy-efficient, and thoroughly modernised. The estimated cost for this amounts to around EUR 2 m. As partners and lenders, the Investitionsbank Schleswig-Holstein will finance the bulk of the costs. Nothing now stands in the way of the extensive redevelopment of the eight-storey building with 42 flats and a floor space of 1,350 sqm. The façade will be completely renovated and at the same time insulated in accordance with energy efficiency standards, thereby reducing CO^2 emissions. The existing site is being completely redeveloped, creating modern one-bedroom apartments of 29 sqm to 35 sqm. All apartments will be connected to the existing combined-heat-and-power (co-generation) plant. At the same time as the energy efficiency measures, structural alterations will also be made throughout the building and inside the apartments to make them suitable for the elderly. In addition to wheelchair-accessible access to the building and staircase, a new lift system will be installed in the building from the basement to the top floor. The individual apartments will be made wheelchair-accessible – including the balconies – and age-appropriate bathroom modernisations are planned. After completing these measures, TAG Immobilien AG expects to achieve a net actual rent of EUR 8.50 per sqm.

With the renovation of an eight-storey building TAG shows how vacancy can be reduced and operating profits can be increased in a demographically and ecologically sustainable manner.

before **Konrad-Struve-Straße, Hamburg** **after (visualisation)**

Argentinische Allee, Berlin

Greater Berlin

Berlin is the German capital and the seat of the German government. In 2011, a total of 40,000 people moved to Berlin, however, only 3,517 new housing units were completed, far below the required 10,000 to 15,000 units. Rapid population growth and migration have resulted in an average decrease in vacancy from 5.6 % in 2005 to 3.3 % in 2009. However, in many parts of the city rents remain at a level that is too low to allow for new construction projects. At the same time, in recent years rents have increased by an average of over 10 %. This trend is likely to continue in future due to the strong demand. Berlin is a tenant's market, but this is not homogeneous; each of the 13 districts has its own dynamic. In general, the supply of rental housing in the lower price range fell significantly in almost every district in 2012. That means that due to its proximity to the city the Berlin suburbs also benefits from the attractiveness of the capital. TAG has more than 14,700 residential units in the Berlin region, 7,000 of them in the city itself. In addition, TAG manages portfolios of approximately 1,000 units each in Strausberg, Eberswalde and Bestensee. These small towns are easily reached by S-Bahn or regional Deutsche Bahn trains from Berlin Hauptbahnhof (central railway station). To the west of Berlin, TAG has a portfolio of approximately 2,000 units in Nauen. The rent increases recorded in Berlin are gradually causing rents to rise in the surrounding areas as well. TAG's average net rent in this region is EUR 4.94 per sqm.

Sale of Berlin properties on attractive terms to Union Investment

At the end of 2012, TAG sold two housing developments in Berlin with 1,384 units for a total purchase price of EUR 87 m. Based on the IFRS book values, the sale resulted in pre-tax earnings of approximately EUR 12 m. The residential portfolio's new owner is Union Investment Institutional Property GmbH, which acquired the residential portfolio for one of its special real-estate funds.

TAG is primarily a long-term portfolio holder, but takes advantage of exceptional opportunities to realise sales. The EUR 40 m of equity released from the sale can be used to purchase properties with a higher initial yield, so that the sale ultimately further improves the TAG Group's operational profitability and FFO. We will continue to carry out occasional sales – while making further purchases – as part of our value-optimising management, and will allocate the capital provided to us by our shareholders after careful consideration of risks and opportunities.

Südhöhe, Dresden

Thuringia / Saxony region

Thuringia / Saxony is a major location for TAG portfolios with nearly 30,000 units in the region. Thuringia has a population of 2.2 m living in 1.1 m households, Saxony about 4.1 m in 2.2 m households. Since 1990 there has been a demographic exodus from the eastern Germany to the West. This movement has slowed considerably in recent years - in part because the economic situation in the East has improved, as is reflected in falling levels of unemployment.

Many eastern German cities are experiencing an influx as droves of people are moving from rural areas to nearby cities where they find better economic, social and cultural opportunities. Dresden and Leipzig are especially affected by this positive trend. The significant upward trend in population in the eastern German cities is accompanied by a higher demand for housing. This has an impact on the offer of attractive apartments and especially on rental prices, because at the same time there is a shortage due to a decline in residential construction.

The Thuringian capital of Erfurt, with over 206,000 inhabitants, is the largest city in the state. In parallel to the positive population development of the Erfurt rental market is also benefiting from a positive economic mood in the region, which is reflected in rising rents in recent years.

With approximately 30,000 units, the Thuringia %Saxony region represents the largest proportion of the TAG portfolio; average net rent here is EUR 4.81 per sqm.

Maintenance and modernisation measures for around 900 residential units in Erfurt

A number of investments in apartment complexes in Erfurt provide examples of sustainable maintenance and modernisation. Balconies were added to various properties, facades were renovated, and outside facilities repaired or optimised (fire lanes, garbage facilities). Building installation upgrades, roof repairs and insulation, and window replacements were also carried out and largely completed for a large number of residential units last year. Inside the buildings, entrance areas and stairwells were renovated. Around EUR 4 m was invested in these measures overall, resulting in an improvement in living standards at approximately 900 units. Such investments are the economically sensible basis for long-term, stable tenant relationships. Ecological aspects are also a criterion: improved energy efficiency and cost minimisation benefit everyone involved.

Geschwister-Scholl-Straße, Salzgitter

Salzgitter region

The Salzgitter region is situated in south-eastern Lower Saxony along the axis of the Hanover-Brunswick-Wolfsburg-Göttingen metropolitan region. Approximately 4 m people live here on 19,000 km². Salzgitter itself is an expansive town of 31 districts on over 224 km². In July 2012, Salzgitter had a population of over 100,500. A number of large international companies have offices in the region, including Salzgitter AG, Volkswagen, Alstom, and MAN, Bosch and IKEA, so that Salzgitter, with more than 50,000 jobs, is one of the leading industrial locations in Lower Saxony. TAG's Salzgitter region portfolio comprises a total of 9,203 units, of which 8,741 are located directly in Salzgitter in the districts of Lebenstedt, Fredberg and Hallendorf and 462 in Wolfsburg. Average net rent without utilities in TAG's Salzgitter region portfolio at the end of 2012 was EUR 5.12 per sqm.

Reduction in utility costs - TAG renegotiates energy prices in Salzgitter

For more than 5,000 tenants in 2,800 apartments in the Lebenstedt district of Salzgitter, the past year brought good news: TAG reduced their heating bills by renegotiating energy prices. And another 4,000 homes will benefit from this in the current year when they, too, are connected to the district-heating network of the local energy provider WEVG Salzgitter. On average, tenants can look forward to significant savings on their heating costs.

TAG pursues various measures at each location to save its tenants costs, as this example shows. Thanks to a nationwide re-tendering of its energy supply contracts, TAG was able to achieve an outstanding price, leading to a considerable reduction in the cost of utilities for its tenants. The fact that these savings are also achieved using renewable energy sources not only highlights the sustainability of this action, but is also pleasing from an environmental viewpoint. WEVG Salzgitter is upgrading its eight heating systems to more environmentally friendly combined-heat-and-power facilities and is using them to gradually extend its supply of green electricity to its consumers/households.

Pionierstraße, Dusseldorf

North Rhine-Westphalia region

North Rhine-Westphalia is Germany's most populous state, with a population of over 17.8 m, and four of the country's ten largest cities. Although 37 of the top 100 companies in Germany are situated in North Rhine-Westphalia and it is the most important industrial area in Germany, the unemployment rate in this state stood at 8.4 % on 31 January 2013, with 767,754 people out of work. At the end of 2012, the average net annual rent without incidental and heating costs for TAG portfolio properties in the North Rhine-Westphalia region was EUR 5.50 per sqm, while average vacancy was just 4.6 %.

Successful reduction of vacancy in Moers – Vacancy rate falls by 80 %

At the end of 2010, TAG brought the Moers inventory of around 365 units, which was externally managed until then, under its own management . After a detailed stocktaking and analysis, targeted renovation work such as façade insulation and apartment renovations were carried out. A tenant's office was established and activities for and with tenants were launched. Targeted marketing efforts communicated the quality of the service and a remarkably high vacancy rate for such popular areas was reduced to just under 4 % within 2 years.

Conclusion

TAG's diverse residential portfolio gives it a presence in five regions. As part of its growth strategy, TAG will continue to make acquisitions that are located in the regions where it is already has properties, and where the infrastructure needed for their management already exists. The aim is to realise the value appreciation potential contained in the portfolios and locations, and thereby manage them in a cashflow-enhancing and profitable way. The positive economic conditions in Germany should also support business activity as well as the achievement of TAG Group's business goals.

TAG is establishing a service- and tenant-oriented RESIDENTIAL BRAND

In recent years TAG has reached a size and built an inventory under management that allows us to offer tenants an improved quality of service and more comprehensive, cost-optimised products, which contributes to long-term customer loyalty. In many places our market presence enables us to negotiate lower energy costs for our tenants, to implement smarter waste concepts and to offer various services especially to our older tenants, among other things. We see the duties and responsibilities we have taken on vis-à-vis our tenants as an important element in the business strategy of our operations. TAG bundles all these activities under the TAG WOHNEN brand:

We strive to provide high-quality service with creative rental concepts, forward-looking energy concepts, systematic customer care, and added services for tenants.

This strategy not only makes itself felt in a higher tenant satisfaction, but also brings many tenants economic benefits on an appreciable scale. In Salzgitter, for example, as described above, we reduced the ancillary (utility) costs by several hundred Euros per year for thousands of tenants. This leads to lower tenant churn and a more sustainable ecological and economic management of housing stocks.

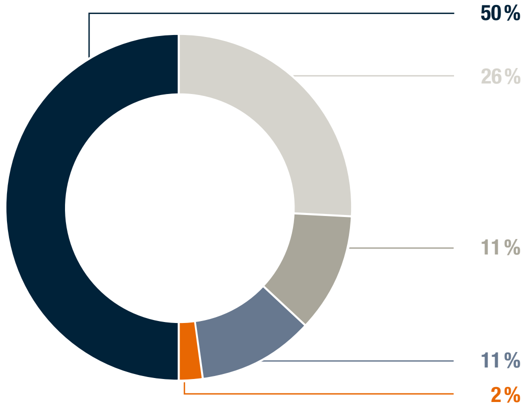
Conrad-Blenkle-Straße, Lauta

Commercial portfolio

Office properties in attractive urban locations in Germany

TAG has a solid inventory of commercial real estate in some attractive locations such as Hamburg, Berlin and Munich. However, as commercial properties are no longer the focus of the Group's strategy, TAG has decided to gradually sell its real estate holdings. The current book value of the commercial portfolio represents about 10 % of the total volume of real estate. Meanwhile, the inventory generates attractive returns and stable Cashflows, which are improved through the ongoing management of the portfolio. Of the leases, nearly 58 % have a remaining maturity of over three years.

Commercial real estate holdings by region*



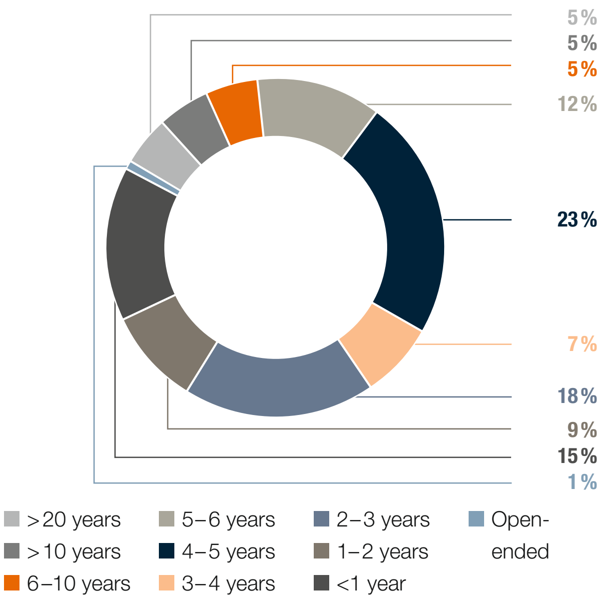
* as of 12 / 31 / 2012 by balance sheet value

Planckstraße, Hamburg

High-yield properties with varying lease terms and creditworthy tenants

The TAG Group commercial real estate portfolio comprises high-yield properties with varying lease terms and creditworthy tenants. Its top five tenants in the commercial sector include Siemens AG, followed by EPCOS AG, Schenker Deutschland AG, the city of Wuppertal and Kratzer Automation AG. TAG's commercial portfolio is characterised by long lease terms. TAG achieved rental income of EUR 26.9 m (annualised actual rent) with its commercial portfolio, accounting for 11 % of total rental income of the Group. Vacancy in the commercial real estate portfolio at the end of 2012 was 15.1 % after 8.2 % at year-end 2011, and is mainly due to a vacating of properties in preparagraphtion for their sale. The intrinsic value of the commercial real estate portfolio continues to be characterised by growth potential in the good urban locations in German cities. No priority is being given to expanding the commercial portfolio, most of which is held by TAG Gewerbe. Instead, the real estate inventory in this segment is being reduced through selective disposals.

Duration of commercial rental agreements from 2012 on*



* as of 12/31/2012

Commercial Presentation of individual properties

Investments	Postcode / City / Street	Floor area sqm	% of total floor area	Vacancy sqm	Vacancy %	Annualized net actual rental TEUR	% of Total	Net actual EUR / sqm / p.m.	Target rent TEUR p.a.
Siemensdamm	13629 Berlin, Siemensdamm 50, Wernerwerksweg 16	53,962	15.5	–	0.0	3,000	11.1	4.63	3,000
Dynamostraße	68165 Mannheim, Dynamostraße 4	32,032	9.2	–	0.0	2,373	8.8	6.17	2,373
Franz-Geuer-Straße	50823 Cologne, Franz-Geuer-Straße 10	26,492	7.6	–	0.0	2,400	8.9	7.55	2,400
Stuttgart Südtor	70178 Stuttgart-Süd, Hauptstätter Straße 147 / 149 70180 Stuttgart-Süd, Kolbstraße 10 / 12, Heusteigstraße 114 / 16, Filderstraße 38 / 40	25,506	7.3	3,826	15.00	3,350	12.4	12.88	3,929
Logistikzentrum Gründlacher Straße	90765 Furth, Gründlacher Straße 258	23,964	6.9	–	0.0	1,097	4.1	3.82	1,097
Hofmannstraße	81379 Munich, Hofmannstraße 51	23,152	6.6	21,549	93.10	248	0.9	12.89	2,049
Pegasus Business Center	85716 Unterschleißheim, Gutenbergstraße 5	21,465	6.2	–	0.0	1,931	7.2	7.50	1,952
St.-Martin-Straße (Kustermannpark)	81669 Munich, St.-Martin-Straße 53 / 55	19,987	5.7	711	3.60	2,042	7.6	8.83	2,138
Kloster Blankenburg	26135 Oldenburg, Klostermark 70–80	17,520	5.0	14,451	82.50	106	0.4	2.86	579
Bartholomäusstraße	90489 Nuremberg, Bartholomäusstraße 26	15,444	4.4	573	3.70	1,426	5.3	7.99	1,476
Oststraße	22844 Norderstedt, Oststraße 73 c	12,358	3.5	–	0.0	647	2.4	4.37	647
Werther Carré	42275 Wuppertal, Bachstraße 2, Kleiner Werth 30, Kohlgarten 7	9,811	2.8	–	0.0	1,065	4.0	9.04	1,065
Ferdinand-Porsche-Straße	51149 Cologne, Ferdinand-Porsche-Straße 1, 1a	6,527	1.9	3,247	49.80	474	1.8	12.03	818
Planckstraße	22765 Hamburg, Planckstraße 13 / 15	6,259	1.8	443	7.10	776	2.9	11.12	844
Steckelhörn	20457 Hamburg, Steckelhörn 5–9	6,230	1.8	–	0.0	1,267	4.7	16.94	1,267

Siemensdamm, Berlin

Investments	Postcode / City / Street	Floor area sqm	% of total floor area	Vacancy sqm	Vacancy %	Annualized net actual rental TEUR	% of Total	Net actual EUR / sqm / p.m.	Target rent TEUR p.a.
Oßwaldstraße	82319 Starnberg, Oßwaldstraße 1a, 1b	5,492	1.6	1,269	23.1	790	2.9	15.60	1,022
Titotstraße	74072 Heilbronn, Titotstraße 7–9	5,033	1.4	1,482	29.4	400	1.5	9.39	481
Rathausgalerie Markkleeberg	04416 Markkleeberg, Rathausstraße 33–35	4,902	1.4	450	9.2	511	1.9	9.56	534
Neue Eiler Straße	51145 Cologne, Neue Eiler Straße 50–52	4,613	1.3	–	0.0	265	1.0	4.78	265
Innere Kanalstraße	50823 Cologne, Innere Kanalstraße 69	4,255	1.2	214	5.0	477	1.8	9.84	498
FAZ Dachau	85221 Dachau, Hochstraße 27	3,625	1.0	315	8.7	517	1.9	13.00	566
Stahltwiete	22761 Hamburg, Stahltwiete 20	2,839	0.8	–	0.0	375	1.4	11.00	375
Boschstraße	82178 Puchheim, Boschstraße 1	2,716	0.8	–	0.0	389	1.4	11.95	389
Königstorgraben	90402 Nuremberg, Königstorgraben 7	2,595	0.7	51	2.0	285	1.1	9.32	287
Porschezentrum	86368 Gersthofen, Porschestraße 5	1,995	0.6	–	0.0	365	1.4	15.26	365
Schleinufer	39104 Magdeburg, Schleinufer 14	1,846	0.5	395	21.4	69	0.3	3.97	92
Steinweg	59821 Arnsberg, Steinweg 13	1,698	0.5	1,050	61.8	28	0.1	3.56	70
Bogenstraße (verkauft Februar 2013)	22926 Ahrensburg, Bogenstraße 47	1,676	0.5	880	52.5	50	0.2	5.21	86
Harburger Straße	21435 Stelle, Harburger Straße 1	1,608	0.5	650	40.4	79	0.3	6.86	85
Hauptstraße	56170 Bendorf, Hauptstraße 186	1,536	0.4	–	0.0	87	0.3	4.72	87
Vahrenwalder Straße	30165 Hannover, Vahrenwalder Straße 12–14	1,422	0.4	1,184	83.3	23	0.1	8.05	126
Commercial portfolio		**348,560**	**100**	**52,740**	**15.1**	**26,911**	**100**	**7.58**	**30,961**

TAG forecasts sharp increase in FFO (funds from operations) in 2013

The FFO reflects a company's operating results. Last year's acquisitions, too, were made under the premise that purchases are made only if they increase both the FFO and the NAV (Net Asset Value), i.e. the substance and strength of the company. The detailed forecast for the year 2013 was already published in late February. We are expecting to achieve FFO of EUR 68 m in 2013, and the operating result should increase significantly again in 2014. The potential from the negotiations for refinancing loans, in particular the acquisition of TAG Wohnen, are not yet included in these figures for 2013, so that there is further potential from the refinancing side alone.

Friedenstraße, Jänschwalde

Nagelstraße, Dresden

FFO Guidance 2013

Sustainability report

TAG is committed to the principle of sustainable development, and therefore not only includes economic performance in its strategy, but also environmental and social aspects. In the company's view, the principle of sustainability also extends to a fair and respectful treatment of employees, tenants and business partners.

In the 2012 financial year, numerous projects were realised as part of this strategy, and the commitment of the Group, its management and employees to sustainable business.

Service, economic and environmental sustainability

For TAG as a real estate company, sustainable management of its real estate portfolios first and foremost means the upkeep of the properties themselves. Various on-going renovation and modernisation measures, such as the regular maintenance and inspection of inventories, lead to improved rentability and a strengthening of the 'customer relationship' in existing leases, and increase the attractiveness of inventories. The quality of the services provided by the company is also crucial. The Group currently manages on-going rental relationships with approximately 175,000 tenants. Important criteria for the success of the day-to-day work include the accessibility of the regional service staff, good communication and reliability, as well as active contract management.

In Salzgitter, as part of a pilot project with a strategic partner, a direct hotline was set up for small repairs. Tenants can order repairs by phone, which are then carried out within a few days. As part of the project, tenant satisfaction is also regularly measured and evaluated. The project will run until the end of 2013, at which point it will be decided whether it will be transferred to other sub-portfolios.

Examples of sustainable maintenance and modernisation measures in 2012 include various modernisations of the building shell of residential complexes in Salzgitter, Gera and Erfurt; upgrades to building services; and the senior-friendly optimisation of flats. This creates an economically sensible prerequisite for a long-term, stable relationship with the tenant on the one hand, and on the other hand enables tenants to stay in their homes long-term. Criteria for ordering such measures include ecological aspects, improvements in energy consumption, and the minimisation of costs for all parties. The size of the company strengthens TAG's negotiating position with service providers and suppliers, so the growth course we have taken also benefits our tenants and improves the conditions for ecologically sound measures. In Salzgitter last year, energy supply contracts with the local provider were sensibly extended taking into consideration a combined heat and power facility, and on better terms. The common areas at the site have been supplied with electricity from renewable sources since mid-2012. The vacant land resulting from the demolition of high-rise buildings in the Lebenstedt district of Salzgitter in 2011 has been reclaimed and open spaces have been integrated to create additional green spaces. Sustainable business conduct also includes the issues of waste management, security and good media networking. At the Dusseldorf, Salzgitter, Erfurt and Gera inventories, there are collaborations in place that pre-sort the rubbish and thereby reduce the volume of residual waste. This benefits the environment and the tenants, who can save money as a result.

Considerable investments are also planned to energetically upgrade inventories at various locations in 2013.

Most works and service contracts are awarded to local and regional partners. In addition to better accessibility, local networking leads to positive property-related synergies.

Social sustainability

For TAG, social responsibility to the tenants and their immediate living environment is also at the forefront of our daily work, because inventories can only be successfully managed where people feel at home.

TAG's dedicated asset managers on the ground support measures in the existing inventories' surrounding areas as well as numerous social/community projects. For instance, TAG regularly attends neighbourhood council meetings in Marzahn and Hellersdorf, as well as in Elmshorn. The budgets established for social purposes are then used together with the neighbourhood associations for various projects to integrate or promote children.

TAG supports a vehicle operation run by the town of Halberstadt, which main-tains order and security in the town. There is a joint project in place with the City of Leipzig's social housing department to find homes for hard-to-place tenants. In Halle, TAG supports the BBZ Lebensart Halle association.

The community club at the Salzgitter site has been continued under the 'meineSZitty' rental brand. The 'meineSZitty Club' works with other associations and institutions to provide services for children, teenagers and senior citizens in Salzgitter. The aim is to promote constructive leisure activities and strengthen the 'social fabric'. In the district of Fredenberg, TAG supports a project providing hot lunches for primary school pupils.

Focal points of community involvement at the Gera, Döbeln, Erfurt and Blankenhain sites included events for senior living, a contribution to ‚Green Gera' promoting green electricity from hydropower and plantings in the Bieblach district of Gera, as well as support for residents' get-togethers, and collaborations with 'Volkssolidarität' and local history associations.

Children and teenagers are the primary focus of our commitment. In 2012 many sports clubs such as the CRE Icefighters Salzgitter (hockey), the CRE Eagles Itzehoe (basketball) and the football clubs of 1. FC Marzahn in Berlin and Rot-Weiss Moers in NRW continued to receive financial support from TAG. Most of the partnerships are long term and will be continued in 2013.

Summary

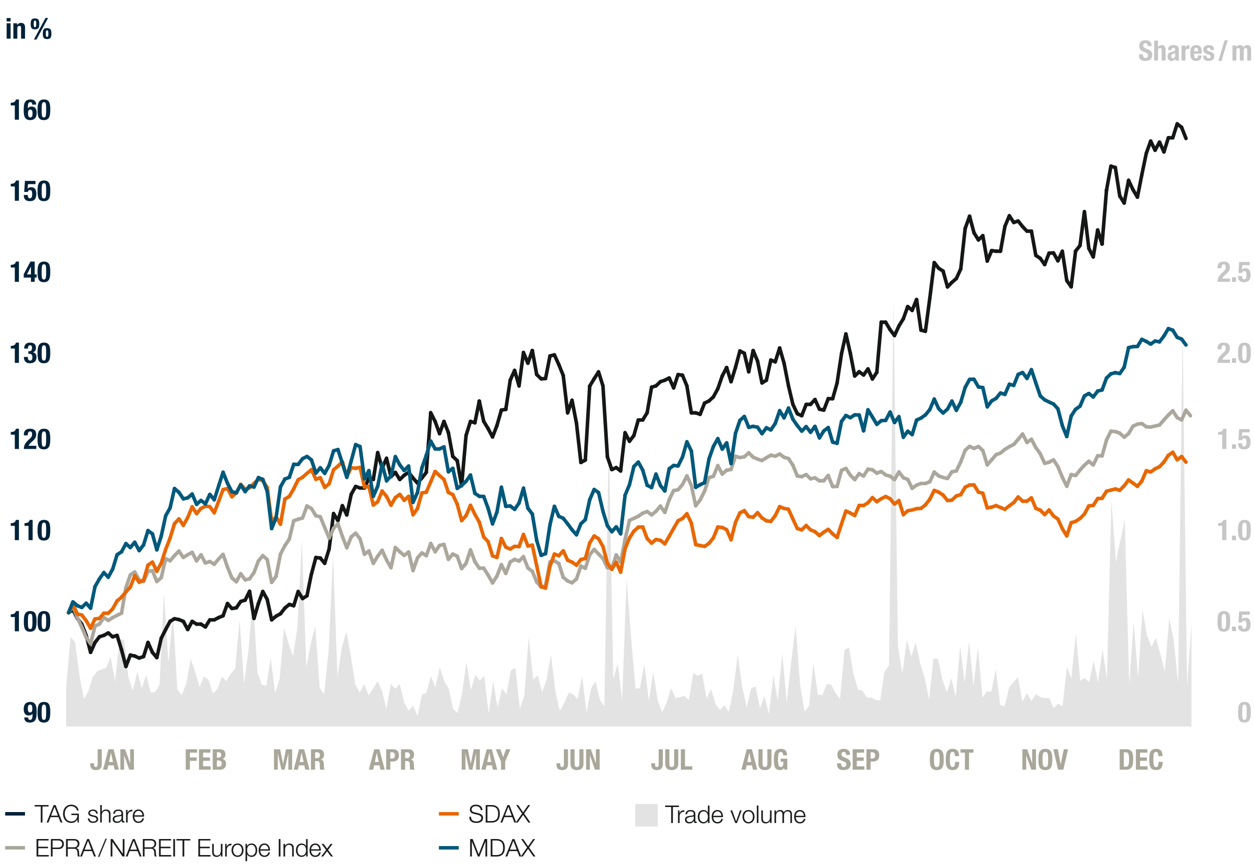
A company can only shoulder social and environmental responsibility if it is economically successful and achieving reasonable returns on the capital provided by investors and shareholders. This does not, however, run counter to the principle of sustainability, because as the above report shows, respecting the principles of sustainable development ultimately leads to added value and hence to an increase in shareholder value. For TAG as a company focused on residential real estate, whose inventory and employee count have grown strongly in the past year, putting sustainability into action represents a particular challenge. The task at hand is to further develop and put into practice a corporate culture in which individual employees identify with the company's goals and which reconciles the premises resulting from the need for profit-oriented action with those of sustainability.

The TAG share

Despite the EUR debt crisis and fears of inflation and recession, 2012 was a very successful trading year. The DAX climbed by 30 % and closed the year at 7612 points, the biggest plus in almost ten years.

Against this backdrop, the TAG share price showed a very positive development in 2012, well outperforming the comparagraphble indices. The TAG share price, listed at EUR 6.15 at the beginning of 2012, improved by 54 % during the year of 2012 to EUR 9.50. By contrast, the benchmark indices MDAX and EPRA increased by only 30 % and 23 % respectively.

Share price 2012



Steckelhörn, Hamburg

TAG – Shares as currency – Capital increases for acquisitions and further growth successfully carried out in 2012

Within the past year, the share capital and number of shares have changed significantly through several capital increases. At the beginning of 2012, the number of shares was 74,905,174. By the end of the year, it was 130,737,996. This corresponds to total share capital of EUR 130,737,996.00.

Specifically, the following capital measures were successfully carried out:

- Capital increase against contribution in kind: 859,339 new shares at EUR 8.25 per share at the beginning of February 2012 (Eberswalde purchase) and the end of November 2012 (Colonia Real Estate share swap; ratio of 1 TAG to 1.69 Colonia shares)
- Capital increase against cash: end of March 2012 of 20.7 m new shares at a subscription price of EUR 6.15 and the end of December with 30 m new shares at a subscription price of EUR 9.00
- Convertible bond issue: EUR 85.3 m at a conversion price of EUR 8.85, coupon rate of 5.5 % per annum and a total maturity of seven years to 2019.

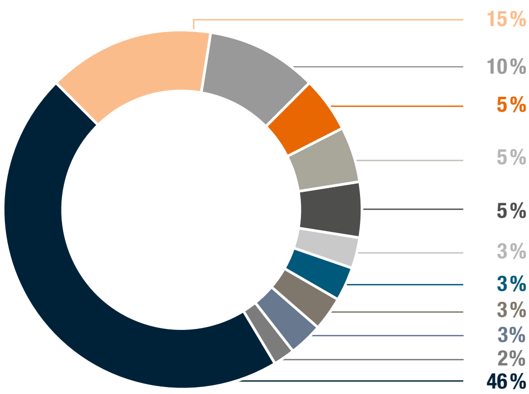
Free float is at 100 %. Market capitalisation as of 28 December 2012 EUR was 1.2 billion, having more than doubled again vs. 2011 (+169 %) thanks to the increase in the number of shares in combination with a good stock market performance. Average daily trading volume in 2012 was 310,200 shares.

TAG joins MDAX index

Two criteria are relevant in determining the composition of the stock market indices – the market capitalization of a company's free float and the trading volume (turnover). TAG did well on both two indicators in the past twelve months, and was promoted to the MDAX with effect from 24 September 2012. This means that TAG is now listed in a quality index that comprises 50 medium-sized German corporations in traditional industrial sectors, directly following the 30 DAX stocks. This shines a whole new spotlight on TAG shares, making them interesting for investors who use the MDAX as a benchmark. TAG is one of five real-estate companies listed in the MDAX; the others are Deutsche Euroshop AG, Deutsche Wohnen AG, Gagfah S.A. and GSW Immobilien AG.

The shareholder structure remains characterised by institutional national and international investors with a predominantly long-term investment strategy.

Shareholder structure as of 12 / 31 / 2012



- Ruffer LLP, UK*
- FvS Strategie SICAV, L*
- Taube Hodson Stonex, UK*
- DWS Investment GmbH, D*
- Sun Life Financial Inc., USA*
- Threadneedle, UK*
- Skagen AS, N*
- MFS International Value Fund, USA*
- Blackrock Inc., USA*
- Investorengruppe Dr. Ristow, D
- Free Float

* Deutsche Börse definition including institutionel investors

Capital market communications further strengthened

In the past fiscal year, TAG hosted conference calls for analysts and investors to accompany the publication of its quarterly results, as well as to report on the TAG Potsdam Immobilien GmbH and TLG Wohnen GmbH acquisitions. The Management Board also regularly attended capital market conferences at home and abroad, where the company was presented to a wider audience. At the same time, TAG hosted a number of road shows to present itself to interested parties, potential investors, private investors and financial analysts.

TAG Portfolio locations in northern and Eastern Germany were shown during various property tours. These activities helped achieve continual high-quality coverage of the share.

Continuous dividend payout planned

TAG intends to let its shareholders participate in the company's success by continually paying a dividend, and by paying out a significant share of the profits as dividends. Accordingly, a dividend of 25 cents per share will be proposed at the next Annual General Meeting. The earnings seen in the past few quarters testify to the increased profitability of the Group.

Buchfinkenweg, Leipzig

TAG stock parameters

Stock market ticker	TEG
Type of stock	Bearer ordinary shares
ISIN	DE0008303504
Transparency level	Prime Standard
Indices	MDAX, German CDAX Performance, Prime All Share, Prime Financial Services, Classic All Share, DIMAX, EPRA
German securities code number	830350
Designated Sponsor	Close Brothers Seydler AG, Frankfurt/Main
Stock exchange	All German stock indexes including Xetra

Opening price	01/02/2012	EUR 6.15
Closing price	12/31/2012	EUR 9.50
High	12/21/2012	EUR 9.59
Low	01/19/2012	EUR 5.77
Current share price	04/12/2013	EUR 9.10
NAV per share	12/31/2012	EUR 9.96

Corporate Governance

TAG Corporate Governance report for fiscal 2012

'Corporate governance' refers to the responsible management and supervision of companies with a view to long-term value creation. The Management Board and Supervisory Board of TAG Immobilien AG see it as a key prerequisite for sustainable business success, because it strengthens the confidence of shareholders, employees, business partners and the public in the company's leadership and management. In their corporate governance, the Management Board and Supervisory Board take their cue from the German Corporate Governance Code (the 'Code' in the following), in its latest version. In accordance with Section 3.10 of the Code, the Management Board and Supervisory Board issue the following report for TAG Immobilien AG report, which also includes the remuneration report. The Corporate Governance Statement in accordance with Section 289a of the German Commercial Code is posted on the TAG homepage at www.tag-ag.com/InvestorRelations under 'Corporate Governance Statement'.

Declaration of Conformance

Article 161 of the German Stock Corporations Act stipulates that the Management Board and Supervisory Boards shall issue annual declarations of conformance with the recommendations of the GCGC, specifying which recommendations were not or are applied. The Declaration of Conformance dated November 2012 was the subject of the Supervisory Board session of 12 November 2012 and was published in December 2012; it was updated again in February due to the introduction of an age limit for Supervisory Board members and the establishment of committees.

Any deviations from the recommendations of the GCGC are mainly for technical reasons. Please refer to the Declaration of Conformance printed below for the reasons for deviations from the recommendations of the GCGC. In the past, the size of the Supervisory Board did not warrant the formation of committees; however, in its session of 26 February 2013, the Supervisory Board ratified the establishment of an audit committee and a nominations committee. In the year under review, the Supervisory Board and Management Board cooperated effectively and efficiently on all the important decisions regarding the capital measures. In its meeting on 12 November 2012, the Supervisory Board discussed its own working methods and efficiency. As part of this ongoing process, suggestions from Board members were taken up and put into practice.

'Diversity' and the composition of the Supervisory Board

According to Section 5.4.1 of the Code, the Supervisory Board is to set specific targets for its composition. Taking into account the company's specific situation, these targets should reflect the company's business activity, consider potential conflicts of interest, set an age limit for independent supervisory board members, and promote diversity. The Supervisory Board had already discussed these specifications in the past, and – based on amendments made in 2012 to the Code's stipulations regarding the composition of Supervisory Boards – has updated its criteria for the Board's composition as follows:

- Each member of the Supervisory Board shall possess the knowledge, skills and professional experience required for the proper exercise of their duties, and shall be sufficiently independent. Each Board member shall ensure that they have enough time to devote to fulfilling their mandate. Board members should not hold office longer than until the end of the Annual General Meeting that follows their 75th birthday.
- Each Board member who also sits on the Executive / Management Board of a listed company may not accept more than a total of five Supervisory Board mandates at listed companies that are not part of the Group of whose Executive Board they are a member.
- No more than two former members of the company's Management Board may sit on the Supervisory Board. The Supervisory Board should have at least two members who it regards as being independent. In particular, a Supervisory Board shall not be regarded as independent if they are in a personal or business relationship with the Company, its organs, a controlling shareholder or a company affiliated with the latter that may constitute a significant and not merely temporary conflict of interest.
- Members of the Management Board may not sit on the Company's Supervisory Board until two years have passed since the end of their Management Board mandate, unless shareholders who hold more than 25 % of the voting rights in the Company propose their appointment. In such a case, the move to the Supervisory Board shall be an exception, the reasons for which are to be provided to the Annual General Meeting.

Overall, besides the already presupposed knowledge, skills and professional traits, and the conditions set out in section 100 paragraph 5 of the German Stock Corporations Act regarding accounting or auditing skills, Supervisory Board members are expected to possess specialist knowledge and experience in the German real estate market, the capital market, and the sourcing of outside capital, as well as other business activities pursued in the TAG Group. Care is taken to ensure adequate participation by women. The aforementioned targets are taken into consideration every time there is a seat to be filled on the Supervisory Board of Directors, and / or when proposing prospective members for election.

As part of developing the targets for its composition, the Supervisory Board has set an age limit of 75 years for members of the Supervisory Board, and adjusted the Declaration of Conformance accordingly as part of the latest update in February 2013.

In fiscal 2012, TAG made particularly good progress in its efforts to achieve a fair representation of women in leadership positions. The current %age of women is 50 % of the Supervisory Board, 25 % of the Management Board, and 48 % in second-level management. Nevertheless, Supervisory Board and Management Board feel that setting a mandatory quota for women would not be constructive.

Conflicts of interest and 'Director's Dealings'

One key element in good corporate governance is the disclosure and transparency of any transactions that may create conflicts of interest:

The internal business transactions are part of the Dependent Company Reports that describe the legal relationships between TAG and Colonia Real Estate AG and between TAG and TAG Potsdam Immobilien AG, whose conversion to a GmbH became effective in early January 2013, in fiscal year 2012. The Dependant Company Reports were reviewed by the auditor. Any legal transactions carried out within the Group involved due consideration in each case, and all legal transactions were made at market rates. Due to the conversion of Bau-Verein zu Hamburg Aktien-Gesellschaft into Bau-Verein zu Hamburg Immobilien GmbH prior to 31 December 2012, a dependency report regarding this company was no longer required. Conflicts of interests dual Management Board mandates at Bau-Verein zu Hamburg Aktien-Gesellschaft until 14 December 2012 and at Colonia Real Estate AG did not materialise. Professor Ronald Frohne manages the New York office of NOERR LLP but is not a "member" (shareholder) of NOERR LLP. The firm provided consulting services in 2012 on matters of corporate law, provided assistance in a legal dispute, and supported the acquisitions and capital measures carried out. The law firm, which billed the Group EUR 1,132,264.25 in 2012, was hired with the approval of the Supervisory Board. Nor were there any other conflicts of interest between the Company and the members of the Supervisory Board or the Management Board, e.g. through the assumption of advisory or executive functions for third parties or business partners.

In the year under review, members of the Supervisory Board and Management Board acquired shares of TAG Immobilien AG. No sales were reported. The transactions were announced in accordance with section 15 of the German Securities Trading Act. As at 31 December 2012, the members of the Supervisory Board collectively own 1.59 % of the share capital, and the members of the Management Board own 0.09 %.

As at 31 December 2012, the following shares and convertible bonds were held by Board members:

Shareholders	Number of shares	Convertible bonds
Dr. Lutz R. Ristow und Rita Ristow	1,774,500	704,617
Albert Asmussen GmbH (Prof. Dr. Ronald Frohne)	309,677	40,050
Rolf Elgeti (CEO)	146,995	110,000
Dr. Harboe Vaagt	2,585	–
Georg Griesemann	1,290	–
Claudia Hoyer	6,000	–

Remuneration of the Supervisory Board

The remuneration paid to members of the Supervisory Board was adjusted based on a resolution by the Annual General Meeting of 26 August 2011. Since then, members have received a fixed compensation in the amount of EUR 20,000.00 for each full fiscal year of their membership on the Supervisory Board, plus the premiums for appropriate D & O insurance. The Deputy Chairman of the Supervisory Board receives 1.5 times this basic fixed fee, and the Chairman of the Supervisory Board receives a fixed fee in the amount of EUR 175,000.00 for each fiscal year. No variable remuneration based on the company's payout is granted. The company feels that a purely function-driven remuneration of the Supervisory Board better does justice to its monitoring tasks. The following net remuneration was paid for 2012:

Dr. Lutz R. Ristow (Chairman)	EUR 175,000
Prof. Ronald Frohne (Deputy Chairman)	EUR 30,000
Mr Rolf Hauschildt (until 13 Jun 2012)	EUR 10,000
Mr Andrés Cramer	EUR 20,000
Ms Bettina Stark (from 13 June 2012)	EUR 10,000
Ms Andrea Mäckler	EUR 20,000
Ms Wencke Röckendorf	EUR 20,000

Compliance

Compliance means observing and complying with the laws and statutory regulations that apply for TAG's business activities, the recommendations of the German Corporate Governance Code, as well as the company's own in-house guidelines and directives. Compliance is an integral part of TAG's internal control system alongside risk management and the internal audit introduced at the beginning of 2013. The Executive Board regularly reports to the Supervisory Board on the risk situation, risk management, risk control, and compliance. The Compliance Officer reports directly to the Executive Board. An internal audit staff unit has been created that is supervised directly by the Executive Board member responsible.

For 2012 it should be noted that even before they were acquired, both TAG Potsdam-Immobilien GmbH and TAG Wohnen GmbH already possessed internal control systems that complied with the stipulated risk management requirements. Similarly, both companies were already committed to compliance. TAG was therefore able to take on existing structures and transfer them into its own compliance programme. Nevertheless, the constant adaptation and improvement of compliance, risk management and adherence to the German Corporate Governance Code remains an ongoing task of management.

Hamburg, April 2013

Supervisory Board and Management Board
of TAG Immobilien AG

Declaration of Compliance by the Management and Supervisory Boards In Accordance with § 161 AktG (German Companies Act)

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 recommendations of the "German Code of Corporate Governance" (DCGK) Government Commission, as published by the Federal Ministry of Justice in the official section of the Bundesanzeiger (Federal Gazette), in the versions of 26 May 2010 and 15 May 2012, with the following exceptions in each case:

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.

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.

Hamburg, February 2013

The Management and Supervisory Boards of TAG Immobilien AG

Hubertusstraße, Dresden

Supervisory Board report

Dear Shareholders,
Ladies and Gentlemen,

In 2012, TAG Immobilien AG was able to continue the dynamic business development seen in previous years. The Group more than doubled its residential real estate inventory from over 30,000 units to approximately 69,000 units between 01 January 2012 and 31 December 2012, thereby unequivocally positioning itself among Germany's major listed real estate companies. To finance major acquisitions such as the acquisition of TAG Potsdam-Immobilien GmbH (formerly 'DKB Immobilien Aktiengesellschaft') with approximately 25,000 units and TAG Wohnen GmbH (formerly 'TLG Wohnen GmbH') with around 11,350 units, two capital increases and a convertible bond issue were carried out. All in all, the company's share capital increased from approximately EUR 75 m as at 31 December 2011 to EUR 131 m as of 31 October 2012. The successful placement and the completion of these measures underscore the trust that you, our shareholders, place in TAG. The Supervisory Board wishes to thank all shareholders and investors for their support.

Cooperation with the Management Board and monitoring of the company's management

In fulfilling the advisory and supervisory duties required of it by law and the articles of association, the Board closely followed the company's development during the financial year, regularly advised the Management Board in the discharge of its duties, and monitored the management of the company. In accordance with Section 90 paragraphgraph 1 and paragraphgraph 2 of the German Stock Corporations Act, the Management Board provided regular, up-to-date and comprehensive information on all relevant matters of corporate planning, strategy development, and especially about the acquisitions carried out in 2012. The Supervisory Board was involved in all decisions of fundamental importance to TAG Immobilien AG and the Group.

The Management Board's reporting covered the economic situation and profitability of the Group's companies, their business progress, risk situation, and the implementation of risk management, including compliance. Reporting focused on the acquisition of the majority of the shares in DKB Immobilien Aktiengesellschaft and the shares in TLG Wohnen GmbH including the subsequent integration processes and financing .

The reports were made both in writing and orally. The Chairman & CEO was in constant contact with the Chairman of the Supervisory Board in order to coordinate major business transactions. Important matters were immediately brought to his attention.

Deliberations and resolutions of the Supervisory Board

In a total of five scheduled meetings, the Supervisory Board was informed of the progress of the business, and discussed subjects and items requiring its approval together with the Management Board. In urgent matters, resolutions were also adopted outside these sessions, by written ballot or in conference calls. No member of the Supervisory Board attended fewer than half of the meetings.

The meeting on 28 February 2012 centred on the acquisition of DKB Immobilien Aktiengesellschaft. The Supervisory Board approved the submission of a binding offer within the bidding process organized by Deutsche Kreditbank AG, for a total purchase price of EUR 160 m to acquire all shares in DKB Immobilien Aktiengesellschaft. In addition to the submission of the binding offer, which was based on finally-negotiated contracts, the Supervisory Board approved in principle a capital increase through issuance of up to approximately 20 m shares, subject to the favourable outcome of the bidding process. In addition, the panel discussed with the offer made by TAG to the remaining minority shareholders of Bau-Verein zu Hamburg Aktien-Gesellschaft, to increase its stake in Bau-Verein.

At the meeting to approve the year-end financial statements on 23 April 2012, the Supervisory Board dealt in detail with the 2011 annual financial statements and the audit results from the auditors, who reported verbally on the outcome of the audit and discussed the financial statements extensively with the Board.

Furthermore, the resolution items for the agenda of the AGM on 14 June 2012 were set at this meeting. The Management Board reported in detail on the integration of TAG Potsdam-Immobilien GmbH. The Supervisory Board approved the initiation of a squeeze-out process at Bau-Verein zu Hamburg Aktien-Gesellschaft in accordance with section 327a of the German Stock Corporations Act, after the offer made to minority shareholders at the beginning of 2012 had resulted in an increase of the holdings in Bau-Verein zu Hamburg Aktien-Gesellschaft to over 96 %. Also, the plans to convert TAG Gewerbeimmobilien-Aktiengesellschaft to a REIT company were definitively and permanently abandoned at this session.

In its session on 13 June 2012 the Management Board reported on the state of integration of the Potsdam-TAG Immobilien GmbH and further plans for merging the staff in Berlin. To finance the outstanding second purchase price instalment for the acquisition of TAG Potsdam-Immobilien GmbH, the Supervisory Board passed a basic resolution to issue a convertible bond in the order of about EUR 85 m, depending on the market situation and consultation with the bank involved.

At the session on 28 August 2012 the Supervisory Board approved the sale and transfer of shares in POLARES Real Estate Asset Management GmbH, which was held directly by Colonia Real Estate AG, as part of an MBO (management buyout). POLARES Real Estate Asset Management GmbH had been formed by merging the management activities of the subgroup of Colonia Real Estate AG and TAG Immobilien AG. The company deals almost exclusively with the management of commercial real estate. In light of the Group's strategic focus on residential property and the decreasing importance of its commercial real estate portfolio, the Supervisory Board and Management Board felt that the discontinuation of this line of business line and its transfer to the Managing Director of the company were necessarily correct. Furthermore, in this session the Supervisory Board discussed the capital increase against contribution in kind for purposes of increasing the Group's stake in Colonia Real Estate AG, which was later separagraphtely approved in a conference call on 19 September 2012. The aim was to exceed a voting rights share of 75 % in Colonia. The capital increase allowed for achieving the takeover with minimal impact on liquidity.

In this meeting, the Supervisory Board first discussed the acquisition of TLG Wohnen GmbH and participation in the bidding organised by the Federal Republic of Germany to acquire the shares. Finally, the Supervisory Board approved the sale of 60 residential units located in a housing complex in Ottobrunn by Munich.

At its last actual meeting of 2012, on 12 November 2012, the Supervisory Board approved the binding offer – submitted subject to its approval – to acquire all shares in TLG Wohnen GmbH, i.e. the acquisition of another 11,350 residential units at a total purchase price of EUR 471 m, including the assumption of TLG Wohnen GmbH's liabilities in the amount of approximately EUR 256 m. To finance this acquisition, the Board approved – subject to a favourable decision in the bidding – a capital increase from authorized capital in the amount of up to EUR 30 m through the issuance of up to 30 m shares, and the commissioning of the banks involved in the process. Given the good market situation, in particular the real estate market in Berlin, the Management Board had decided to sell the property holdings of Aufbaugesellschaft Bayern GmbH, a subsidiary of TAG Potsdam-Immobilien GmbH, and the sale of the Bärenpark housing estate with a total of 1,384 residential units, to a fund for a total purchase price of EUR 87 m. These contracts were to be finalised and concluded in early 2013.

The Supervisory Board performed the efficiency review for 2012, as stipulated by the German Corporate Governance Code, during its November session and discussed the results in detail at the meeting.

Finally, in the aforementioned sessions of the year 2012, the Board also discussed acquisition projects that could not be successfully concluded for various reasons. Some of the not inconsiderably large volumes of real estate that are constantly offered to TAG were checked with the support of outside consultants, and some actually progressed to advanced stages of negotiation without leading to a successful conclusion.

Auditors in 2012

In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board engaged the auditor KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, which had been chosen by the shareholders at the Annual General Meeting on 14 June 2012 to audit the annual financial statements of TAG Immobilien AG for 2012.

The auditors submitted the declaration of independence stipulated by Article 7.2.1 of the German Corporate Governance Code, to which no objections were raised. The requirements specified in Article 7.2.3 of the German Corporate Governance Code with respect to the relations between the Company and the auditors have been observed.

Approval of annual financial statements and consolidated financial statements

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, carried out the audit of the annual financial statements and the management report, as well as the consolidated financial statements, including the Group management report, for 2012, which was prepared in accordance with the International Financial Reporting Standards (IFRS). An unqualified auditor’s report was issued.

The financial statements and the audit reports were circulated to all members of the Supervisory Board in a timely manner and discussed in detail at the meeting of 16 April 2013. The auditors attended the meeting, during which they elaborated on their report and were available to answer any questions. The auditor additionally confirmed that the risk early detection system which had been installed by Management Board was suitable for detecting in good time any developments liable to jeopardise the Company’s going-concern status.

The Supervisory Board accepted the auditors’ results and, on the basis of its own review of the parent company and consolidated financial statements together with the respective management reports, raised no objections. The Supervisory Board endorsed the Management Board‘s proposal for the appropriation of net profit to pay a dividend of EUR 0.25 per share. The annual financial statements and the consolidated financial statements prepared by the Management Board were approved and accepted by the Supervisory Board.

Corporate Governance

As in previous years, the Supervisory Board closely monitored the management’s compliance with the principles of good corporate governance. Because of the dual Board mandates of Messrs Elgeti, Griesemann and Vaagt at Bau-Verein zu Hamburg Aktien-Gesellschaft until 14 December 2012 and of Messrs Elgeti and Griesemann at Colonia Real Estate AG, special attention was paid to the risk of conflicts of interest, but no such conflicting interests arose in 2012. The Supervisory Board approved all mandates in accordance with section 88 paragraph 1 of the German Stock Corporations Act.

At their meeting in December, the Supervisory Board and the Management Board jointly adopted the declaration of conformance prescribed by Section 161 of the German Stock Corporations Act, regarding the recommendations set out in the German Corporate Governance Code. The recommendations were implemented in the year under review save for an unchanged small number of justified exceptions. As before, the Supervisory Board saw no need to set up separagraphte committees in fiscal 2012, but has since provided for their establishment in its session on 26 February 2013. Although Prof. Frohne is not member (shareholder) of law firm NOERR LLP, the Supervisory Board again and purely as a precaution approved the Group's continued collaboration with this law firm and its mandates for the company.

Please also refer to the details set out in the Corporate Governance Report (page 36 of the Annual Report).

Personnel

At the session on 23 April 2012, Mr George Griesemann was appointed as an additional member of the Management Board with effect from 1 June 2012. By a resolution dated 16 May 2012, Ms Claudia Hoyer was appointed to the Management Board with effect from 1 July 2012. Mr Hans-Ulrich Sutter resigned from the Management Board on 30 June 2012.

Mr Rolf Hauschildt resigned his Supervisory Board mandate with effect from the end of the Annual General Meeting on 14 June 2012. The Assembly elected Ms Bettina Stark, Senior Vice President of DKB Bank, to the Supervisory Board for the remainder of his term. The Supervisory Board thanks Mr Hauschildt for his many years of constructive participation on the Supervisory Board of TAG, and Mr Hans-Ulrich Sutter for his work on the Management Board in the past few years. Since accepting his Board mandate in 2008, Mr Sutter has made key decisions in setting the course for the TAG Group's growth, and was formative in the company's development during these years.

Dr. Lutz R. Ristow

Finally, the Supervisory Board would like to commend and thank the Group Management Board and all employees of TAG and of all companies in the Group, whose strong commitment and dedication made possible the Group's development and growth in the year under review.

Hamburg, April 2013

The Supervisory Board

Dr. Lutz R. Ristow
Chairman

Group Management Report 2012

I. Foundations of the Group

Overview and corporate strategies

Over the course of the 2012 business year, TAG became one of the leading listed real-estate companies in the German housing industry, continuing its dynamic development and strong growth of recent years. Listed on the MDAX since September 2012, the Company represents what the management feels is an attractive investment for capital market lenders and investors. For tenants and prospective tenants, companies in the TAG Group offer attractive housing at affordable prices at numerous locations, having now expanded its residential real estate portfolio to a total of 69,000 units.

'Highlights' of the year 2012 include the following acquisitions and capital market transactions:

- January 2012: Acquisition of 429 residential units in Chemnitz and acquisition of a property portfolio in Eberswalde, north of Berlin, with about 1,070 flats
- March 2012: Takeover of the TAG Potsdam-Immobilien GmbH (formerly DKB Immobilien AG), with approximately 25,000 units
- March 2012: Capital increase by approximately EUR 127 m through the issuance of approximately 20.7 m shares at a price of EUR 6.15 per share
- June 2012: Issue of a convertible bond with a volume of EUR 85.3 m
- November 2012: Further increase in share capital of approximately EUR 1.8 m through addition of approximately 3 m Colonia Real Estate AG shares
- December 2012: Acquisition of TAG Wohnen GmbH (formerly TLG Wohnen GmbH), with around 11,350 residential units
- December 2012: EUR 270 m capital increase through the issue of 30 m shares at an issue price of EUR 9.00 per share
- December 2012: Acquisition of TAG Stadthaus am Anger GmbH with 360 residential units in Erfurt.

These acquisitions and purchases increased the Company's inventory of residential units from approximately 30,690 at 31 December 2011 to approximately 69,000 at 31 December 2012. The value of all properties held totalled EUR 3.7 billion at 31 December 2012, an increase of almost 90 % over last year's EUR 2.0 billion. Annualised rent at the end of 2012 was EUR 250 m, with all forecasts published for 2012 being met or exceeded. EBT was EUR 203 m, FFO (funds from operations) was approximately EUR 40 m and at year-end NAV was EUR 9.96 per share. FFO is calculated from the EBT, adjusted for non-cash items. These are the evaluation result, the amortisation of intangible assets, property and equipment, impairment losses on inventories and receivables, income from initial consolidation and deconsolidation, non-cash components of interest income and the revenue result. In parallel to this development, the Company's total assets at 31. December 2011 increased by approximately EUR 2 billion to EUR 3.8 billion at 31 December 2012. The Company's market capitalisation amounted to EUR 1.2 billion as of 31 December 2012.

TAG also made good progress with its continued focus on residential real estate during the year. The investment in POLARES Real Estate Asset Management GmbH, which focuses on the administration and asset management of commercial real estate, was sold in September 2012 as part of a management buyout. TAG also increased its stake in of Colonia Real Estate AG on 31 December 2012 to approximately 79 % and by squeezing out the minority shareholders acquired full ownership of Bau-Verein zu Hamburg Aktien-Gesellschaft in November 2012.

In its growth strategy, TAG specialises in the acquisition, development and management of residential real estate. Besides acquisition and property management, the Group's business activities include the leasing and management of residential properties as well as targeted measures to develop inventories with the goal of maximising the value and returns of the portfolio. The strategy focuses on:

- cost-conscious implementation of potential rent increases, and reduction of vacancy
- investments in real estate inventories with potential for development and earnings
- strengthening tenant relations by steadily improving services, staying close to the customer, and operating local management units
- ongoing review and adjustment of internal and external processes to achieve cost efficiencies and economies of scale.

The focus of the residential property portfolio is on the regions of Thuringia / Saxony, Berlin, Hamburg, North Rhine-Westphalia and the Salzgitter region and on attractive and high-yield residential real estate in select locations that sport positive economic growth or development data, promise stable rental income, and possess potential for value creation. Other key factors in purchasing decisions are synergy effects and whether the new housing inventory can be managed by existing structures, for maximum cost effectiveness.

Group structure and organisation

TAG Immobilien AG stands at the head of an integrated real estate group. It performs the functions of a management holding company and in this capacity handles tasks for the entire TAG Group, across the Group. Key departments such as the Finance, Balance Sheet Accounting, Controlling, Human Resources, IT and legal are housed at the TAG Head Office. The TAG Group consists of other subgroups, operating subsidiaries and property companies, each of which owns real estate portfolios and which are all consolidated in TAG's consolidated accounts.

TAG Group's main subsidiaries are TAG Potsdam-Immobilien GmbH (previously DKB Immobilien Aktiengesellschaft) with around 25,000 units, which was acquired in early 2012; Colonia Real Estate AG with about 19,000 units and Bau-Verein zu Hamburg Immobilien GmbH (formerly Bau-Verein zu Hamburg Aktien-Gesellschaft) with approximately 3,800 units. In December 2012 TAG took over TAG Wohnen GmbH (formerly TLG Wohnen GmbH) with around 11,350 units. TAG Potsdam, Colonia, Bau-Verein each have subsidiaries of their own, and therefore form subgroups within TAG Group. As of 31 December 2012, TAG holds approximately 79 % of the voting rights in Colonia Real Estate AG. The Colonia share is listed in the Entry Standard of the Frankfurt Stock Exchange. TAG's commercial real estate portfolio, which had a market value of EUR 458.2 m as at 31 December 2012, is mainly held by TAG Gewerbe Immobilien GmbH (formerly TAG Gewerbe-immobilien Aktiengesellschaft).

A complete overview of all companies in the Group is shown on pp. 89.

The organisational structure of TAG's operative business is one of flat hierarchies and short decision-making channels. The core of the organisation is the 'LIM' structure (Leiter/in Immobilienmanagement - real estate management director). Each LIM is assigned a regionally delimited property portfolio, which is managed in a decentralised way and largely autonomously within the approved budget. LIMs operate as asset managers of their respective portfolio of residential property and manage their inventories with a view to condition, vacancy, modernisation measures and tenant satisfaction. In addition to optimising returns, their main task is ensure smooth rental management, which in turn is handled by property managers reporting to each LIM. Due to this decentralised organisational structure, LIMs have first-hand knowledge of the inventory they supervise. They are responsible for budgets, cost compliance, planning and implementation of portfolio development measures. TAG has currently has nine LIMs In the residential segment, who manage the entire TAG portfolio spanning five regions. The LIMs report directly to the Executive Board. The LIMs meet regularly to network, exchange ideas and ensure a consistent implementation of the centrally set corporate strategy and of the Management Board's decisions. The expertise and experience of the LIMs is regularly put to use in acquisitions and purchases. Beyond this, a central property management department standardises processes, negotiates nationwide framework agreements, and tests products and services across the Group.

To monitor and steer its business activities, TAG uses a modern, constantly updated financial tracking system that allows it to calculate and monitor income effects such as value growth and returns in connection with liquidity and earnings. This centrally managed task serves to monitor the financial stability of the whole group of companies. Continually determining the ongoing performance of the individual objects as well as the individual lines of business are part of this monitoring process, which is handled directly by the responsible Management Board member.

At the Management Board level, responsibilities are mainly distributed as follows:

- CEO : Strategy, Personnel, IR/ PR/ Marketing, Acquisitions and Disposals, Commercial
- CFO: Taxes, Controlling, Accounting, Financing, Cash management, Data management
- COO: Real estate management, Asset Management/ Property Management, Facility Management services
- CLO: Legal, IT, Residential property management, Compliance, Interne Revision, Injunctive rent collection

Research & Development

Due to the type of its business, the Group has no research or development operations. The Group's business does not depend on patents, licenses or brands, although the wordmarks and logos of TAG Immobilien AG are copyrighted.

II. Business report

a) The overall economy

The current financial and debt crisis is affecting the various EURpean countries in very different ways. Experts expect that the crisis countries of EURpe will remain in recession in 2013, while they predict slight growth for Germany's economic development in 2013. So a strong economic downturn in Germany as a result of the EUR crisis and the difficult global economic situation seems unsubstantiated for the time being.

While economic growth in Germany in 2012 turned out weaker than expected at 0.7 %, the Federal Ministry of Economics is merely expecting positive signals for economic development in 2013, and is forecasting slight growth of 0.4 %. Furthermore, the Ministry of Economy expects employment in 2013 to be on a par with the high level seen in 2012.

The Munich-based Ifo Institute issued a positive economic forecast for Germany in 2013, predicting growth in the German economy and a decline in inflation, accompanied by a stabilising of the unemployment rate. The president of the Institute expects moderate growth of 0.7 % and a decline in the inflation rate from 2.0 % in 2012 to 1.6 % in 2013. The Ifo Institute further predicts that unemployment will stabilise at 6.9 % in 2013 (after 6.8 % in 2012). The German government is expecting a slightly lower gross domestic product (GDP) of about 0.5 % to 0.7 % for 2013.

b) The German real estate market

Compared with the rest of EURpe, Germany remains an attractive location for both residential and commercial real estate. The following overview of the number of residential real estate portfolios traded last year confirms this. At the same time the high ranking of the German property market is supported by the financial and EUR crisis, which underlines people's interest in investing in real assets such as commodities and real estate, based on attractive risk premiums and fears of a rise in inflation. This trend is further supported by the currently very low interest rates. For all these reasons, Germany is currently regarded as a safe destination for real estate investments.

The German residential property market

A new record was set on the transaction market for residential real estate portfolios last year. The transaction volume in 2012 came to EUR 10.45 billion, representing an increase of 46 % over the previous year. The number of units traded surged by 65 % to nearly 200,000 in 2012, although the number of transactions declined by nearly a quarter to 159 (2011: 207 transactions). It is noteworthy that several transactions comprising over 10,000 units were successfully completed. This last happened in 2008. Five portfolios of this magnitude changed hands last year, e.g. the portfolio of LBBW, Bayern LB (DKB Immobilien AG) and the federally owned TLG Living Inc. Compared to 2011, the average size of the traded property portfolios more than doubled (to approximately 1,250 units per transaction).

On the buyer side, the most active investors by far were the publicly traded real estate groups, which invested more than EUR 4 billion in residential packages in Germany last year. Insurance companies, pension funds and pension funds came second, with direct investments of almost EUR 1.5 billion and another EUR 0.7 billion through special funds. The third biggest buyer group were the private equity funds, which spent more than EUR 1.2 billion on residential real estate in 2012.

For 2013, the property services company Savills expects transaction volume to remain above average in the high single-digit billions.

Overview of residential real estate markets that are represented in the TAG portfolio:

Thuringia / Saxony region

One major location in the TAG portfolio with nearly 30,000 units is the Thuringia / Saxony region. Thuringia has a population of around 2.2 m living in 1.1 m households. Single-person households make up 38.4 % of this. The unemployment rate in Thuringia has improved year-on-year, from 8.8 % in 2011 to 8.5 %. By comparison, Saxony has about 4.1 m people living in 2.2 m households – of which 43.3 % are single-person households. There has been a demographic exodus from the eastern Germany to the West. This movement has slowed considerably in recent years - in part because the economic situation in the East has improved, as is clearly reflected in falling levels of unemployment.

In fact many eastern German cities are currently experiencing an influx as people move from rural areas to nearby cities where they find better economic, social and cultural opportunities. Dresden, Leipzig, and Erfurt are especially affected by this positive trend. At the end of 2011, the population of Saxony's capital Dresden was about 530,000 (after annual growth of 1.3 % from 2006 to 2010), in 287,000 households. By mid-2012, the population had grown to 531,000. The continual population increase has caused a decline in vacancy) from 6.4 % in 2006 to 3.4 % in 2009), while also pushing the median rent up by 6 % since 2007, to 6.00 EUR / sqm. The significant positive trend in population in the eastern German cities has caused a tangibly positive demand for housing. This has an impact on the offer of attractive apartments and especially on rental prices, because at the same time there is a shortage due to a decline in residential construction.

The second largest city in Saxony is Leipzig with a population of around 538,000 inhabitants in September 2012 (annual growth from 2006 to 2010: 4.7 %), 294,810 households, of which 50.7 % are single-person households. The average household size is 1.8 persons, as compared to the national average of 2.0. In the 18-month period to the end of June 2012, there were only slight changes in rents, the median rent per sqm in the first half of 2012 was EUR 5.00 in all of Leipzig, an increase of 0.4 % over the same period in 2011 (average rent was 5.20 per sqm in H'1 / 2012, an increase of 3.2 % vs. H'1 / 2011).

The Thuringian capital of Erfurt, with over 206,000 inhabitants (June 2012; after 205,000 at year-end 2011) is the largest city in the state. In parallel to the positive population development of the Erfurt rental market is also benefiting from a positive economic mood in the region, which is reflected in residential rents of 6.00 EUR to 8.60 EUR / sqm for mid- to high-end property locations in 2011.

Berlin region

Berlin is the German capital and the seat of the German government. The size of an average household in Berlin is 1.8 persons, compared to the national average of 2.0. At the end of 2011, there were nearly 2 m households in Berlin, 54.1 % of them single person households. There are 318,260 privately owned buildings in Berlin and about 1.9 m apartments (annual growth of 1.0 % from 2006 to 2011), of which 44.9 % are in multiple dwelling units / apartment complexes. In 2011, a total of 40,000 people moved to Berlin, but only 3,517 new housing units were completed, far below the annual demand of about 10,000 to 15,000 units. Rapid population growth and migration have resulted in an average decrease in vacancy from 5.6 % in 2005 to 3.3 % in 2009. However, in many parts of the city rents remain at a level that is too low to allow for economically sustainable projects. In the first half of 2012, the average rent (median) was EUR 7.40 per sqm, a 13 % year-on-year increase (average rent in Berlin in H'1 / 2012: EUR 8.05, + 10.8 % year on year). This is the strongest rental growth of all the cities surveyed by Jones Lang Lasalle. In addition, rents will continue to rise significantly due to strong demand. Berlin is a tenants' market, but not homogeneously so; each of the 13 districts has its own dynamic. In general, the supply of rental housing in the lower price range fell significantly in almost every district in 2012. According to experts, the demand for housing will increase considerably and the market situation will deteriorate across all districts within the next three years.

The Berlin region also benefits from the attractiveness of the capital, thanks to its proximity to the city. TAG owns over 12,700 residential units in Berlin - including portfolios of approximately 1,000 units each in Strausberg, Eberswalde and Bestensee. These small towns are easily reached by S-Bahn or regional Deutsche Bahn trains from Berlin Hauptbahnhof (central railway station). In Nauen, a small town northwest of Berlin, TAG has a portfolio of approximately 2,000 units. The rent increases recorded in Berlin are causing rents to gradually rise in the surrounding areas as well.

Salzgitter region

The Salzgitter region is situated in northern Germany, more precisely in the south-eastern part of the state of Lower Saxony, along the axis of the Hanover-Brunswick-Göttingen-Wolfsburg metropolitan region. Approximately 4 m people live in this region, on 19,000 km^2.

Salzgitter is an expansive town of 31 districts on over 224 km^2. At the end of 2010, Salzgitter had a population of 102,000. A number of large international companies have offices in the region, including Salzgitter AG, Volkswagen, Alstom, and MAN, Bosch and IKEA, so that Salzgitter, with more than 50,000 jobs, is one of the leading industrial locations in Lower Saxony. Unemployment in Salzgitter was 9.5 % in January 2013. The Lower Saxon capital Hannover and surrounding municipalities form the fourth largest metropolitan area in Germany

Hamburg region

The Free and Hanseatic City of Hamburg is the economic and cultural centre of northern Germany. In the past five years, Hamburg's population has grown by an average 0.5 % per year, and was about 1.8 m at the end of 2011, making Hamburg the second largest city in Germany, after Berlin. Greater Hamburg is home to about 3.5 m people, who live in an area of about 755 square kilometres. The average household size in Hamburg was 1.8 in 2011, compared with the national average of 2.0. At the end of 2011, the number of private households was about 985,000, of which 53.6 % were single-person households (up 8.8 % from 2006 to 2011), as compared with 40.4 % in all of Germany (up 11.2 % from 2006 to 2011). At the end of 2011, the total number of privately owned residential buildings was 240,841, of which 32.5 % were multi-family homes/residential complexes. A sharp rise in the number of households, combined with low construction activity and a low vacancy rate (1.4 % in 2009) resulted in an increase in rents during the first half of 2012. The median rent per sqm in the first half of 2012 was EUR 10 in the Hamburg region, a 7.7 % increase compared to the first half of 2011.

North Rhine-Westphalia

With a population of over 17.8 m, and four of Germany's ten largest cities, North Rhine-Westphalia is the most populous of the 16 federal states. In 2011, it had 29 cities with a population of over 100,000, and the population density was 523 inhabitants per square kilometre. In 2011, the average household size in Nordrhein-Westfalen was around 2.1 people, i.e. above the national average of 2.0. Of the approximately 8.7 m private households, 39.2 % were single-person households. Although 37 of the top 100 companies in Germany are situated in North Rhine-Westphalia and it is the most important industrial area in Germany, the unemployment rate in this state stood at 8.4 % on 31 January 2013, with 767,754 people out of work.

TAG's diverse residential portfolio gives it a presence in five regions. A large part of the portfolio is located in Eastern Germany and was further expanded with the acquisition of TAG Wohnen GmbH (formerly TLG Wohnen GmbH) at the end of 2012. As part of its growth strategy, TAG will continue to make acquisitions that are located in the regions where it already has properties, and where the infrastructure needed for their management already exists. The aim is to realise the value appreciation potential contained in the portfolios and locations, and thereby manage them in a cashflow-enhancing and profitable way. The positive economic conditions in Germany should also support business activity as well as the achievement of TAG Group's business goals.

The German commercial real estate market

Since TAG owns – through its subsidiary, TAG Gewerbeimmobilien GmbH – a portfolio of commercial real estate, the German commercial real estate market is also of key relevance to the TAG Group's business performance. Its development was positive last year, as confirmed by the figures of the past. The volume of transactions in the German commercial investment market was the highest in the past five years. A total of EUR 25.31 billion was invested in commercial real estate, up once again by 8.5 % over the high-sales 2011 business year.

The total transaction volume in Germany's TOP 6 locations showed a much steeper increase than the nationwide average. Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne and Munich saw total investments of EUR 12.9 billion, up 20 % over 2011. With an investment volume of more than EUR 4.3 billion (+65 % vs. 2011), Berlin was well ahead of Frankfurt and Munich, which accounted for transaction volumes of EUR 2.9 billion and EUR 2.8 billion (+38 %) respectively. Meanwhile, less was invested year-on-year in Hamburg (-22 %), Dusseldorf (-15 %) and Cologne (-11 %). The overall increase in transaction volume at the TOP 6 locations was accompanied by higher investment by foreign investors. This buyer group invested approximately EUR 11.6 billion, which is 61 % (or EUR 4.4 billion) more than even in 2011. Accordingly, their share of total investment increased from about 31 % in 2011 to 46 % in 2012. As they invested primarily at the top locations, foreign investors contributed significantly to the increasing transaction volume in these markets. More than half (52 %) of the money invested here came from abroad (2011: 35 %). The most active group of buyers by far came from other countries in continental europe, and bought up commercial properties for a total of EUR 5.7 billion, while sales by this group of buyers during the same period amounted to approximately EUR 4.0 billion.

Traditionally, within the BIG 7 (i.e. the TOP 6 locations plus Stuttgart) investor interest has focused on office buildings. This asset class accounted for nearly 60 % of the BIG 7 transaction volume, significantly above the nationwide average. Although here, too, office buildings dominate with a share of over 40 %, other uses – first and foremost retail properties, with EUR 7.9 billion (31 % of total transaction volume) – play a much stronger role outside the big cities. Mixed-use properties follow at a distance with a share of 11 %. Roughly EUR 1.7 billion (equivalent to just under 7 %) was invested In warehouse and logistics properties, a decrease vs. 2008. In the Big 7 are 7.8 m sqm of office space empty – this is about 7 % less than in late 2011. In the course of 2012, the vacancy rate of 7 big cities fell from 9.5 % to 8.8 % (-14.8 % in Frankfurt and Munich -12.5 % on average). This is the lowest level since 2002.

Given the favourable conditions a high level of interest in German commercial real estate is expected for 2013 as well. Analysts at Savills expect the current year will see a transaction volume on par with the two prior years.

TAG has a solid inventory of commercial real estate, some of it in attractive locations such as Hamburg, Berlin and Munich. Commercial properties are, however, no longer the focus of the Group's strategy, so that TAG has decided to gradually sell off its portfolio of properties. Nonetheless, it is still generating attractive returns and stable Cashflows, which are further enhanced through our ongoing inventory management. Of the long-term leases in the portfolio, more than 57 % have a remaining term of more than three years.

c) Business performance

Pursuant to Regulation (EC) No. 1606/2002, the consolidated financial statements of the listed stock corporation TAG as of 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as supplemented by the provisions of Section 315a (1) of the German Commercial Code (HGB). The annual financial statements of TAG as well as the separagraphte financial statements of the Group companies were again prepared in accordance with the provisions of the German Commercial Code. The consolidated subgroup financial statements of Colonia Real Estate AG, which has been listed in the Entry Standard (additional transparency requirements) of the Frankfurt Stock Exchange's Open Market since November 2012, were also prepared in accordance with the International Financial Reporting Standards (IFRS), as supplemented by the provisions contained in Section 315a (1) and (3) of the German Commercial Code, pursuant to Regulation (EC) No. 1606/2002.

The following is a detailed list of the Group's purchases in 2012 und 2011:

Acquisitions 2011 / 2012

Portfolio	Acquisation date	Number of units	Purchase price incl. transaction costs in EUR m	sqm	Price per sqm	Annualised net actual rent in EUR mill.	Initial yield (gross on pp incl. ac) in %	Multiple	Appraised value in EUR m	Budgeted rental income per 1,000 EUR of appraised value	Impact on NAV per share in cent
Colonia	02/15/2011	18,888	716.7	1,162,749	616	57.0	8.0	12.6	789.4	50	81
Marzahn	06/01/2011	612	25.2	43,591	579	2.3	9.1	11.0	29.0	59	5
Hellersdorf	09/30/2011	461	18.7	26,921	693	1.7	9.3	10.7	22.7	56	6
Dresden	09/30/2011	156	7.7	11,427	674	0.6	7.9	12.6	8.8	54	2
Northern Germany plus Saxony	11/01/2011	3,343	151.1	208,287	725	13.7	9.1	11.0	163.0	61	17
Eberswalde	01/01/2012	1,068	30.3	59,911	506	2.9	9.5	10.6	38.1	60	8
Chemnitz	01/31/2012	429	23.8	32,217	737	1.8	7.6	13.2	24.8	66	2
TAG Potsdam	03/31/2012	25,023	960.0	1,484,000	647	72.9	7.6	13.2	1,054.0	56	97
Erfurt	12/31/2012	360	29.0	35,986	806	2.8	9.5	10.5	32.8	72	3
TAG residential	12/31/2012	11,350	471.1	711,561	662	42.6	9.1	11.0	570.9	60	76
Total		**61,690**	**2,433.5**	**3,776,650**	**644**	**198.3**	**8.1**	**12.3**	**2,733.4**	**56**	**297**

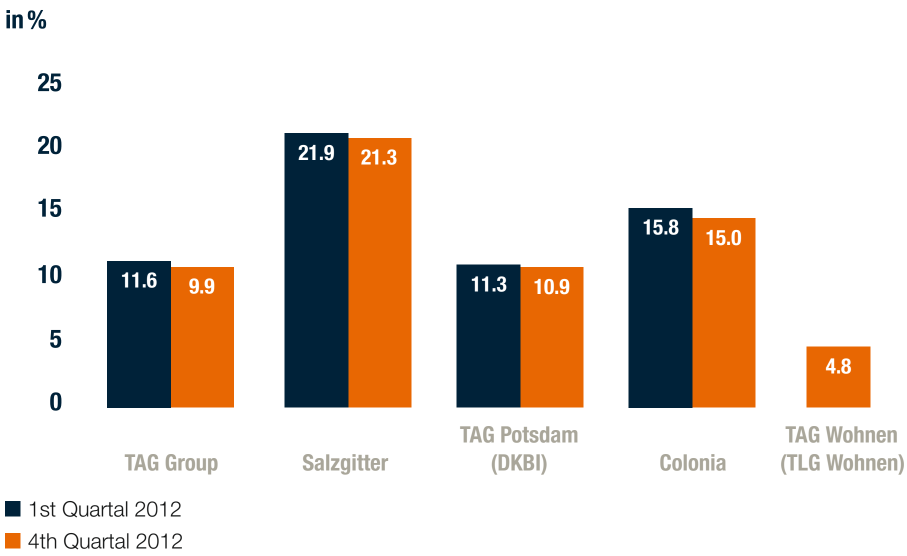
The following table shows the capital measures TAG carried out to finance its acquisitions in 2012, and the effects on the company's equity:

Registering	Subscribed capital / Number of shares	Interest in share capital per share	Number of shares	Strike price in EUR	Share split / Other
01/23/2012	74,905,174	1	859,339	8.25	Capital increase against contribution in kind / Chemnitz purchase
03/19/2012	75,764,513	1	20,663,737	6.15	Cash capital increase / Acquisition of TAG Potsdam
11/01/2012	96,428,250	1	2,492,977		Conversion rights exercised
11/15/2012	98,921,227	1	1,809,693		Capital increase against contribution in kind / Share swap TAG, Colonia
02/05/2013	100,730,920	1	7,076		Conversion rights exercised
12/11/2012	100,737,996	1	30,000,000	9.00	Cash capital increase / Acquisition of TAG Wohnen
Total	**130,737,996**				
Placement 06/25/2012		1	85,300	8.85	Issuance of convertible bond with 5.5 % interest rate, term from 2012 – 2019

The successful completion of the measures reflects the confidence placed in the Company and its growth course. In the non-cash capital increases and the issuance of the convertible bonds in June 2012 – and in each case with the approval of the Supervisory Board – the Executive Board had excluded the subscription rights of the shareholders, thereby exercising the option for excluding said subscription rights included in the Annual General Meetings' resolutions underlying the measures. Especially in the case of the convertible bond issue, the exclusion of subscription rights enabled the Executive Board to seize opportunities for market placement that had come up at short notice, and to successfully carry out these measures in a narrow time window.

Equity was strengthened by capital measures. A capital increase against contribution of 3,067,277 shares in Colonia Real Estate AG in November 2012 led to an increase of TAG's share capital by EUR 1,809,693.00. The exercise of conversion rights in connection with a EUR 12 m convertible bond issued in 2009 resulted in a total of 2,500,053 new shares during the year under review. In all, the various measures in 2012 increased the Company's share capital from around EUR 75 m to around EUR 131 m. The equity ratio at 31 December 2012 was approximately 30 % (previous year: 29 %).

Apart from acquisitions, during the year under review operations were focused on further decreasing vacancy. Across the entire residential portfolio, vacancy decreased from 11.6% to 9.9%, although due to the strong growth of the inventories it is not possible to make a comparison with the previous year. The following diagram shows the development in each portfolio:



As part of its portfolio optimisation and acting on opportunity, TAG carried out individual sales during the reporting year. At the end of 2012, about 1,400 residential units in Berlin were sold for a total purchase price of EUR 87 m. The transfer of ownership took place in early 2013. In September 2012, the Company sold its shares in POLARES Real Estate Asset Management GmbH as part of a management buyout. This sale is related to TAG's focus on the residential real estate sector.

Finally, in December 2012, the town of Tegernsee and the municipality of Gmund accepted the notarial offer to sell the shares in Tegernsee Bahnbetriebsgesellschaft (TBG) and the properties on Lake Tegernsee, which TAG had submitted to the Miesbach district savings bank in May 2010. With the conclusion of the contracts on 28 February 2013, TAG has made its final exit from the railway-related business and has disposed of its properties on Lake Tegernsee.

Integration of TAG Potsdam-Immobilien GmbH

The growth of the Group in 2012, the significant extension of the organisational structures, and the integration of the newly added subgroups presented a particular challenge to the management and staff during the year under review. Despite the different corporate cultures, TAG's simple and flat organisational structure in the operations side of the business made the integration easier, so that it could be accomplished within a few months. The integration was performed in the following steps:

- 27 March 2012: Acquisition of the majority of voting rights in DKB Immobilien Aktiengesellschaft
- June 2012: Implementation of the LIM structure within DKB Immobilien Aktiengesellschaft
- From the second quartal in 2012: further restructuring to increase cost potential
- 22 August 2012: DKB Immobilien Aktiengesellschaft renamed Potsdam TAG Immobilien AG
- 14 December 2012: TAG Immobilien Aktiengesellschaft Potsdam converted to Potsdam TAG Immobilien GmbH
- 17 December 2012: Potsdam office closed down and merged with the Berlin office (Emser Strasse 36)

d) Results of operations, financial condition and net assets

Results of operations

Revenues

In the year under review, TAG was able to increase its total revenues by 42 % to EUR 252.8 m, up from EUR 178.3 m in 2011. This growth was chiefly underpinned by rental income as a result of acquisitions and a reduction in residential vacancies to 9.9 % (previous year: 11.6 %). Group rental income climbed from EUR 115.4 m in 2011 to EUR 192.5 m, equivalent to an increase of EUR 77.1 m or 66.8 % chiefly as a result of the first-time consolidation of TAG Potsdam on 31 March 2012. As a result, the Group was able to substantially exceed its forecast for 2012 of EUR 144 m. Income from real estate sales dropped slightly by EUR 1.6 m to EUR 52.9 m. The main sales included the execution of the contracts signed in previous years for the Eichholz (Hamburg) and Max Brauer Allee (Hamburg) projects and the sale of most of the remaining items in the Ottobrunn (Ottobrunn) residential portfolio.

Income from service business contracted by EUR 1.0 m to EUR 7.5 m due to the management buy-out of POLARES Real Estate Asset Management GmbH effective 30 September 2012.

Other operating income and fair value remeasurements

Other operating income primarily stems from non-recurring effects in connection with new acquisitions and rose to EUR 170.8 m (previous year: EUR 66.8 m). This also includes the effect on earnings from the first-time consolidation of TAG Potsdam (EUR 99.2 m) and the initial inclusion of TAG Wohnen (EUR 49.0 m). The fair value remeasurement of investment properties and the net profit from the first-time consolidation of property companies yielded total net remeasurement gains of EUR 29.4 m, i.e. largely unchanged over the previous year (EUR 28.9 m).

Gross profit

The TAG Group's gross profit almost doubled in 2012, rising to EUR 347.5 m, up EUR 165.0 m over the previous year. This improvement was achieved thanks to an increase in operating earnings from letting (up EUR 65.4 m on the previous year) and increased other operating income, particularly non-recurring effects from first-time consolidation (up EUR 104.0 m on the previous year).

Expenses

Expenses also rose in 2012 due to acquisitions. Thus, consolidated personnel expenses climbed by 81 % to EUR 23.1 m in 2012 primarily as a result of the increased number of employees within the Group. At EUR 20.0 m, other operating expenses were unchanged over the previous year. The increase of EUR 10.0 m in impairments on receivables and inventories to EUR 13.5 m chiefly reflects increased impairments on properties held as inventories.

Earnings before interest and taxes (EBIT)

EBIT improved from EUR 145.1 m in the previous year to EUR 289.1 m.

Net borrowing costs and share of profits of associates

Net borrowing costs, i.e interest expense net of interest income, widened to EUR 86.7 m (previous year: EUR 62.1 m) chiefly as a result of the heightened debt capital requirements in connection with the acquisitions and the first-time consolidation of TAG Potsdam within the TAG Group.

Earnings before taxes (EBT)

Earnings before taxes improved substantially, rising from EUR 83.3 m in 2011 to EUR 202.6 m in 2012.

Income taxes

Consolidated income tax expense came to EUR 25.1 m in 2012, up from EUR 17.3 m in 2011. Tax expense comprises almost solely deferred income tax liabilities arising from the greater differences between the tax base of the real estate and its carrying amount in the IFRS consolidated financial statements.

Consolidated net profit after non-controlling interests

Consolidated net profit after non-controlling interests improved substantially, climbing to EUR 177.9 m (previous year: EUR 65.9 m).

Further key figures:

The Group projected funds from operations (FFO) of EUR 27 m for 2012. At EUR 40 m, TAG was able to exceed this target substantially thanks in particular to the acquisitions in 2012. The EPRA net asset value (EPRA NAV) per share came to EUR 9.96, thus also exceeding the forecast of EUR 9.75 for 2012.

Net assets

Total assets

In 2012, total assets rose by 85.5 % from EUR 2,048 m on 31 December 2011 to EUR 3,800 m on 31 December 2012. This increase was chiefly due to the first-time consolidation of TAG Potsdam on 31 March 2012 and TAG Wohnen on 31 December 2012. Similarly, real estate assets rose from EUR 1,969 m on 31 December 2011 to EUR 3,665 m at the end of 2012 as a result of the corporate acquisitions.

As of 31 December 2012, there was a net increase in deferred income tax liabilities to EUR 123.4 m (previous year: EUR 66.9 m) chiefly as a result of the consolidation of TAG Potsdam and TAG Wohnen and the fair value remeasurement of the real estate holdings.

Net asset value (NAV)

Net asset value, the international standard for comparing real estate companies calculated in accordance with the EPRA standards, increased from EUR 8.72 per share on 31 December 2011 to EUR 9.96 per share. EPRA-NAV is calculated on the basis of equity before non-controlling interests as shown on the face of the balance sheet, adjusted for derivatives and deferred income taxes, divided by the number of shares as of the reporting date.

EPRA NAV – TAG Group		12/31/2012	12/31/2011
Equity before non-controlling interests		1,136,177	547,392
Correction for derivatives	Receivables from derivatives	-8,850	-489
	Liabilities from derivates	53,164	39,601
Correction for deferred taxes	Deferred income tax assets	-1,502	-118
	Deferred income tax labilities	123,359	66,884
EPRA NAV		**1,302,348**	**653,270**
Number of shares		**130,737,996**	**74,905,174**
NAV per share		**9.96**	**8.72**

Capital spending

TAG completed successful investments again in the year under review. An increase of EUR 1,623.5 m arose as a result of acquisitions such as TAG Potsdam and TAG Wohnen. In addition, portfolios worth around EUR 96 m were acquired in Eberswalde, Chemnitz and Erfurt. These acquisitions enlarged the Group's own residential real estate portfolio and are thus strengthening its core business on a sustained basis.

As well as this, TAG invested a sum of EUR 38.2 m in its real estate portfolio in 2012, equivalent to an increase of 9 % to EUR 11.03 per square metre, up from EUR 10.10 in the previous year.

Financial condition

Equity

The equity ratio before non-controlling interests rose in 2012 to just under 30 %, compared with just under 27 % in the previous year. With this equity ratio, the TAG Group remains solidly funded. In 2011, cash and non-cash equity issues were executed to fund further acquisition activity, causing the number of shares outstanding to rise from 74.9 m on 31 December 2011 to 130.7 m on 31 December 2012. All told, the new issues resulted in an increase of around EUR 408.7 m in equity.

Funding

In the year under review, bank borrowings climbed by EUR 1,025 m to EUR 2,215 m. This was chiefly due to the consolidation of TAG Potsdam and TAG Wohnen, whose bank borrowings were valued at EUR 767 m and EUR 269 m, respectively, as of 31 December 2012. Bank borrowings due for repayment in more than one year were valued at EUR 1,754 m as of the end of the year, compared with EUR 1,017 m at the end of the previous year. Current bank borrowings stood at EUR 460 m, up from EUR 173 m as of 31 December 2011. The average interest rate on bank borrowings was around 4.2 % allowing for the hedges utilised.

Funding structure	12/31/2012	12/31/2011
Bank borrowings in TEUR	2,216,047	1,189,393
Net borrowing costs in TEUR	-86,738	-62,062
Average interest rate in %	4.23	4.37
Average interest maturity	9.2	4.6

TAG issued convertible bonds in 2010 and 2012 to finance its continued growth. These had a value of EUR 175 m as of 31 December 2012 (previous year: EUR 108 m). Of this, an amount of EUR 85 m was issued in 2012. The convertible bonds issued by Colonia are valued at EUR 3 m. The coupons on all convertible bonds range from 5.5 % to 6.5 %.

Cash and cash equivalents were valued at just under EUR 56 m as of 31 December 2012, up from EUR 32 m as of 31 December 2011.

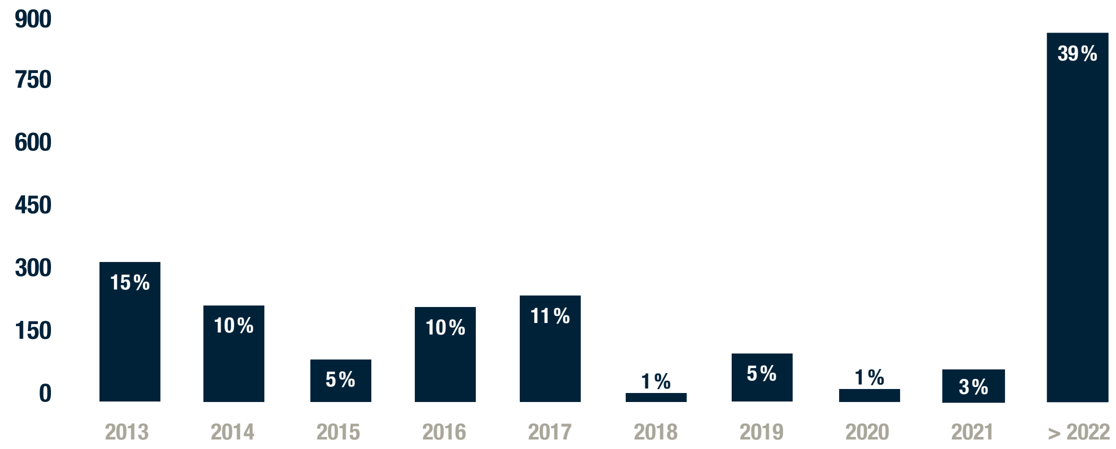
TAG assumes that all loans expiring in 2013 will be renewed as planned. TAG does not have any foreign-currency finance. In expectation of lower market interest rates, we assume that the Company's overall borrowing costs will drop in the long term. Among other things, this is due to the fact that the interest on the loans which are about to expire is substantially greater than current market levels in some cases.

TAG loan maturities (nominal amounts) in EUR ms

Breakdown by remaining period	EUR mill. 2012	EUR mill. 2011
2012	0	156
2013	326	247
2014	225	180
2015	99	56
2016	221	216
2017	248	143
2018	20	15
2019	112	0
2020	30	34
2021	73	142
2022 and beyond	861	0
Total	**2,215**	**1,189**

Financial structure

TAG Credit periods in EUR m



General statement on economic situation

TAG's total assets rose by around 86 % as a result of the acquisitions executed in 2012, with the carrying amounts of the investment properties also increasing sharply by around 83 %. The Group's results of operations are positive also thanks to the additions to its real estate portfolio and the foundations are in place for a further improvement in the future thanks to its enlarged core business.

Equity before non-controlling interests increased sharply by 108 % to EUR 1,136 m. In addition to two cash equity issues of around EUR 397.1 m, a non-cash equity issue of some EUR 7.0 m and the conversion of convertible bonds worth around EUR 12.5 m, this was primarily due to the consolidated earnings of EUR 177.9 m.

At around 30 %, the equity ratio before non-controlling interests exceeded the previous year's figure of 27 % and remains at a high level by sector standards. TAG has sufficient liquidity and is solidly financed.

Proposed dividend per share

In view of these results, TAG is able to propose a dividend for 2012. In determining the amount of the dividend, the Management Board and Supervisory Board have been guided by the Group's FFO. Accordingly, the shareholders will be asked to approve a dividend of EUR 32.7 m or EUR 0.25 per share.

e) Employees

The number of employees in the TAG Group as a whole rose significantly due to the strong growth in the year under review. Whereas TAG had had 281 employees – excluding trainees, janitors and cleaning staff – at the end of 2011, this figure climbed to a total of 508 (excluding trainees, janitors and cleaning staff) as of 31 December 2012. Part of the workforce is still employed by subsidiaries. However, as part of the integration of the newly acquired companies, as many employees as possible are to be transferred to TAG Immobilien AG. The breakdown is as follows:

	Employees as of 31 December 2012	Employees as of 31 December 2011
TAG Immobilien AG	179	134
TAG WG Thüringen mbH	61	–
TAG Wohnen GmbH	63	–
TAG Asset Management GmbH	52	55
TAG Immobilien Service GmbH	52	–
TAG WG Berlin-Brandenburg mbH	24	–
TAG WG Sachsen mbH	20	–
TAG Potsdam-Immobilien GmbH	19	–
TBG	12	10
Bau-Verein Hausverwaltungs GmbH	11	10
TAG WG Sachsen-Anhalt mbH	6	–
TAG WG Mecklenburg-Vorpommern mbH	5	–
TAG Immobilien Wohn Invest GmbH	2	–
Aufbaugesellschaft Bayern GmbH	2	–
Colonia Real Estate AG	–	6
Polares	–	66
TAG Group	**508**	**281**

TAG has already integrated numerous employees of TAG Potsdam-Immobilien GmbH. Further employees of the subsidiaries of TAG Potsdam are also to be offered transfer contracts in 2013.

The employees will not sustain any disadvantages as a result of the transfer of the employment contracts. In the contracts for the acquisition of the new companies, TAG has undertaken to honour the entitlements which have previously accrued to staff.

As the TAG Group's business success is influenced by the performance of each employee, key importance is attached to further training and upskilling. This is achieved by numerous training measures, which are increasingly growing in importance not least of all due to heightened competition for qualified staff in the wake of demographic trends.

This also applies to the development of young potentials. All told, the TAG Group currently has 36 trainees. Four employees are enrolled in a dual study course in business management majoring in real estate business. TAG will be seeking to offer these future qualified real estate experts continued employment at various of its offices. It is pursuing a similar goal with a partnership and sponsorship contract which it has entered into with the Technical University of Darmstadt.

In addition to the aforementioned employees, TAG employs an average of 60 (prior year: 27) caretakers.

III. Material events occurring after the balance sheet date

At the end of 2012, TAG Immobilien AG sold three residential packages located in Berlin comprising 1,400 dwellings for a total price of EUR 87 m. The purchase price was paid and the rights and obligations transferred at the end of January 2013. On the basis of the IFRS carrying amounts, this transaction yielded a profit before tax of around EUR 12 m. The new owner is Union Investment Institutional Property GmbH, which acquired the residential portfolio for one of its special-purpose real estate funds.

The binding offer submitted to Kreissparkasse Miesbach-Tegernsee in 2010 for the purchase of the properties located in Tegernsee as well as the shares in Tegernsee-Bahnbetriebsgesellschaft was accepted within the agreed period. The properties and shares in the company were acquired by the town of Tegernsee, the municipality of Gmund and the shire of Miesbach, which will be able to harness the regional development potential arising from these assets. With the execution of the contract at the end of February 2013, TAG has now fully abandoned its railway and historical business activities in Tegernsee and, moving forward, will continue to concentrate on residential real estate.

IV. Forecast, opportunities and risk report

Forecast

Looking ahead over the next few years, the global economy is set to perform very disparagraphtely again from region to region, accompanied by varying degrees of uncertainty. The developing and emerging markets are expected to continue growing at robust, albeit slower rates, while europe will again paint a mixed picture. The european countries most severely afflicted by the Euro and sovereign debt crisis are seeing severe signs of recession, with only a small number of Western industrialised nations able to benefit from marginal growth. Following the downswing in the final quarter of 2012 (minus 0.6 %), the outlook for Germany is now mildly positive again. Specifically, exports are expected to continue providing crucial support in 2013, with gross domestic product likely to grow by around 0.5 % according to the German federal government. The Bundesbank also projects minimal growth of 0.4 % for the German economy next year. Despite this muted outlook, Germany should retain its strong competitive position.

As TAG operates solely in Germany, which remains a stable market for real estate and attractive real estate investments, it assumes that it will be able to benefit from the slight growth in the economy in 2013. TAG will be making use of the opportunities arising in the German real estate market to enhance the value of its portfolio within the scope of its business strategy.

The Group's real estate assets are situated in choice locations characterised by positive economic and development data such as the Thuringia/Saxony region, Greater Berlin and Hamburg as well as Salzgitter and North Rhine-Westphalia. These locations are for the most part characterised by a good infrastructure and concentrated economic and purchasing power, prompting TAG to assume even despite the current economic difficulties that rentals – particularly in the residential real estate segment – will rise in these regions over the next few years, something which is indicated by current figures.

This year, the focus in the residential real estate segment will again be on efforts to continue reducing vacancies, integrating the companies/portfolios which have been acquired and additionally optimising fixed costs. This will be joined by activities to strengthen tenant bonding by means of continuous service enhancements and customer proximity. TAG assumes that successful implementation of these activities and moderate strategic capital spending will have a favourable effect on revenues and earnings and also unleash potential for enhancing the value of its real estate. In addition, it wants to make use of further opportunities in the residential real estate market for achieving additional growth provided that they satisfy the defined acquisition criteria, such as the ability to increase net asset value and generate a positive Cashflow. To this end, TAG will be concentrating on acquisitions in regions in which it is already present to ensure that property and asset management of the newly acquired real estate can be efficiently handled by the closest TAG office using the existing infrastructure.

In view of the fact that expansion of the commercial real estate portfolio no longer plays a central role in the Group strategy, TAG has decided to scale back these activities step by step. As it is, the current book value of the commercial real estate portfolio accounts for only around 10% of the entire real estate assets as of 31 December 2012.

TAG Potsdam Immobilien GmbH and the other companies and portfolios acquired were integrated and consolidated within the Group in the course of the year. Alongside these integration and restructuring processes, lean and efficient structures were successfully implemented throughout the entire TAG Group. After being acquired at the end of the year, TAG Wohnen GmbH is now also to be integrated within the TAG Group in the same manner in the near future.

Outlook and objectives

With the acquisitions executed in 2012 and the resultant extensions to the portfolio alongside the integration of the new real estate and reduction in vacancies to 9.9%, TAG successfully continued to pursue its growth-oriented strategy in the year under review. 2012 was a year of growth, during which TAG executed two major acquisitions: firstly, TAG Potsdam in March 2012 and, secondly, TAG Wohnen at the end of 2012. With these two transactions, the TAG Group has evolved into one of the largest listed companies in the German residential real estate segment. At the end of the year, its real estate portfolio comprised 69,000 units. The resultant consolidation of the new acquisitions caused the TAG Group's total assets to almost double in 2012. At the same time, the value of the investment properties and also the bank liabilities increased more or less proportionately.

Given the strong operating earnings and successful and still ongoing integration of the major new acquisitions, with TAG Potsdam contributing over 25,000 and TAG Wohnen around 11,300 dwellings, TAG forecasts total rental income of roughly EUR 254 m and FFO of some EUR 68 m for 2013. Similarly, interest levels within the Group are to be lowered in connection with new funding negotiations.

This year's business performance demonstrates that TAG is well on the way towards generating sustained FFO from its portfolios. Moving forward, this is to be reflected in higher dividend payouts. The combination of rising rentals, declining vacancies and synergistic effects from the integration of the new acquisitions is to continue to drive strong organic growth in TAG's FFO.

Opportunities and risk report

Risk management

TAG has implemented a central risk management system to identify, measure, control and monitor all of the material risks to which the Group is exposed. This risk management system reduces potential risks, safeguards the Group's assets and supports its continued successful performance. All organisational units within TAG are obliged to observe the requirements of risk management. In the year under review, the Company's internal organisational structures, particularly the risk management and compliance system, underwent ongoing improvements and updating. In some cases, it was possible to make use of existing risk management and compliance structures in the integration of newly acquired companies and real estate portfolios. Even so, updating and enhancing these systems is seen as an ongoing management task to which top priority is being assigned.

The Management Board of TAG is responsible for implementing a consistent and appropriate risk management process. As in previous years, a risk early detection system is utilised in accordance with Section 91 (2) of the German Stock Corporation Act. In order to identify risks, TAG observes general conditions and trends in the financial services and real estate sectors. As well as this, internal processes are monitored constantly. Risk identification is an ongoing task on account of the constant changes in conditions and requirements and is integrated in operational processes. As a matter of principle, all organisational units are required to identify risks likely to arise from present or future activity. Regular meetings, controlling discussions, department meetings, one-on-ones and queries also help to identify risks.

Group controlling supports the Management Board and the organisational units required to submit reports on a methodical basis by means of recurring internal report controls. Risks are recorded and evaluated regularly, with the countermeasures taken reviewed and updated. Moreover, the Management Board is notified immediately of all material risks and provided with the necessary information to take the requisite steps with minimum delay.

TAG is currently establishing an internal auditing department which will be responsible for performing systematic checks of risk management and compliance with the internal control system. As an independent unit, it is to regularly review business processes, installed systems and the checks implemented by the Company.

Description of individual risks

The head of each organisational unit is responsible for assessing risks. Each risk must be evaluated in terms of its potential loss and its probability of occurrence so as to identify the extent of the TAG Group's exposure. Individual risks must be evaluated in terms of their interdependencies with other risks.

Economic and sector risks

The German real estate market is exposed to macroeconomic trends and demand for real estate in Germany. Demand for real estate is also influenced by demographic trends, the job market, private debt levels and real incomes as well as the activities of international investors in Germany. One key factor is the tax environment, i.e. tax-policy instruments such as periods of use, retention periods for private sales, and taxes on inheritances and purchases of real estate.

TAG is subject to intense competition. When acquiring real estate portfolios, it competes with real estate companies, funds and other institutional investors, some of which have considerable financial resources or other strategic advantages at their disposal. This means that there is a risk of TAG being unable to assert itself in the face of this competition or to sufficiently set itself apart from the competition.

Changes on the supply and demand side of the rental markets directly impact actual rental income and vacancies and, hence, future market expectations and ultimately also feed through to real estate prices. TAG sees little risk of any deterioration in the fundamental appeal of real estate as an asset class. Various studies and press reports suggest that the particular risk/reward profile of real estate compared with other asset classes, the combination of security (inherent value of a tangible asset) and regular rental income will ensure that real estate continues to play a greater role in the asset portfolios of institutional investors.

The rental market is also heavily dependent on economic conditions in Germany. In particular, changes in underlying economic conditions may trigger an increase in unemployment, which may result in financial curtailments on the part of a sizeable number of lessees, resulting in flat or even declining rentals as well as vacancies, thus placing a strain on TAG's vacancy costs.

In contrast to rural locations, the dynamic metropolitan regions and selected other locations which form the focus of TAG's strategy are not likely to be materially affected by demographic factors, meaning that these risks will remain limited for TAG. Even so, it should be noted that TAG's business activities are confined to individual regions within Germany. This clustering effect causes heightened exposure to regional market trends and also expansion risks.

Regulatory and political risks

TAG is exposed to general risks arising from changes in the regulatory or legislative environment. Such changes may affect general tenancy, construction, employment, environmental or tax law. As its activities are confined to Germany and such changes do not normally occur without warning or unexpectedly, there is generally sufficient time to adjust.

Payment risks

Risks arising from corporate strategy

One of the determinants of TAG's success is its ability to successfully integrate and manage past and future residential real estate packages and to particularly make the necessary adjustments to corporate structures. Moreover, when real estate or portfolios are acquired, there is a risk of TAG miscalculating the value of the assets and paying an overly high price. At the same time, a challenge arises in connection with efforts to secure attractive prices when assets are to be sold as part of specific measures to reduce existing holdings.

As the real estate transaction market performed very well in Germany in 2012 and the outlook for 2013 is reasonably favourable, opportunities for continued growth in the German real estate market should arise for TAG. Preparagraphtions ahead of acquisition decisions include permanent monitoring of trends in the relevant real estate markets, evaluation of the regional impact of structural economic and demographic trends and an intense analysis of assets, locations and tenants. Potential transactions undergo a thorough due-diligence process to evaluate earnings potential, synergistic effects and rental and cost risks. These factors are assessed in the same way for TAG's entire real estate portfolio as well as potential portfolio sales.

Rental risks

Substantial vacancy levels and the loss of or reduction in rental income may lead to a loss of income and additionally cause costs which it is not possible to pass onto the tenants.

In the residential segment, a standard credit check is performed on potential new tenants. In addition, reducing vacancies by means of active asset and property management is one of TAG's strategic goals, thus lowering vacancy costs and also harnessing available rental potential. Active portfolio management combined with ongoing lessee relationship management ensures long-term leases. At the same time, successful receivables management safeguards continuous payment receipts and can help to avert defaults with minimum delay. Although there is an individual risk of default, we consider it to be marginal in its entirety.

In renting real estate, TAG is subject to various contractual, governmental and statutory restrictions curtailing its scope for business decisions, e.g. individual restrictions tied to the receipt of government funding or agreements limiting the use of individual items of real estate.

A large part of revenues in the commercial real estate segment continues to be generated with Siemens AG in Berlin, Mannheim, Cologne and Munich. Rental contracts have different durations and Siemens AG is considered to be an investment-grade premium tenant. If the rental contracts are not renewed or are terminated, this could leave negative traces on TAG Gewerbe's net assets and results of operations. TAG attempts to avoid dependence on a small number of large tenants (clustering) and seeks long-term rental contracts with companies characterised by strong credit worthiness and a steady and low-risk business model.

The following table sets out the terms of the commercial rental contracts.

Period	Monthly rental in EUR	Ratio in %
Less than one year	335,869	14.95
2 – 4 years	775,969	34.54
5 – 10 years	901,049	40.12
More than 10 years	233,396	10.39
Total	**2,246,283**	**100**

Portfolio measurement risks

The fair value of the real estate reported in the consolidated financial statements is based on calculations performed at least once a year by independent and acknowledged valuers. These calculations are dependent on various factors, some of which are objective, such as economic conditions or interest levels, as well as other exogenous factors such as rental levels and vacancies. In addition, the valuer takes account of discretionary qualitative factors such as the quality of the micro-location and the property as well as the achievable rental income. This may result in changes in the fair values reported, resulting in high earnings volatility. However, it does not have any direct impact on TAG's liquidity.

Miscellaneous business risks

TAG makes extensive use of IT systems in its business operations. Any impairments in these IT systems may result in interruptions to its business operations. We restrict risks impairing the availability, reliability and efficiency of our IT systems by means of regularly updated firewall and antivirus programs, ongoing monitoring of data transmission, the use of an independent network as well as frequent data and reproducibility of business data.

The TAG Group requires qualified specialists and executives to reach its strategic and operating goals In order to avert the risk of a shortage of qualified employees, TAG has been training school leavers as real estate management assistants for many years now with the aim of offering them permanent employment contracts upon the completion of their traineeships. Staff training and skills development at all levels of the Group ensure that employees have the crucial expertise required.

TAG currently still utilises a small number of external service providers for the management of its real estate and is therefore dependent upon the provision of external service providers. These contracts are to be discontinued one by one and replaced by internal services.

Financial risks

TAG's business activities expose it to various risks of a financial nature, particularly liquidity and interest-rate risks. In accordance with the guidelines issued by the Company's managing bodies, risk management is based in the central finance department. Potential default risks in connection with the investment of the Group's liquidity, derivative financial instruments and other financial transactions are minimised by monitoring the counterparty risk and selecting investment-grade financial institutions.

Liquidity risks
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 capital 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, a loan of around EUR 1,393 m (previous year: EUR 923 m) has been raised within the Group for which financial covenants specifying certain capital service ratios and equity / debt ratios have been agreed. If any of these covenants are breached, premature loan repayments may be necessary. As of 31 December 2012, the financial covenants stipulated in loan contracts were complied with. Similarly, the convertible bonds are subject to certain terms and conditions which, if breached, constitute a liquidity risk. In the event of any breach of the terms of issue, e.g. a change of control, these convertible bonds - like the loans referred to in the section entitled "Disclosures in accordance with Section 315 (4) of the German Commercial Code - Conditions for a change of control following a take-over offer" - may be subject to a right of premature termination.

In 2013, the "Quokka" finance worth a total of EUR 214.2 m 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
The Group's activities primarily expose it to risks arising from changes in interest rates. It uses derivative financial instruments to the extent necessary for managing existing interest risks. These chiefly include interest swaps to minimise exposure in the event of rising interest rates. The TAG Group uses derivatives based on hedged assets to actively manage and reduce interest risks.

As of 31 December 2012, Group companies had interest derivatives (mainly payer swaps of roughly EUR 687.8 m (previous year: EUR 671.9 m). Payer swaps constitute synthetic fixed-rate agreements in connection with a variable underlying. In this way, the Group 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.

The Group'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.

Currency risks
There are no foreign-currency transactions or risks as nearly all business is conducted in EURs. A small volume of business is denominated in Swiss francs. The risk is considered to be small.

Other risks

Legal risks
TAG is a party to various legal disputes, the outcomes of which are uncertain. Among other things, these entail disputes concerning construction faults, rental matters and administrative processes.

Legal risks have arisen in connection with the Company's former building activities, liability under legacy claims, environmental contamination or hazards arising from construction materials as well as guarantee claims under the sale of real estate, which may exceed the corresponding rights of recourse available to the Group. Claims are still being asserted against TAG Asset Management in connection with lost tax advantages, compensation and, in individual cases, the rescission of contracts entered into many years ago. These disputes must be addressed against the backdrop of pro-consumer/buyer court decisions. TAG has set aside reasonable provisions to cover risks in connection with legal disputes, claims for damages or guarantee claims.

The Company is exposed to tax risks as external tax audits may result in the imposition of tax backpayments. In addition, the utilisation of unused tax losses resulting from past or future corporate actions or stock purchases may be jeopardised. Moreover, certain requirements with respect to the equity resources of subsidiaries must be observed to ensure that interest expense remains fully tax-deductible ("interest barrier").

In the past, the Company has acquired less than 95 % of the shares in various real estate companies. The remaining shares were acquired by companies which for the purposes of the Property Transfer Tax Act are not part of the TAG Group. Minority interests of GIMAG AG, Switzerland, of which 94 % is owned by Colonia, are held within the Colonia Real Estate subgroup. In an ongoing external tax audit, the tax authorities questioned and criticised the structure in this subgroup. The Company has lodged an appeal against the tax authorities' preliminary findings, arguing that the investments held by GIMAG cannot be allocated to the Group. If the view expressed by the tax auditors is upheld by the tax court, this could result in an additional tax risk of around EUR 18 m. We consider the probability of this risk to be minimal at the moment.

The IFRS consolidated financial statements prepared by Colonia Real Estate AG as of 31 December 2010 were reviewed by Deutsche Prüfstelle für Rechnungslegung e. V. ("DPR") in accordance with Section 342b (2) Sentence 3 No. 3 of the German Commercial Code in a routine random sample audit. The proceedings were concluded in 2012 and no errors found.

Opportunities of future development

TAG Immobilien AG further strengthened and extended its market position last year. These different growth processes provided employees and management with valuable experience, which will be put to good use in future acquisition strategies. As a result of the increase in the number of units, the real estate volume, EPRA net asset value (EPRA-NAV), total assets and earnings have risen. At the same time, however, enterprise value measured in terms of market capitalisation has continued to grow as a result of several corporate actions and has thus almost doubled. TAG was admitted to the MDAX in September 2012 and is well positioned to successfully continue its business and growth strategy in 2013 as well.

With its decentralised Group structure with headquarters in Hamburg and branches in Berlin, Düsseldorf, Leipzig, Salzgitter and Gera, it is possible for TAG to identify market trends at an early stage and to address them more quickly than its competitors are able to.

The TAG Group's portfolio is located in various regions such as Berlin, Hamburg, Leipzig / Saxony, Salzgitter, Düsseldorf and Gera, where growth potential continues to be found and can be harnessed. Good diversification of apartment sizes and micro-locations within the regions as well as modern and efficient tenant relationship management ensure that returns and Cashflows are generated consistently from the portfolio. Moreover, the TAG Group's core skills entail active asset and property management, which in the past has made a crucial contribution to reducing vacancies, boosting rental income and lowering vacancy-related costs. The basis for further organic value growth is also derived from the reduction in vacancies in the following years and the harnessing of potential for enhancing rentals within the portfolio.

In addition to implementing its growth strategy and improving its position in the capital market, TAG has a solid funding structure. Average interest stood at 4.2 % in 2012 with an average loan tenor of 9 years. The loan-to-value ratio, which is the indicator of a company's gearing, came to 59 %, while the equity ratio before non-controlling interests stood at 30 %. TAG's business model – successful implementation of its growth strategy coupled with active asset management – is acknowledged by banks.

Taken together, all these factors form the basis for successful implementation of the Group's strategy and, looking forward, will continue to ensure that TAG is able to raise the necessary funding in the capital market as well as from banks.

Overall view

Despite the Group's performance in the period under review and the strong growth in its real estate portfolio and debt position, there has not been any fundamental change in the overall risk situation compared with the previous year. Using the monitoring system described above and the instruments available to it, TAG Immobilien AG has taken the necessary measures to identify and address risks to its going-concern status at an early stage. At this stage, management is aware of no risks liable to impact the Company's going-concern status. We are convinced that we will continue to be able to make use of the opportunities and challenges arising in the future without exposing ourselves to undue risk.

V. Material characteristics of the internal control and risk management system of relevance for Group accounting

The structure of TAG's internal control system of relevance for accounting is largely derived from the central organisation of its accounting system. A large part of the Group's financial statements are prepared by its own employees at the Group headquarters in Hamburg. Even though parts of accounting activities are performed locally, e.g. by the companies acquired in 2012 such as TAG Potsdam and TAG Wohnen, payroll accounting by external service providers and rental accounting by the external and internal facility management company, ultimate responsibility is held by the accounting department.

All the figures in the financial statements of the individual companies as well as the sub-group financial statements are checked by Financial Controlling and reconciled with the budgets. The main findings derived from these figures are submitted to the Management Board in a monthly report. The figures for the financial year are reviewed by external independent auditors. During the statutory audit, the Group's internal control system of relevance for accounting, including the IT system, is also examined as far as this is necessary for the purpose of the audit. The statutory auditors report to the Management Board and the Supervisory Board on any material shortcomings and scope for improvement.

The accounts department primarily uses two ERP software packages, both of which have been certified by independent auditors, to prepare the financial statements. In 2012, these were "RELion" and "DKB@win". The support of external service providers is utilised to prepare the internal and annual financial statements. Thus, independent valuers prepare reports on the fair value of our real estate. The fair value of interest swaps is calculated with the assistance of external experts. Risks arising from interest swaps are monitored on an ongoing basis. The efficiency of interests swaps relative to the hedged loans is determined on a quarterly basis.

VI. Disclosures in accordance with Section 315 (4) of the German Commercial Code

Share capital

The Company's share capital stands at EUR 130,737,996.00 as of 31 December 2012, up from EUR 74,905,174.00 as of 31 December 2011 and is divided into 130,737,996 shares. The same rights are attached to all shares. Each share accounts for an amount of EUR 1.00 of the share capital. The same rights are attached to all shares. There is one vote per share; dividend entitlement is determined by the number of shares held.

Authorisation of the Management Board to issue of new shares

Authorised Capital 2012 / I

In a resolution passed at the annual general meeting held on 14 June 2012, the shareholders authorised the Management Board subject to the Supervisory Board's approval to increase the Company's share capital by a total amount of no more than EUR 40 m by issuing up to 40,000,000 no par value ordinary shares on a cash and / or non-cash basis once or on repeated occasions on or before 13 June 2017. The Management Board made use of this authorisation in a resolution passed on 19 September 2012 and issued new shares worth EUR 1,809,693.00 on a non-cash basis. The new shares were entered in the commercial register on 15 November 2012. Moreover, in a resolution dated 19 November 2012, authorisation was granted for the issue of new capital of up to EUR 30 m on a cash basis. This was entered in the commercial register on 11 December 2012. After this utilisation, authorised capital 2012 / I of around EUR 8,190,307.00 is thus still available.

The authorised capital 2011 / I and 2011 / II approved at the annual general meeting in 2011 had previously been utilised in full and is therefore no longer available.

Contingent capital 2009 / I

At the annual general meeting held on 27 August 2009, the shareholders authorised the Management Board subject to the Supervisory Board's approval to issue convertible and / or option bonds on or before 26 August 2014. The Management Board also made use of this authorisation with the Supervisory Board's approval in resolutions passed on 17 December 2009 and 15 April 2010 and issued two convertible bonds of EUR 12.5 m and EUR 30 m respectively. Accordingly, the authorisation of 27 August 2009 was utilised in full. The bearers or creditors of these convertible and / or option bonds are granted conversion or option rights on new shares in TAG with a proportionate share in its share capital of up to EUR 8.2 m in accordance with the terms and conditions determined. Following the exercise of conversion rights under the convertible bonds issued in December 2009 and April 2010, the Company's share capital increased by 2,505,304 shares, while contingent capital 2009 / I contracted to EUR 6,099,947.00 in the year under review.

Contingent capital 2010/I

At the annual general meetings held on 25 June 2010 and on 14 June 2012, the shareholders additionally authorised the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds of an amount of up to EUR 18 m on or before 24 June 2015. The bearers or creditors of the convertible and/or option bonds issued on the basis of this authorisation are granted conversion and/or option rights on new shares in TAG with a proportionate share in its share capital of up to EUR 9.8 m in accordance with the terms and conditions determined. In resolutions passed by the Management Board and approved by the Supervisory Board on 14 October 2010 and 15 November 2010, use was also made of this authorisation and a convertible bond in a nominal value of EUR 66.6 m issued. The contingent capital 2010/I underlying this convertible bond would thus increase the share capital by up to EUR 9.8 m on a contingent basis. This means that the authorisation has been largely utilised. No conversion rights were exercised under this convertible bond in 2012.

Contingent capital 2011/I

At the annual general meeting held on 26 August 2011, the shareholders additionally authorised the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds with a total nominal amount of up to EUR 150.0 m on or before 25 August 2016 and to grant the bearers or creditors of such bonds conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to EUR 15.0 m in accordance with the terms and conditions determined. In connection with the contingent capital which had been approved in the previous year, the shareholders passed a resolution at the annual general meeting on 14 June 2012 providing once more for the possibility for excluding the shareholders' preemptive subscription rights upon this convertible bond being issued in accordance with the shareholders' resolution. Finally, in resolutions passed by the Management Board and approved by the Supervisory Board on 25 June 2012, use was made of this authorisation and a convertible bond in a nominal value of EUR 85.3 m issued. The holders of these convertible bonds have not yet exercised any conversion rights. A volume of around 9,700,000 shares has been reserved for the convertible bond issued on 25 June 2012. Accordingly, the unused contingent capital stands at around 5,300,000 shares.

Rules on amendments to the bylaws and on the appointment and dismissal of the Management Board

The scope of the activities which the Company may perform is defined in its bylaws. These bylaws may only be modified through a resolution passed by the shareholders in accordance with Section 133 of the German Stock Corporation Act. In the absence of any mandatory statutory provisions, the shareholders pass their resolutions in accordance with the bylaws with a simple majority of the votes cast and, where applicable, a simple majority of the capital represented. A majority of at least 75% of the share capital represented is required for any amendment to the Company's purpose in accordance with Section 179 (2) of the German Stock Corporation Act.

TAG is managed and represented by its Management Board. The Management Board comprises at least two persons who are appointed by the Supervisory Board for a period of no more than five years in accordance with Section 84 of the German Stock Corporation Act. A repeated appointment or renewal of the period of office for a further maximum period of five years is permissible.

The Supervisory Board names one of the members of the Management Board as Chairman. The Supervisory Board may dismiss the members of the Management Board and revoke the office of chairman of the Management Board for good cause, e.g. in the case of a material breach of duty, inability to engage in proper management or a resolution passed by the shareholders providing for a vote of no confidence.

Authorisation to buy back own shares

In accordance with a resolution passed at the annual general meeting on 25 June 2010, the Company is authorised to buy treasury stock in an amount of up to 10 % of its share capital of EUR 34,984,546.00, i.e. up to 3,498,454 shares, on or before 24 June 2015. The authorisation may not be utilised by the Company to trade in treasury stock. The Company has so far not made any use of this authorisation.

Conditions for a change of control following a take-over offer

TAG has two credit facilities for a total of up to EUR 20 m which require the bank's approval or may lead to the loans being terminated in the event of a change of shareholder. The specific provisions vary from case to case. In addition, the general terms for loans for the subsidiaries also include change-of-control provisions, although these primarily only apply at the level of the subsidiaries and in the event of any change in their shareholders. However, the possibility of the lender invoking change-of-control rights in the event of a change in the indirect shareholder cannot be excluded.

TAG issued two convertible bonds in 2010, a EUR 30 m bond in May 2010 maturing in May 2015, and a EUR 66.6 m bond in December 2010 maturing in December 2015. In June 2012, a third convertible bond for EUR 85.3 m was issued and expires in June 2019. The conditions for all three convertible bonds provide for an early right of cancellation in the event of a change of control, which is defined as a takeover of more than 30 % of the voting rights in TAG.

In addition, the members of the Management Board have a special right of termination in the event of any change in TAG's current shareholder structure. If this special right of termination is utilised, they are entitled to claim a settlement based on the remaining period of service contract as of the date of termination. Further details can be found in the remuneration report, which forms part of the corporate governance report.

Equity investments exceeding 10 % of the voting rights

The Company is aware of two direct holdings of more than 10 % of its voting rights as of the end of 2012. One of these is held by Ruffer LLP, London, United Kingdom, and stands at 15 % as of the reporting date. The other one, which stands at 10 %, is held by Flossbach von Storch Invest S.A., Luxembourg.

VII. Remuneration report

Report on the Company's remuneration system in accordance with Section 315 (2) No. 4 of the German Commercial Code (remuneration report)

In accordance with the provisions of the Act on Appropriateness of Management Board Remuneration, the members of the Management Board receive a fixed and a variable remuneration component. This system was applied for the first time for 2010. The Supervisory Board calculates the variable remuneration component after the annual financial statements have been approved. In doing so, it takes account of the tasks of the Management Board as a whole and of the individual members, their personal performance, the Group's business performance in Germany and its success and outlook. The variable components of the Management Board remuneration are calculated for the previous year on the basis of the following criteria, which are given an equal weighting:

- Performance of the share price in the year
- Performance of the net asset value of the share in the year
- Earnings before tax (EBT) as recorded in the IFRS consolidated financial statements for the year net of any fair value remeasurement gains or losses on the investment properties

These figures are calculated relative to the figures for the previous year as of 31 December. In the event of any extraordinary development in the individual criteria, the Supervisory Board may change their individual weighting. The variable remuneration is paid in instalments, i.e. over a period of three years, and may be corrected if there is any deterioration in the Company's performance. This ensures that allowance is made for long-term business performance. Upon the ordinary termination of office on the part of any member of the Management Board, such member receives the outstanding part of the variable remuneration for which entitlement has accrued. The variable remuneration has been capped at TEUR 125 respectively TEUR 250 or, in the case of the chairman of the Management Board (CEO), at TEUR 500. In exceptional cases, the Supervisory Board may pass other resolutions to allow for special circumstances and/or the special performance of the individual member of the Management Board.

No provision has been made for stock options or similar variable remuneration arrangements. The members of TAG's Management Board are not entitled to claim any additional bonuses or duplicate remuneration if they simultaneously serve on the Management Board of Bau-Verein or Colonia Real Estate AG. The variable remuneration is determined solely at the level of and charged to TAG.

In the event of any change of control, i.e. if a single shareholder or several shareholders acting jointly acquire a majority of the voting rights or a controlling influence over TAG, all members of the Management Board are entitled to terminate their service contract subject to advance notice of six months (special right of termination). If this special right of termination is exercised, the Company undertakes to pay a gross settlement amount on the date on which the Company is left equalling the annual gross salary provided that the service contract still has a remaining period of at least 24 months as of the date of termination. In the event of a shorter remaining period, the member of the Management Board is entitled to claim a gross settlement equalling the gross salary which he or she would have earned in the remaining term of the service contract.

The service contracts with the members of the Management Board do not provide for any pension entitlement to accrue. In the event of the premature termination of the service contract for any other reason, the contracts entered into with Dr. Vaagt, Ms Hoyer and Mr Griesemann state that the compensation payable to them is to be capped at a value equalling two annual instalments and is not to exceed the amount owing over the remaining period of the contract. The members of the Management Board receive further benefits as other remuneration, some of which are classified as non-cash benefits and are taxed accordingly. In particular, these include a Bahn-Card (for discounted rail travel), accident and liability insurance and refunds of travel expenses. In addition, Mr Elgeti receives the premium for a life insurance policy. Any management and supervisory board mandates for companies within the Group are taken on free of charge. All ancillary activities are subject to approval. The non-performance-tied remuneration takes the form of a fixed annual salary paid out in equal monthly instalments. Ms Claudia Hoyer, Mr Georg Griesemann and Dr. Vaagt each use a company car, which in part constitutes a non-cash benefit and is taxed accordingly. Please refer to the notes to the consolidated financial statements for details of the remuneration paid to the members of the Management Board.

Corporate Governance Statement in accordance with § 289a HGB

The Corporate Governance Statement in accordance with the provisions of § 289 HGB is posted on the TAG website at www.tag-ag.com/investor-relations under Corporate Governance Statement.

Hamburg, 28 March 2013

Rolf Elgeti	**Georg Griesemann**	**Claudia Hoyer**	**Dr. Harboe Vaagt**
CEO	**CFO**	**COO**	**CLO**

Consolidated balance sheet

Assets in TEUR	**Notes**	**12/31/2012**	**12/31/2011**
Non-current assets			
Investment properties	(1)	3,455,667	1,889,860
Intangible assets	(2)	2,045	7,320
Property, plant and equipment	(3)	10,664	12,010
Investments in associates	(4)	68	61
Other financial assets	(5)	25,514	12,150
Deferred taxes	(6)	1,502	118
		3,495,460	**1,921,519**
Current assets			
Land with unfinished and finished buildings	(7)	89,642	37,413
Other inventories	(7)	568	247
Trade receivables	(8)	20,133	13,188
Income tax receivables	(8)	3,037	1,455
Derivative financial instruments		8,850	489
Other current assets	(8)	14,888	3,292
Cash and cash equivalents	(9)	55,753	31,714
		192,871	**87,798**
Non-current assets available-for-sale	(10)	**111,631**	**38,366**
		3,799,962	**2,047,683**

Equity and liabilities in TEUR	Notes	12/31/2012	12/31/2011
Equity			
Subscribed capital	(11)	130,738	74,905
Share premium	(12)	739,971	363,031
Other reserves	(13)	-20,210	-16,260
Unappropriated surplus	(14)	285,678	125,716
Attributable to the equity-holders of the parent company		1,136,177	547,392
Attributable to non-controlling interests	(15)	20,279	47,239
		1,156,456	**594,631**
Non-current liabilities			
Bank borrowings	(16)	1,804,786	1,016,825
Retirement benefit provisions	(17)	5,126	1,760
Liabilities from convertible bonds	(18)	173,105	93,868
Derivative financial instruments	(18)	23,796	28,222
Other non-current liabilities	(18)	3,643	153
Deferred taxes	(6)	123,359	66,884
		2,133,815	**1,207,712**
Current liabilities			
Other provisions	(19)	33,544	17,807
Income tax liabilities	(20)	8,951	1,760
Bank borrowings	(16)	411,261	172,568
Trade payables	(21)	13,784	16,380
Derivative financial instruments	(22)	29,368	11,379
Liabilities from convertible bonds	(22)	1,532	13,901
Other current liabilities	(22)	9,695	11,545
		508,135	**245,340**
Liabilities in connection with the non-current assets available-for-sale	(23)	**1,556**	**0**
		3,799,962	**2,047,683**

Consolidated income statement

in TEUR	Notes	01/01–12/31/2012	01/01–12/31/2011
Total revenues	(24)	**252,833**	**178,303**
Rental revenues	(24)	192,462	115,377
Rental expenses	(27)	-48,004	-36,359
Net rental income		144,458	79,018
Revenues from the sale of inventory real estate	(24)	14,427	7,606
Expenses on the sale of inventory real estate	(27)	-13,959	-7,762
Net revenues from sale of inventory real estate		468	-156
Revenues from the sale of investment properties	(24)	38,487	46,862
Expenses on the sale of investment properties	(27)	-39,131	-38,955
Net revenues from sale of investment properties		-644	7,907
Revenues from property management	(24)	7,457	8,458
Expenses for the provision of property management	(27)	-4,318	-8,461
Net income from the provisions of property management		3,139	-3
Other operating income	(25)	170,757	66,803
Fair-value remeasurement of investment properties	(26)	19,213	24,173
Net fair value gains and losses from measurement of newly acquired investment properties	(26)	10,152	4,760
Total net gains from the remeasurement of investment properties		29,365	28,933
Gross profit		**347,543**	**182,502**
Personnel expenses	(28)	-23,110	-12,747
Depreciation/amortisation	(29)	-1,726	-1,168
Impairment losses on receivables and inventories	(30)	-13,506	-3,499
Other operating expenses	(31)	-20,076	-19,966
EBIT		**289,125**	**145,122**
Net profit from investments	(32)	262	72
Share of profit from associates	(33)	7	246
Impairment of financial assets	(34)	-92	-105
Loss absorption	(35)	-13	0
Interest income	(36)	10,917	5,614
Borrowing costs	(36)	-97,655	-67,676
EBT		**202,551**	**83,273**
Income taxes	(37)	-25,057	-17,261
Other taxes	(38)	428	-108
Consolidated net profit		**177,922**	**65,904**
of which attributable to non-controlling interests	(15)	-1,154	-978
of which attributable to the Parent Company's shareholders		179,076	66,882
Earnings per share (EUR)			
Basic loss per share	(39)	1.88	1.05
Diluted loss per share	(39)	1.60	0.89

Consolidated statement of comprehensive income

in TEUR	Notes	01/01–12/31/2012	01/01–12/31/2011
Net loss as shown in the income statement		**177,922**	**65,904**
Unrealised gains and losses from hedge accounting	(13)	-4,724	-10,214
Deferred taxes on unrealised gains and losses	(6)	934	2,107
Other comprehensive income after taxes		-3,790	-8,107
Total comprehensive income		**174,132**	**57,797**
of which attributable to non-controlling interests	(15)	-929	-2,301
of which attributable to the Parent Company's shareholders		175,061	60,098

Consolidated cashflow statement

in TEUR	Notes	01/01 – 12/31/2012	01/01 – 12/31/2011
Consolidated net profit/loss		**177,922**	**65,904**
Net interest income through profit and loss	(36)	86,738	62,062
Current income taxes through profit and loss	(37)	941	779
Depreciation/amortisation	(29)	1,818	1,273
Share of profits/losses of associates	(4)	2	-246
Gains from the remeasurement from investment properties	(26)	-29,365	-28,933
Gains/losses from deconsolidation	(25)	-5,374	440
Gains from business combinations	(25)	-148,169	-56,757
Gains from the disposal of joint ventures	(25), (31)	0	-94
Losses from the disposal of joint ventures		0	54
Gains / losses from disposal of property, plant and equipment	(3)	-781	0
Gains/losses from the disposal of investment properties	(1)	644	-7,907
Impairments on receivables and inventories	(30)	13,506	3,499
Changes in deferred income taxes	(6)	21,161	12,745
Changes in provisions	(17), (19)	-3,094	1,585
Interest received		8,032	10,141
Interest paid		-89,135	-71,687
Income taxes paid		-3,601	-814
Income taxes received		1,885	35
Changes in receivables and other assets	(7), (8), (10)	-63,066	82,262
Changes in payables and other liabilities	(18), (20), (21), (22), (23)	47,432	-81,631
Cashflow from operating activities		**17,496**	**-7,290**

in TEUR	Notes	01/01 – 12/31/2012	01/01 – 12/31/2011
Payments made for investments in investment properties	(1)	-12,320	-55,573
Payments received from the disposal of investment properties	(1)	38,487	46,862
Payments made for investments in intangible assets and property, plant and equipment	(2), (3)	-3,169	-693
Payments made for acquisition of consolidated companies		-372,479	-28,576
Payments received from sale of property, plant and equipment	(3)	1,532	0
Payments received/made from the disposal of joint ventures less cash and cash equivalents disposed of		0	-58
Payments made for investments in associates and other financial assets	(4), (5)	-12	0
Payments made for the acquisition of real estate companies (including transaction costs)		-5,273	-4,761
Payments received/made from the disposal of consolidated companies less cash and cash equivalents disposed of		-188	0
Payments received on the disposal of other financial assets		0	3,540
Cashflow from investing activities		**-353,422**	**-39,259**
Payments received from cash equity issues	(11), (12)	397,082	71,496
Cost of issuing equity in connection with capital increase	(18)	-11,602	-2,810
Payments received from the issue of convertible bonds	(18)	85,300	0
Payments made for the redemption of convertible bonds	(18)	0	-60,519
Costs in connection with the issue of convertible bonds	(18)	-1,419	0
Dividends		-19,114	0
Payments received from bank borrowings	(16)	3,536	78,957
Payments made for repaying bank borrowings	(16)	-99,808	-113,588
Payments made for increasing shares without a change of status	(12), (15)	-8,001	-27,195
Cashflow from financing activities		**345,974**	**-53,659**
Net change in cash and cash equivalents		10,048	-100,208
Cash and cash equivalents at the beginning of the period	(09)	21,599	121,776
Currency translation		65	31
Cash and cash equivalents at the end of the period	**(09)**	**31,712**	**21,599**

Statement of changes in consolidated equity

		Attributable to the parent's shareholders								
				Other reserves						
in TEUR	Notes	Subscribed capital	Share premium	Retained earnings	Hedge accounting reserve	Currency translation	Inappropriated surplus/accummulated loss	Total	Non-controlling interests	Total equity
Amount on 01/01/2012		**74,905**	**363,031**	**527**	**-16,818**	**31**	**125,716**	**547,392**	**47,239**	**594,631**
Consolidated net profit		0	0	0	0	0	179,076	179,076	-1,154	177,922
Other comprehensive income	(13), (15)	0	0	0	-4,015	0	0	-4,015	225	-3,790
Total comprehensive income	(12)	0	0	0	-4,015	0	179,076	175,061	-929	174,132
Acquisition of TAG Potsdam-Immobilien AG	(15)	0	0	0	0	0	0	0	1,447	1,447
Increase in shares without change of status	(15)	1,810	17,667	0	0	0	0	19,477	-27,478	-8,001
Capital increase	(11), (12)	50,664	346,418	0	0	0	0	397,082	0	397,082
Capital increase against contribution in kind	(11), (12)	859	6,091	0	0	0	0	6,950	0	6,950
Issue of convertible bond	(18)	0	4,595	0	0	0	0	4,595	0	4,595
Conversion of bonds	(11), (12), (18)	2,500	10,026	0	0	0	0	12,526	0	12,526
Cost of issuing equity (after income taxes)	(12)	0	-7,857	0	0	0	0	-7,857	0	-7,857
Dividend	(14)	0	0	0	0	0	-19,114	-19,114	0	-19,114
Currency translation	(13)	0	0	0	0	65	0	65	0	65
Amount on 12/31/2012		**130,738**	**739,971**	**527**	**-20,833**	**96**	**285,678**	**1,136,177**	**20,279**	**1,156,456**
Amount on 01/01/2011		**58,566**	**248,568**	**527**	**-10,034**	**0**	**58,834**	**356,461**	**8,849**	**365,310**
Consolidated net profit		0	0	0	0	0	66,882	66,882	-978	65,904
Other comprehensive income		0	0	0	-6,784	0	0	-6,784	-1,323	-8,107
Consolidated net profit		0	0	0	-6,784	0	66,882	60,098	-2,301	57,797
Acquisition of Colonia	(12), (15)	0	0	0	0	0	0	0	86,845	86,845
Increases or decreases in shares without any change of status	(12), (15)	0	27,025	0	0	0	0	27,025	-44,806	-17,781
Equity issue through conversion	(11), (18)	5	23	0	0	0	0	28	0	28
Capital increase against contribution in kind	(11), (12)	5,477	27,330	0	0	0	0	32,807	0	32,807
Cash equity issue	(11), (12)	10,857	60,640	0	0	0	0	71,497	0	71,497
Cost of issuing equity (after income taxes)	(12)	0	-1,903	0	0	0	0	-1,903	0	-1,903
Currency translation	(13)	0	0	0	0	31	0	31	0	31
Miscellaneous changes to non-controlling interests	(15)	0	1,348	0	0	0	0	1,348	-1,348	0
Amount on 12/31/2011		**74,905**	**363,031**	**527**	**-16,818**	**31**	**125,716**	**547,392**	**47,239**	**594,631**

Consolidated segment report

in TEUR	Residential real estate Hamburg	Residential real estate Berlin	Residential real estate NRW	Residential real estate Salzgitter	Residential real estate Thuringia / Saxony	Redisential real estate TAG Wohnen / TLG	Total residential	Total commercial	Other acitivites	Consolidation	Group
Rental income	29,018	39,490	16,789	26,971	51,289	0	163,557	28,435	1,451	-981	192,462
Previous year	18,288	22,401	18,106	21,905	7,412	0	88,112	28,846	1,583	-3,164	115,377
■ of which external rental income	29,018	39,434	16,789	26,971	51,188	0	163.400	27,785	1,277	0	192,462
Previous year	18,288	22,401	15,728	21,905	7,312	0	85,634	28,160	1,583	0	115,377
■ of which internal rental income	0	56	0	0	101	0	157	650	174	-981	0
Previous year	0	0	2,378	0	100	0	2,478	686	0	-3,164	0
Rental expenses											-48,004
Previous year											-36,359
Asset sales											-176
Previous year											7,751
Net income from services											3,139
Previous year											-3
Remeasurement											19,213
Previous year											24,173
Investment properties											10,152
Previous year											4,760
Non-allocated other operating income											170,757
Previous year											66,803
■ of which consolidation gains											148,169
Previous year											56,758
Gross profit											347,543
Previous year											182,502
Miscellaneous non-allocated expenses											-144,992
Previous year											-99,229
EBT											202,551
Previous year											83,273
Segment assets	434,150	645,198	247,044	353,417	946,746	570,862	3,197,417	461,519	5,931	0	3,664,867
Previous year	338,709	389,404	258,399	360,695	141,542	0	1,488,749	475,676	4,180	0	1,968,605
■ Non-allocated assets											135,095
Previous year											79,078
Total assets											3,799,962
Previous year											2,047,683

This consolidated segment report forms an integral part of the consolidated financial statements.

Significant accounting policies

Basis of preparagraphtion

The consolidated financial statements of TAG Immobilien AG, Hamburg, (hereinafter referred to as “TAG” or the “Company”) as of 31 December 2012 were prepared in accordance with the International Financial Reporting Standards (IFRS) in the form required to be applied in the European Union. In addition, the provisions contained in Section 315a (1) of the German Commercial Code were observed. The requirements set forth in the standards applied have been satisfied and result in the presentation of a true and fair view of the net assets, financial position and results of operations of the Group.

The following new accounting standards and interpretations were subject to compulsory application for the first time for the IFRS consolidated financial statements prepared for the previous year:

IFRS 7	Disclosures – transfers of financial assets The amendments to IFRS 7 concern modifications to improve disclosures in connection with transfers of financial assets.
IAS 12	Deferred Taxes: Recovery of Underlying Assets The amendment offers a practical solution for the problem of distinguishing whether the carrying amount of an asset is realised through use or sale by introducing a rebuttable presumption that the carrying amount is normally realised through sale. One consequence of the amendment is that SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets no longer applies to investment properties measured at fair value.

The first-time application of these new accounting principles did not have any material effect on the consolidated financial statements.

The following standards, which were new or revised as of the balance sheet date are not applicable until after the balance sheet date - pending endorsement by the European Union - and were not early adopted on a voluntary basis:

IAS 1	Presentation of items of other comprehensive income (revised, to be applied in accounting periods commencing on or after 1 July 2012)
IAS 19	Employee benefits (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IAS 27	Separagraphte financial statements (revised, to be applied in accounting periods commencing on or after 1 January 2014)
IAS 28	Investment in associated companies and joint ventures (revised, to be applied in accounting periods commencing on or after 1 January 2014)
IAS 32	Financial instruments - offsetting of financial assets and financial liabilities (revised, to be applied in accounting periods commencing on or after 1 January 2014)
IFRS 7	Netting of financial assets and liabilities (to be applied in accounting periods commencing on or after 1 January 2013)
IFRS 9	Financial instruments (to be applied in accounting periods commencing on or after 1 January 2015, EU endorsement still pending)
IFRS 10	Corresponding figures (to be applied in accounting periods commencing on or after 1 January 2014)
IFRS 11	Joint arrangements (to be applied in accounting periods commencing on or after 1 January 2014)
IFRS 12	Disclosures of interests in other entities (to be applied in accounting periods commencing on or after 1 January 2014)
IFRS 13	Calculation of fair value (to be applied in accounting periods commencing on or after 1 January 2013)
Diverse	IFRS 2011 improvement project (to be applied in accounting periods commencing on or after 1 January 2013, EU endorsement still pending)

The Company does not plan to early adopt any of these new standards. The effects of future application on the consolidated financial statements are currently being reviewed.

The fiscal year of the parent company, the consolidated subsidiaries, joint ventures and associates, all of which are domiciled in Germany – with the exception of three subsidiaries in Switzerland, the Netherlands and Luxembourg – is the calendar year. Uniform recognition and measurement methods have been applied to the financial statements prepared by the consolidated companies in accordance with IFRS. The consolidated financial statements are prepared in euros, which is the Group parent's functional currency. In the absence of any indication to the contrary, amounts are cited in thousands of euros (TEUR). As a result, rounding differences may occur.

The consolidated income statement is prepared using the type of total cost method. EBIT is defined as earnings before income and other taxes, interest and other net borrowing costs. EBT stands for earnings before income and other taxes.

The Company's registered offices are located at Steckelhörn 5, 20457 Hamburg. TAG is a listed real estate company which can look back on a history spanning more than 125 years. Its main business activities entail the management of residential and commercial real estate in Germany. It primarily performs activities aimed at generating long-term value from its portfolios.

In accordance with its articles of incorporation, the Company's object is to acquire, sell and manage domestic and foreign real estate, to acquire, sell and manage equity interests including interests in real estate funds and to engage in all other related business. Moreover, it may engage in all business directly or indirectly conducive to furthering its object. In particular, it may incorporate companies with a similar or different purpose and establish branches in Germany or other countries. It may sell all or part of its business operations or transfer them to other companies.

TAG's consolidated financial statements and Group management report were prepared by the Management Board and released for publication on 28 March 2013 subject to approval by the Supervisory Board.

Consolidation

The consolidated financial statements include all companies in which TAG is entitled directly or indirectly to exercise a majority of the voting rights. These enterprises are included in the consolidated financial statements from the date on which the TAG Group obtains control. If shares in subsidiaries are considered to be of subordinate significance from the Group's perspective, they are recognised as available-for-sale financial instruments.

The purchase method of accounting as defined in IFRS 3 is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair value is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. The cost of business combinations is recorded in profit and loss. In derogation from this, the costs arising in connection with business combinations involving an exchange of equity instruments are recorded directly in equity.

Shares in the net assets of subsidiaries not attributable to TAG are reported as non-controlling interests as a separagraphte equity component.

In the case of step business combinations, e.g. the full consolidation of a previous associate as a subsidiary, the previously recognised carrying amount of this entity is remeasured at its fair value as part of the cost of the business combination and the resultant gain or loss taken to profit and loss.

If shares are acquired or sold in companies which are previously or subsequently consolidated in full (business combination or sale without any change of status), the differences between the purchase price and the carrying amount of the assets acquired or sold are recognised directly in equity.

The purchase of property companies which do not engage in any business as defined in IFRS 3 are treated as a direct real estate purchase (asset deal). In this case, the cost of the business combination is allocated to the individually identifiable assets and liabilities on the basis of their fair value. If the acquisition is financed by the issue of the Company's own equity instruments, the individually identifiable assets and liabilities are recognised at their fair values. Accordingly, the acquisition of property companies does not give rise to any differences.

Joint ventures are recognised in the consolidated financial statements on a prorated basis. The assets and liabilities as well as revenues and expenses of jointly controlled entities are recognised in the consolidated financial statements in accordance with the size of the share held in these companies.

Enterprises over which the Group may exercise significant influence (associates) are accounted for using the equity method of accounting. The share of losses of associates is not recorded if the carrying amount of the investment in the associate in question has already reached zero and there is no obligation to absorb any further loss.

Income and expenses as well as receivables and liabilities between fully consolidated companies are eliminated. Intercompany transactions not realised by a sale to third parties are eliminated.

Non-controlling interests in consolidated equity capital and consolidated net profit are recorded under "Non-controlling interests" in the consolidated balance sheet and the consolidated income statement. The effects of purchase accounting recognised directly in the income statement are also included in the calculation of the share in consolidated net profit attributable to non-controlling interests. The following %ages have been rounded. With the exception of TAG Administration GmbH, Hamburg, there is a small volume of non-controlling interests in all companies for which a shareholding of 100 % is stated.

The following companies are consolidated in full as of the balance sheet date:

- TAG Immobilien AG, Hamburg (parent company)
- TAG Gewerbeimmobilien GmbH, Hamburg (100 %)
- TAG Leipzig-Immobilien GmbH, Hamburg (100 %)
- TAG Logistik Immobilien GmbH & Co. KG, Hamburg (100 %)
- TAG Logistik Immobilien Verwaltungs GmbH, Hamburg (100 %)
- TAG Asset Management GmbH, Hamburg (100 %)
- TAG Dresdner Straße GmbH & Co. KG, Hamburg (100 %)
- TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, Hamburg (100 %)
- TAG Stuttgart-Südtor Verwaltungs GmbH, Hamburg (100 %)
- Ingenieur-Kontraktbau Gesellschaft für Ingenieurfertigbau mit beschränkter Haftung i.L., Leipzig (100 %)
- Patrona Saxoniae GmbH & Co. KG, Hamburg (100 %)
- Patrona Saxoniae Grundbesitz GmbH, Hamburg (100 %)
- Wenzelsplatz GmbH & Co. Nr. 1 KG, Hamburg (100 %)
- Wenzelsplatz Grundstücks GmbH, Hamburg (100 %)
- TAG Nordimmobilien S.à r.l., Luxembourg, (100 %)
- TAG Chemnitz-Immobilien GmbH, Hamburg (100 %)
- TAG Sachsenimmobilien GmbH, Hamburg (100 %)
- TAG Marzahn-Immobilien GmbH, Hamburg (100 %)
- TAG SH-Immobilien GmbH, Hamburg (100 %)
- TAG Magdeburg-Immobilien GmbH, Hamburg (100 %)
- TAG Grebensteiner-Immobilien GmbH, Hamburg (100 %)

- TAG Klosterplatz-Immobilien GmbH, Hamburg (100 %)
- TAG Wolfsburg-Immobilien GmbH, Hamburg (100 %)
- TAG Beteiligungs GmbH & Co. KG, Hamburg (100 %)
- TAG Wohnimmobilien Beteiligungs AG & Co. KG, Hamburg (99 %)
- Wasserkraftanlage Gückelsberg OHG, Leipzig (99 %)
- Tegernsee-Bahn Betriebsgesellschaft mit beschränkter Haftung, Tegernsee (98 %)
- Kraftverkehr Tegernsee-Immobilien GmbH, Tegernsee (98 %)
- TAG NRW-Wohnimmobilien und Beteiligungs GmbH (formerly: FranconoWest AG), Hamburg (100 %)
- TAG 1. NRW-Immobilien GmbH, Hamburg (100 %)
- TAG 2. NRW-Immobilien GmbH, Hamburg (100 %)
- TAG Administration GmbH, Hamburg (100 %)
- TAG Spreewaldviertel-Immobilien GmbH, Hamburg (100 %)
- Stadthaus Am Anger GmbH (100 %), Hamburg
- Fürstenberg´sche Häuser GmbH, Hamburg (100 %)
- Bau-Verein zu Hamburg Immobilien GmbH (formerly: Bau-Verein zu Hamburg Aktien-Gesellschaft), Hamburg (100 %, previous year: 93 %)
- Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg (100 %, previous year: 93 %)
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg (100 %, previous year: 93 %)
- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg (100 %, previous year: 93 %)
- Bau-Verein zu Hamburg "Junges Wohnen" GmbH, Hamburg (100 %, previous year: 93 %)
- Bau-Verein zu Hamburg Wohnungsgesellschaft mbH, Hamburg (100 %, previous year: 93 %)
- BV Hamburger Wohnimmobilien GmbH, Hamburg (100 %, previous year: 93 %)
- BV Steckelhörn GmbH & Co. KG, Hamburg (100 %, previous year: 93 %)
- BV Steckelhörn Verwaltungs GmbH, Hamburg (100 %, previous year: 93 %)
- G+R City Immobilien GmbH, Berlin (100 %, previous year: 93 %)
- URANIA Grundstücksgesellschaft mbH, Hamburg (100 %, previous year: 93 %)
- VFHG Verwaltungs GmbH, Berlin (100 %, previous year: 93 %)
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin (100 %, previous year: 93 %)
- Wohnanlage Ottobrunn GmbH, Hamburg (100 %, previous year: 93 %)
- Colonia Real Estate AG, Hamburg (79 %, previous year: 72 %), hereinafter referred to as "Colonia"
- Colonia Wohnen GmbH, Hamburg (79 %, previous year: 72 %)
- Colonia Portfolio Ost GmbH, Hamburg (79 %, previous year: 72 %)
- Colonia Portfolio Berlin GmbH, Hamburg (79 %, previous year: 72 %)
- Colonia Wohnen Siebte GmbH, Hamburg (79 %, previous year: 72 %)
- Colonia Immobilien Verwaltung GmbH, Hamburg (79 %, previous year: 72 %)
- Colonia Portfolio Hamburg GmbH & Co. KG, Hamburg (79 %, previous year: 72 %)
- Colonia Portfolio Bremen GmbH & Co. KG, Hamburg (79 %, previous year: 72 %)
- Grasmus Holding B.V., Maastricht, Netherlands (79 %, previous year: 71 %)
- Emersion Grundstückverwaltungs-Gesellschaft mbH, Hamburg (78 %, previous year: 71 %)
- Domus Grundstückverwaltungs-Gesellschaft mbH, Hamburg (78 %, previous year: 71 %)
- Gimag Immobilien AG, Zug, Switzerland (74 %, previous year: 67 %)
- Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg (98 %)

In connection with the initial consolidation of TAG Potsdam-Immobilien GmbH, Berlin as of 31 March 2012, the following companies forming part of this subgroup were also consolidated for the first time:

- TAG Potsdam-Immobilien GmbH (formerly: DKB Immobilien AG), Berlin (100 %), hereinafter referrent to as TAG Potsdam
- TAG Wohnungsgesellschaft Berlin-Brandenburg mbH (formerly: DKB Wohnungsgesellschaft Berlin-Brandenburg mbH), Berlin (95 %)
- TAG Wohnungsgesellschaft Süd-West mbH (formerly: DKB Wohnungsgesellschaft Süd-West mbH), Berlin (95 %)
- TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH (formerly: DKB Wohnungsgesellschaft Mecklenburg-Vorpommern mbH), Schwerin (100 %)
- TAG Wohnungsgesellschaft Sachsen-Anhalt mbH (formerly: DKB Wohnungsgesellschaft Sachsen-Anhalt mbH), Halle (100 %)
- TAG Wohnungsgesellschaft Sachsen mbH (formerly: DKB Wohnungsgesellschaft Sachsen mbH), Döbeln (100 %)
- TAG Wohnungsgesellschaft Thüringen mbH (formerly: DKB Wohnungsgesellschaft Thüringen mbH), Gera (94 %)
- TAG Wohnungsgesellschaft Gera-Bieblach Ost mbH (formerly: DKB Wohnungsgesellschaft Gera-Bieblach Ost), Gera (94 %)
- TAG Wohnungsgesellschaft Gera-Debschwitz mbH (formerly: DKB Wohnungsgesellschaft Gera-Debschwitz mbH), Gera (94 %)
- TAG Wohnungsgesellschaft Altenburg mbH (formerly: DKB Wohnungsgesellschaft Altenburg mbH), Gera (94 %)
- TAG Immobilien Wohn-Invest GmbH (formerly: DKB Immobilien Wohn-Invest GmbH), Berlin (100 %)
- TAG Immobilien Service GmbH (formerly: DKB Immobilien Service GmbH), Berlin (100 %)
- TAG Infrastruktur GmbH (formerly DKB Infrastruktur GmbH), Berlin (100 %)
- Aufbaugesellschaft Bayern GmbH, Munich (100 %)

Moreover, TAG Wohnen GmbH (formerly TLG Wohnen GmbH), Berlin, ("TAG Wohnen") was consolidated for the first time effective 31 December 2012.

In addition, the companies consolidated were changed as a result of the following internal mergers:

- Merger of Gewo Gera GmbH & Co. KG with TAG Wohnungsgesellschaft Thüringen mbH, Gera, as of 31 December 2012
- Merger of TAG Wohnungsgesellschaft Blankenhain GmbH & Co. KG, Gera with TAG Wohnungsgesellschaft Thüringen mbH, Gera, as of 31 December 2012
- Merger of TAG Wohnungsgesellschaft Lusan Brüte GmbH & Co. KG, Gera with TAG Wohnungsgesellschaft Thüringen mbH, Gera, as of 31 December 2012
- Merger of TAG Wohnungsgesellschaft Lusan Zentrum GmbH & Co. KG, Gera with TAG Wohnungsgesellschaft Thüringen mbH, Gera, as of 31 December 2012
- Merger of Habitat Beteiligungsgesellschaft Siebte GmbH & Co. KG, Gera with TAG Wohnungsgesellschaft Thüringen mbH, Gera, as of 31 December 2012
- Merger of Habitat Beteiligungsgesellschaft Achte GmbH & Co. KG, Gera with TAG Wohnungsgesellschaft Thüringen mbH, Gera, as of 31 December 2012
- Amalgamation of Colonia Wohnen Service GmbH, Hamburg, (previous year: 72 %) with Colonia Wohnen Siebte GmbH
- Amalgamation of ARCHPLAN Projekt Dianastraße GmbH, Munich (previous year: 62 %) with Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg

The following companies were consolidated on a proportionate basis in the year under review:

- Neue Ufer GmbH & Co. KG i.L, Leipzig (50 %)

Neue Ufer GmbH & Co. KG, Leipzig, is in liquidation. The financial information on the investment in Neue Ufer GmbH & Co. KG is disclosed below:

Joint venture	Assets TEUR	Liabilities TEUR	Revenue TEUR	Profit / Loss TEUR
Neue Ufer GmbH & Co. KG, Leipzig	23 (Previous year: 22)	6,889 (Previous year: 6,628)	– –	-302 (Previous year: -410)

The assets and liabilities stated are current in nature.

The following companies are accounted for as associates using the equity method of accounting:

- GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG , Hamburg (49.96 %, previous year: 45.78 %)
- Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH, Hamburg (49.96 %, previous year: 45.78 %)

The following combined financial information on these associates is available as of 31 December 2012:

Associates	Assets TEUR	Liabilities TEUR	Revenue TEUR	Profit / Loss TEUR
GIB Grundbesitz Investitionsgesell-schaft Bergedorf mbH & Co. KG	5,666 (Previous year: 5,648)	5,619 (Previous year: 5,621)	406 (Previous year: 421)	11 (Previous year: 2)
Verwaltung GIB Grundbesitz Inves-titionsgesellschaft Bergedorf mbH	33 (Previous year: 32)	– (Previous year: 3)	– (Previous year: 1)	4 (Previous year: –)

The following companies are of subordinate importance for the consolidated financial statements and are therefore not consolidated on account of their immateriality (disclosures on shareholdings in accordance with Sections 315a (1) and 313 (2) of the German Commercial Code):

Non-consolidated entities	Share %	Profit (HGB) 2012 TEUR	Equity (HGB) 12/31/2012 TEUR
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	100.00	18	497
Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	100.00	2	55
TAG Beteiligungsverwaltungs GmbH, Hamburg	49.60	4	29
Victus I. Beteiligungs GmbH, Berlin	99.97	0	20
Victus II. Beteiligungs GmbH, Berlin	99.97	-1	18
Vivere Beteiligungs GmbH, Berlin	99.97	2	26
Park- und Gewerbe Bestensee GmbH, Bestensee	94.80	0	26
TAG Wohnungsverwaltungsgesellschaft Nord-West mbH (formerly: DKB Wohnungsverwaltungsgesellschaft Nord-West mbH), Berlin	99.97	0	25
TAG Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha dritte mbH (formerly: DKB Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha dritte mbH), Schwerin	99.97	-2	23
TAG Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha fünfzehnte mbH (formerly: DKB Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha fünfzehnte mbH), Schwerin	99.97	-3	22
TAG Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha sechzehnte mbH (formerly: DKB Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha sechzehnte mbH), Schwerin	99.97	-2	23
TAG Wohnungsgesellschaft Sachsen-Anhalt Alpha zweite mbH (formerly: DKB Wohnungsgesellschaft Sachsen-Anhalt Alpha zweite mbH), Schwerin	99.97	-2	23
Victus VII. Beteiligungs GmbH, Gera	93.98	2	24
Victus VIII. Beteiligungs GmbH, Gera	93.98	4	23
Victus V. Beteiligungs GmbH, Döbeln	99.97	0	22
Victus VI. Beteiligungs GmbH, Döbeln	99.97	0	18
TAG Wohnungsgesellschaft Thüringen Beteiligung mbH (formerly: DKB Wohnungsgesellschaft Thüringen Beteiligung mbH), Gera	93.98	10	35
Wohnungsgesellschaft Werderau mbH	99.97	0	25
Habitat Gamma Beteiligungs GmbH & Co. KG, Berlin	99.97	0	2
Habitat Delta Beteiligungs GmbH & Co. KG, Berlin	99.97	0	2
Trinom Hausverwaltungs GmbH i. L., Leipzig	99.97	*	*
TAG Bärensiedlung GmbH & Co. KG, Berlin	99.97	0	2

* Figures not available as of the date of the list.

Disclosures on the shares held in fully and proportionately consolidated companies as well as associates and other investments refer to the shares held directly or indirectly by TAG. In the absence of any indication to the contrary, the shares are unchanged over the previous year.

Business combinations

Acquisition of TAG Potsdam (formerly DKBI)

On 26 March 2012, Deutsche Kreditbank AG (DKB) accepted TAG's offer for the acquisition of TAG Potsdam-Immobilien AG (formerly DKB Immobilien AG). 94.9 % of TAG Potsdam's capital was acquired by TAG Immobilien AG and 5.1 % by TAG Beteiligungs GmbH & Co. KG. TAG Potsdam was fully consolidated by TAG for the first time at the end of March 2012. It has around 24,500 residential units and some 500 commercial units with a lettable floor area of a total of around 1.5 m square metres and generates total net rental income of approximately EUR 73.2 m. Nearly all of the company's properties are located in the eastern German states. primarily Thuringia, the greater Berlin region and Saxony. The purchase price of EUR 160 m was paid in full in the first half of 2012.

As TAG and TAG Potsdam are both in the business of managing residential real estate and have real estate holdings at various places in the new German states, it is appropriate for the business activities to be merged in order to utilise potential for synergistic benefits and economies of scale and to improve operating margins throughout the entire Group.

The business combination produced a first-time consolidation gain (negative goodwill) which was reported within other operating income in the consolidated income statement and breaks down as follows:

	Fair value upon acquisition TEUR
Investment properties	947,251
Intangible assets/property, plant and equipment and other non-current assets	2,516
Land with finished and unfinished buildings	105,374
Current receivables	6,352
Cash and cash equivalents	35,792
Other current assets	20,419
Non-current bank borrowings	-683,599
Deferred income tax liabilities (non-current)	-21,759
Other non-current liabilities	-4,308
Current bank borrowings	-112,684
Other current liabilities	-34,750
Net assets at fair value or IFRS equity	260,604
Non-controlling interests	-1,447
Costs of the business combination	-160,000
First-time consolidation gain	99,157

TAG Potsdam was acquired for a price below the fair value of the individual assets and liabilities. Portfolios of this size are generally traded with corresponding package discounts reflecting the greater speed of exploitation with a portfolio sale compared with individual privatisation transactions and the resultant savings in personnel and administrative expenses as well as transaction costs arising from the complete sale of the individual assets. The difference is therefore chiefly due to the package discount.

First-time consolidation gains arise from the measurement of the assets and liabilities at their fair values. For this purpose, the investment properties were measured on the basis of external valuation reports, while the liabilities and derivative financial instruments were measured using the methods of financial mathematics. The first-time consolidation gain calculated in this way came to EUR 99.2 m.

The non-controlling interests are recognised in accordance with their share in the fair value of the net assets.

The assets acquired included gross trade receivables of EUR 9.8 m, of which an amount of EUR 3.5 m is assumed to be irretrievable. Also included are other receivables of a gross EUR 10.2 m, for which impairments of EUR 0.3 m have been recognised. Since the date of acquisition, TAG Potsdam has generated revenues of EUR 65.8 m and a net loss for the period of EUR 1.5 m. The net loss includes gains of EUR 5.0 m from the remeasurement of investment properties. If TAG Potsdam had been acquired on 1 January 2012, it would have generated revenues of EUR 88.8 m and a net loss for the period of EUR 2.3 m assuming the same remeasurement gains.

In accordance with a resolution passed at the annual general meeting on 14 December 2012, TAG Potsdam's corporate status was changed to that of a limited-liability company ("GmbH"). The conversion was entered in the commercial register on 7 January 2013; on this date, the company's name was changed to TAG Potsdam-Immobilien GmbH.

Acquisition of TAG Wohnen

On 31 December 2012, TAG acquired from the Federal Republic of Germany all the shares in TAG Wohnen GmbH ("TAG Wohnen", formerly TLG Wohnen GmbH) and consolidated this company in full. TAG Wohnen has around 11,350 residential units with a lettable floor area of a total of some 0.7 m square metres and generates total net rental income of approximately EUR 42.4 m. The portfolio comprises almost solely residential real estate, which is predominantly located in Berlin, Dresden and Rostock. The vacancy rate stands at 4.8 %. The contract entered into with the Federal Republic of Germany for the acquisition of TAG Wohnen includes numerous tenant-protection stipulations. The preliminary purchase price as of 31 December 2012 pending final accounting figures stands at EUR 221.3 m; of this, an amount of EUR 217.8 was settled in December 2012. The transaction costs came to EUR 2.2 m.

As TAG and TAG Wohnen are both in the business of managing residential real estate and have real estate holdings at various places in the new German states, it is appropriate for the business activities to be merged in order to utilise potential for synergistic benefits and economies of scale and to improve operating margins throughout the entire Group.

The business combination produced a first-time consolidation gain (negative goodwill) which was reported within other operating income in the consolidated income statement and breaks down as follows:

	Fair value on acquisition TEUR
Investment properties	570,862
Intangible assets	5
Current receivables	3,450
Cash and cash equivalents	3,107
Non-current bank borrowings	-244,664
Deferred income tax liabilities	-12,060
Current bank borrowings	-26,225
Other current liabilities	-21,898
Net assets at fair value or IFRS equity	272,577
Costs of the business combination	221,336
Gain from first-time consolidation	51,241
Transaction costs	-2,217
First-time consolidation gains after transaction costs	49,024

TAG Wohnen was acquired for a price below the fair value of the individual assets and liabilities. Portfolios of this size are generally traded with corresponding package discounts reflecting the greater speed of exploitation with a portfolio sale compared with individual privatisation transactions and the resultant savings in personnel and administrative expenses as well as transaction costs arising from the complete sale of the individual assets. The difference is therefore chiefly due to the package discount.

First-time consolidation gains arise from the measurement of the assets and liabilities at their fair values. For this purpose, the investment properties were measured on the basis of external valuation reports, while the liabilities and derivative financial instruments were measured using the methods of financial mathematics. The valuation reports and measurement of the assets and liabilities are currently still provisional. The first-time consolidation gain of EUR 49.0 m recorded in the interim consolidated financial statements is based on preliminary calculations.

The assets acquired included gross trade receivables of EUR 1.2 m, of which an amount of EUR 0.5 m is assumed to be irretrievable. Also included are other receivables of a gross EUR 1.6 m, for which impairments of EUR 0.2 m have been recognised. As the acquisition is dated 31 December 2012, no revenues or expenses have been recognised in the consolidated income statement. If TAG Wohnen had been acquired on 1 January 2012, it would have generated revenues of EUR 59.3 m and net earnings for the period of EUR 2.3 m assuming identical adjustments to fair values.

Acquisition of real estate companies

Effective 1 February 2012, TAG acquired all the shares in a real estate portfolio in Chemnitz (since renamed "TAG Chemnitz Immobilien GmbH") in a share deal. The purchase price for the real estate portfolio came to EUR 23.8 m. On the other hand, the company has bank borrowings of EUR 16.4 m. The portfolio acquired with the company comprises 429 residential units with a lettable floor space of around 32,000 square metres and current net rental income of EUR 1.8 m. To finance the acquisition of the portfolio, TAG issued 859,339 new shares worth EUR 5.0 m on a non-cash basis. In addition, a cash component of around TEUR 432 was paid.

As well as this, TAG acquired a real estate portfolio in Eberswalde (since renamed "TAG Spreewaldviertel-Immobilien GmbH") via a share deal effective 1 February 2012. The purchase price for the real estate portfolio came to EUR 30.0 m. On the other hand, the company has bank borrowings of EUR 19.5 m. The portfolio comprises 1,057 residential and 11 commercial units with a lettable floor space of around 60,000 square metres and a current annual net rental income of EUR 2.9 m. In payment of the transaction, the 2,967,712 shares held by TAG in Estavis AG were transferred to the seller in addition to a cash component of TEUR 3,500.

TAG acquired a real estate portfolio in Erfurt (since renamed "TAG Stadthaus am Anger GmbH") via a share deal effective 31 December 2012. The purchase price for the real estate portfolio, which takes the form of a hereditary building right, came to EUR 29.0 m. On the other hand, the company has bank borrowings of EUR 18.8 m and shareholder loans of EUR 7.5 m. The portfolio acquired with the company comprises 360 residential and commercial units with a lettable floor space of around 36,000 square metres and current net rental income of EUR 2.8 m. A cash component of around EUR 1,3 m was paid for the shares in 2012.

Sales of companies

Effective 30 September 2012, all the shares in POLARES Real Estate Asset Management GmbH, Hamburg ("POLARES") were sold via a management buy-out, upon which the company was deconsolidated. The purchase price is being paid in instalments over a period expiring in 2031. A deconsolidation gain of EUR 5.4 m was generated at the level of the Colonia subgroup and reported within other operating income. Of this, EUR 1.1 m was attributable to non-controlling interests. The gain is calculated as follows:

	TEUR
Non-current assets	6,007
Inventories, receivables and other assets	5,801
Deferred income tax assets	111
Cash and cash equivalents	428
Pension and other provisions	-399
Trade payables and other liabilities	-587
Total assets and liabilities transferred	**11,361**
Purchase price (discounted)	16,735
Deconsolidation gain	**5,374**

In addition, Tegernsee-Bahn Betriebsgesellschaft mbH, ("TBB") was reclassified as assets and liabilities held for sale as of 31 December 2012. The sale was executed in February 2013. The reclassified assets and liabilities break down as follows:

	TEUR
Non-current assets	4,552
Inventories, receivables and other assets	264
Deferred income tax assets	6
Cash and cash equivalents	1,110
Assets held for sale	**5,932**
Tax and other provisions	163
Trade payables and other liabilities	107
Deferred income tax liabilities	1,286
Liabilities held for sale	**1,566**

Business combination without change of status

In the period from January to December 2012, the remaining 6.79 % of the shares in Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg, ("Bau-Verein") were acquired for TEUR 7,158 and a further 7.48 % of the shares acquired in Colonia Real Estate AG for TEUR 16,471. These transactions were recorded within equity as a business combination with no change of status.

Procedure for the exclusion of minority shareholders - Bauverein

TAG instituted proceedings for the exclusion of the minority shareholders in Bau-Verein zu Hamburg Aktien-Gesellschaft (WKN 517900, ISIN DE0005179006) ("squeeze-out") in accordance with Sections 327a et seq. of the German Stock Corporation Act. At the annual general meeting of Bau-Verein held on 29 August 2012, a resolution was passed to exclude the minority shareholders and to pay a cash settlement of EUR 4.55 per share. The exclusion proceedings were successfully completed upon this resolution being entered in the commercial register on 9 November 2012, as a result of which Bau-Verein became a wholly owned subsidiary of TAG. At the same time, Bau-Verein shares were delisted from the Frankfurt and Hamburg stock exchanges.

Recognition and measurement principles

Principles

These financial statements are based on the going-concern principle. Amounts are for the most part measured at cost. This does not apply to investment properties or derivatives and hedges, which are recognised at their fair value.

Investment properties

Depending on its intended use, TAG initially recognises real estate as investment properties, inventory properties or self-used properties. Real estate held under operating leases in which the Group is the lessee is allocated to investment properties.

Investment properties are classified as properties held by the Group which it does not use itself and which are not available for sale. Available-for-sale properties are reported separagraphtely on the face of the balance sheet. Real estate which is to be held on a long-term basis but does not come within the definition of an investment property in accordance with IAS 40 is recorded within property, plant and equipment.

No marketing activities are performed in connection with investment properties. They are to be held in the portfolio and leased on a medium to long term basis and used to enhance the Group's enterprise value.

Investment properties are initially recognised at cost including transaction costs. This also includes any ensuing extension or conversion cost. They are subsequently measured at their fair value, which reflects market conditions as of the reporting date. Any gains or losses from changes in fair value are recognised in the income statement.

If available-for-sale properties are reclassified as investment properties, any difference between the fair value and the carrying amount as of that date is taken to profit and loss.

The fair values of investment properties are calculated on the basis of external valuation reports in accordance with current market data and using acknowledged valuation methods. In accordance with the Real Estate Value Calculation Ordinance, the discounted cash flow method is used for residential real estate and the capitalised earnings value method for commercial real estate The independent valuers retained are suitably qualified and experienced in the light of the location and type of the real estate to be valued. A deduction of 0.2 % is applied to the gross capital values derived from the DCF method to produce the net capital value. No allowance is made for real estate transaction tax in view of the customary tax structure of such transactions.

Intangible assets

Individual intangible assets are initially recognised at cost. Intangible assets acquired as part of the acquisition of a company are recognised at their fair value as of the date of acquisition. Thereafter, they are recognised at cost less cumulative amortisation and cumulative impairment losses.

Intangible assets with a definite useful life are written down on a straight-line basis over their expected useful life (generally three to eight years) and tested for impairment in the event of any indication of any impairment in their value. The amortisation period and method are reviewed at the end of each year at least and any resultant changes treated as a change to the estimate.

Intangible assets with an indefinite life, e.g. goodwill arising from a business combination, undergo impairment testing at least once a year or in the event of any evidence pointing to impairment at the level of the individual asset or at the level of the cash-generating unit. These intangible assets are not systematically written down. The indefinite life assumption is reviewed for its continued justification at least once a year. If the assumption no longer applies, the prospective definite useful life is applied.

Impairments on intangible assets are recorded within amortisation of intangible assets in the income statement.

Property, plant and equipment

Property, plant and equipment are shown at cost less cumulative systematic depreciation and cumulative impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets in question, which is generally three to 13 years in the case of technical, business and operating equipment and 30 to 50 years in the case of real estate. The depreciation methods and useful lives are reviewed at the end of each fiscal year and adjusted if necessary. The carrying amounts of property, plant and equipment are reviewed for any impairment upon any evidence arising indicating that the carrying values exceed the recoverable values. Impairment losses on real estate are identified using external valuation reports, which are prepared on the basis of the discounted cash flow method stipulated by the Real Estate Value Calculation Ordinance. Impairments on property, plant and equipment are recorded within depreciation of property, plant and equipment in the income statement.

Investments in associates

Investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant control but which is not a subsidiary or joint venture. In contrast to full consolidation, the assets, liabilities, income and expenses of the associate are not included in the consolidated financial statements when the equity method of accounting is applied.

If the net assets measured at fair value exceed the cost of the business combination as of the date of acquisition, the difference is reported in the share of profit or loss of the associate in the period in which the business combination arose.

The cumulative post-acquisition movements in the associate's equity are adjusted against the carrying amount of the investment on an annual basis. The Group's share of the associate's post-acquisition profits or losses is recognised in the share of profit of associates in the income statement.

In accordance with IAS 39, an impairment test is performed as of the reporting date to identify any evidence of impairment in the share. Impairments are recognised if the recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use, is less than the carrying amount.

Non-derivative financial assets

Non-derivative financial assets as defined in IAS 39 are classified as
- loans and receivables or
- available-for-sale financial assets.

In addition to derivative financial instruments with or without any hedging relationship, TAG does not have any financial assets held for trading or held-to-maturity financial instruments.

Executory contracts in the form of derivatives are always recorded as financial assets or financial liabilities at fair value as of the trading date. Spot transactions involving non-derivative financial assets are recorded on their settlement date and are initially managed on the basis of their fair value. The Group determines the classification of its financial assets upon initial recognition. A financial asset is derecognised if the contractual rights to draw on the cashflows from it have expired.

The current receivables and other current assets as well as non-current receivables included in other financial assets recognised in TAG's consolidated balance sheet are classified as "loans and receivables". Loans and receivables are financial assets with fixed or determinable payments which are not traded in an active market After initial recognition, they are measured using the effective interest method at amortised cost net of any impairment. Receivables are adjusted if there is substantial objective evidence that the Group will not be able to recover the receivables. This is chiefly determined by reference to the age structure of the assets.

Available-for-sale financial assets which chiefly comprise investments in associates are classified as available for sale and not allocated to any other category. After initial recognition, they are measured at their fair value provided that this can be reliably determined, with any gains or losses directly recorded in other comprehensive income and in a separagraphte item within equity. If it is not possible to reliably determine their fair value, they are recognised at historical cost. When the asset is sold or if it is found to be impaired, the amount previously carried under equity is taken to the income statement. Impairments are reversed if the reasons for such impairment no longer apply. As is the case with the prior impairments, the reversals are recorded directly in equity.

Land with finished and unfinished buildings and other inventories

Land with finished and unfinished buildings and other inventories are reported at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Borrowing costs in connection with the acquisition or construction of land are capitalised provided that the applicable conditions for this are satisfied. Land with unfinished and finished buildings includes real estate which at the time of acquisition is expected to be resold. If the intention to sell is abandoned, the land is reclassified as investment properties.

Income tax refund claims and liabilities as well as deferred income taxes

Actual income tax refund claims and liabilities are recognised at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates and tax laws that have been enacted as of the balance sheet date.

Deferred income taxes are calculated using the balance-sheet oriented liability method for all temporary differences arising as of the balance sheet date between the carrying value of an asset or liability and its tax base. Excluded from this is goodwill arising from acquisition accounting.

Deferred income tax assets were recognised in the past for all deductible temporary differences, unused tax losses and unused tax credits to the extent that realisation of the related income tax benefit through future taxable profits is probable within a forecast period of five years. The carrying amount of deferred income tax assets were reviewed on each balance sheet date and adjusted to the extent that sufficient taxable profits will not be available. Given the uncertainty as to whether taxable profits will be available in the future, deferred income tax assets were recognised only up to an amount equalling deferred income tax liabilities in 2012.

Deferred income tax assets and liabilities are measured on the basis of tax rates expected on the basis of information available as of the reporting date to apply in the period in which an asset is realised or a liability settled.

Deferred income tax assets are set off against deferred income tax liabilities of the same taxable entity if they relate to income taxes levied by the same taxation authority and the enterprise has a legally enforceable right to set off current tax assets against current tax liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at bank with an original maturity period of less than three months.

Non-current assets held for sale and related liabilities

Investment properties are classified as held for sale if TAG makes a decision to sell the real estate in question and this real estate is immediately available for sale and as of the date of this decision can be expected to be sold within one year. They continue to be measured at their fair value.

A non-current asset or group of available-for-sale assets are designated as available for sale if the carrying amount is predominantly recovered via a sales transaction rather than through continuing use, the asset is available for immediate sale and a sale can consider to be highly probable. They are recognised at the lower of their previous carrying amount and fair value net of the cost of disposal. These assets or groups of assets and the related liabilities are shown separagraphtely on the face of the balance sheet.

Differentiation of equity capital

Debt and equity instruments are classified as financial liabilities or equity depending on the economic effect of the underlying contract. An equity instrument is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities. Equity instruments are recorded at the issue process less directly attributable equity transaction costs.

Equity transaction costs are costs which would not have arisen had it not been for the issue of the equity instrument. Equity transaction costs (e.g. all costs related to equity issues) net of the resultant income tax benefits are deducted from equity and netted with other paid-in capital.

The components of a hybrid instrument issued by the Group (convertible bond) are recorded separagraphtely as financial liabilities and equity instruments in accordance with the economic effect of the underlying contract. The fair value of the debt capital component as of the date of issue is measured by reference to the market interest on comparagraphble non-convertible instruments. This amount is recorded as a financial liability at amortised cost using the effective interest method until settlement in the case of conversion or expiry of the instrument. The equity component is determined by deducting the value of the debt capital component from the fair value of the entire instrument. The result net of income tax effects is recorded within equity and is not subject to subsequent measurement.

In the past, Colonia established various stock option programs. The stock options vesting as of the reporting date were of subordinate importance for TAG's equity.

Hedges (cashflow hedge accounting)

All derivative financial instruments are initially recognised at their fair value on the trading day. The effective portion of the change in the fair value of derivatives suitable for use as cashflow hedges for floating-rate loans and designated as such is recorded in equity within a hedge accounting reserve taking account of the effects of deferred taxes. The hedge relates to the floating rates on the loans raised. The gains or losses attributable to the ineffective portion are recognised in profit and loss. The prospective or retrospective effectiveness is measured using the dollar-offset method or by means of a sensitivity analysis.

(Expected) hedge relationships are removed from the balance sheet when the Group dissolves the hedge relationship or the hedging instrument expires or is sold, terminated or exercised or is no longer suitable for hedging. The gain or loss recognised in equity in full at this date is retained in equity and not released to the income statement until the hedged (expected) transaction is also recognised in the income statement. If the expected transaction is no longer likely to materialise, the entire gains or losses recognised in equity are immediately released to the income statement.

Financial liabilities

When liabilities, these predominantly being bank borrowings to finance real estate, are initially recognised, they are measured at cost, i.e. the fair value of the consideration given net of transaction costs, on the trading day. After initial recognition, liabilities are measured at amortised cost using the effective interest rate method.

Financial liabilities are derecognised when the contractual obligations underlying them are settled or suspended, cancelled or expire.

Retirement benefit provisions

In the past, the TAG Group had defined-benefit retirement benefit plans for former members of the Management Board and employees as well as their family members at its subsidiaries TAG Potsdam, Bau-Verein and Polares. Expenses incurred with the benefits granted under this plan are calculated using the projected unit credit method. The amount to be carried as a liability is the sum total of the present value of the defined-benefit obligation and the unrecognised actuarial gains and losses less unrecognised past service costs and the fair value of the plan assets used to directly settle the liability.

In addition, TAG pays contributions to statutory pension funds in accordance with statutory provisions. The current payments under these defined-contribution obligations are reported as social security expense within staff costs.

Other provisions

Provisions are recognised when the Group 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.

Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. This also includes leases for a certain period of time. Leases are classified as finance leases if the risks and rewards incidental to ownership of the asset are transferred to the lessee. All other leases are classified as operating leases.

Accordingly, leases in which the Group is the lessor are predominantly operating leases. Economic ownership of the leased real estate and, hence, the duty to recognise it on the balance sheet, remain with the Group. Income from leases is reported as rental income.

Lease payments under operating leases in which the Group is the lessee are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Group and the amount of revenue can be reliably measured.

Revenue from the sale of real estate is recognised when the risks and opportunities arising from ownership of the real estate have passed to the buyer (transfer of ownership rights, benefits and obligations arising from the real estate).

Rental income from investment properties as well as available-for-sale properties which are regularly leased when acquired or sold is recorded on a straight-line basis over the term of the lease.

In addition, net rental income includes the effects of the settlement of operating costs paid by tenants in prior years.

Service revenues chiefly arise from the asset management activities performed by Polares, which was sold effective 30 September 2012.

Currency translation

The consolidated financial statements are prepared in euros. The euro is the currency of the primary economic environment in which the Group operates and is therefore the functional currency.

Foreign-currency transactions are translated into the functional currency of the applicable Group company at the exchange rate applying on the date of the transaction. Monetary foreign-currency items are subsequently translated at the applicable end-of-year exchange rate. Any exchange-rate differences arising in the settlement of foreign-currency transactions or from the translation of monetary foreign-currency items are recorded within other operating expense or income in the income statement.

The functional currency of the foreign companies is the local currency in question as they conduct their business operations independently from a financial, economic and organisational point of view. The assets and liabilities of foreign subsidiaries are translated to euros at the end of the year using the applicable end-of-year exchange rate; income and expense are translated to euros at annual average exchange rates. Equity components are translated at historical exchange rates on the dates on which they are added at the Group level. Any differences arising from currency translation at end-of-year exchange rates are reported within equity under "foreign currency translation".

Material judgements and estimates

Discretionary decisions

In applying the recognition and measurement methods, the Management Board has utilised the following accounting estimates which have a material effect on the amounts shown in the consolidated financial statements:

- With respect to the real estate held by the Group, the Management Board must determine as of the balance sheet date whether it is held on a long-term basis for rental or for investment or whether it is available for sale. Depending on the outcome of this decision, real estate is allocated to investment properties, land held for sale with finished or unfinished buildings (inventories) or non-current available-for-sale assets.

Estimates

In applying the recognition and measurement methods, the Management Board has utilised the following accounting estimates which have a material effect on the amounts shown in the consolidated financial statements:

- The fair value of investment properties is determined solely on the basis of the results of the independent valuers who are retained for this purpose. The calculations are performed on the basis of discounted future surplus income, which is determined using the capitalised income value method or discounted cash flow method. For valuation purposes, the valuers must estimate certain factors, such as future rental income and the applicable discount rates, which may have a direct bearing on the fair value of the investment properties. In addition, transactions costs in an amount considered to be probable by TAG are included. The fair value of these properties as of the reporting date stood at EUR 3,455.7 m (previous year: EUR 1,889.9 m).
- The estimate of the net proceeds from the sale of real estate held as inventories entails uncertainty particularly with respect to the realisable prices. As of the reporting date, the carrying amount of the land with finished and unfinished buildings stood at EUR 89.6 m (previous year: EUR 37.4 m).
- For the purpose of testing the other financial assets for any impairment, the carrying amounts at which the other financial assets (loans) are recognised are compared with the fair values at the end of each year. For this purpose, the appropriateness of the carrying amounts is assessed on the basis of information available on the associates and borrowers. In the event of any evidence of an impairment of the fair values, the carrying amounts are adjusted accordingly. The carrying amount of the financial assets stands at EUR 25.5 m as of the reporting date (previous year: EUR 12.2 m) and is made up of investments in and loans to real estate companies as well as other non-current receivables.
- With respect to other provisions, various assumptions have been made, e.g. with respect to the probability and amount of utilisation of provisions for repairs, damages and litigation risks. For this purpose, account is taken of all information available as of the balance sheet date. Other provisions are valued at EUR 33.5 m as of the reporting date (previous year: EUR 17.8 m).

Changes compared with the previous year

In comparison to the previous year, the following changes have been made to the presentation of items in the consolidated financial statements as the Company considers these to provide an enhanced insight into its net assets and results of operations:

- Following adjustments to the internal structures, the composition of the reportable segments has changed. Thus, a new regional breakdown has been adopted for the Residential segment, while the Services and Other Activities segments have been combined to form a single Other Activities segment following consolidation changes. The segment report for the previous year has been restated accordingly.
- The income of TEUR 4,528 from interest rate swaps reported as interest income in the previous year is for valuation units formed and netted with interest expense on interest rate swaps reported within interest expense in the year under review. The figures for the previous year have been restated accordingly.
- The issuing costs for convertible bonds of TEUR 516 reported as other operating expense in the previous year are now included within interest expense in line with the application of the effective interest method. The figures for the previous year have been restated accordingly.
- The fair values of the investment properties are calculated by an external appraiser. The fair values of residential real estate are calculated using the DCF method, whereas in the previous year the capitalised earnings value method was used. These amendments did not have any effect on the Group's net assets, financial condition and results of operations as the two methods fundamentally produce the same results. The change in the valuation method is due to the fact that the fair values of the residential value have been uniformly calculated by a single appraiser across the entire Group since 2012.

Notes on the balance sheet

1. Investment properties

In 2012, fair value remeasurement gains of TEUR 105,870 (previous year: TEUR 42,508) and fair value remeasurement losses of TEUR 86,657 (previous year: TEUR 18,335) were recognised. The gains and losses resulted in a net revaluation result of TEUR 19,213 (previous year: TEUR 24,173).

The table below sets out the movements in the portfolio of investment properties:

Investment properties	TEUR
Amount on 01/01/2011	**837,204**
Additions as a result of business combinations	960,641
Other additions	55,661
Disposals	-88
Reclassified as non-current assets held for sale	-54,490
Reclassification of properties held for sale	66,759
Net gains/losses in fair value as of 12/31/2011	24,173
Amount on 12/31/2011	**1,889,860**
Addition as a result of business combinations	1,518,113
Additions as a result of acquisition	95,709
Subsequent costs	12,319
Transfers from assets held for sale	4,300
Transfers from inventories	35,143
Transfers from property, plant and equipment	2,916
Reclassified as assets held for sale	-117,726
Sale of Tegernsee-Bahn Betriebsgesellschaft mbH	-4,180
Net gains/losses in fair value as of 12/31/2012	19,213
Amount on 12/31/2012	**3,455,667**

In the year under review, investment properties with a carrying amount of TEUR 3,455,667 (previous year: TEUR 1,889,860) were secured by real-property liens and the assignment of rental income.

The income statement contains the following significant amounts relating to investment properties:

Investment properties	2012 TEUR	2011 TEUR
Rental income	182,970	109,034
Operating expenses (maintenance, facility management, land taxes ect.)	-45,358	-34,006
Total	**137,612**	**75,028**

Operating expenses relate almost solely to leased real estate. The expenses attributable to vacant real estate are of subordinate importance.

The following table sets out the material assumptions used by the independent experts to calculate the fair value of the investment properties (EUR 3,107.5 m) in accordance with the discounted cash flow method – with the exception of the commercial real estate, which was calculated using the capitalised earnings value method:

	2012		2011	
	Average	Range	Average	Range
Return on property in %	6.14	3.0–11.0	5.60	3.0–7.0
Maintenance costs EUR/sqm	8.1	0.3–16.4	6.9	3.0–14.5
Administration costs as a % of gross annual income	5.95	0.3–77.6	4.00	0.4–11.4

Measurement is based on international valuation standards using the discounted future excess income identified in accordance with the DCF method. Under the DCF method, expected future cash surpluses generated by a property are discounted as of the measurement date. For this purpose, the surpluses from the property in question are calculated for a detailed forward period of mostly ten years. These surpluses are calculated by netting expected cash inflows and outflows. Whereas the cash inflows are normally comprised of net rentals, the cash outflows (gross) chiefly include the management costs borne by the owner.

The cash surpluses for each period are discounted using a market-oriented discount rate for the property in question as of the measurement date. This results in the present value of the cash surpluses for the period in question. A potential discounted terminal value for the property in question is forecast for the end of the detailed forward period, reflecting the most likely price which can be achieved at the end of this period. For this purpose, the discounted cash surpluses for the tenth year are capitalised at the exit rate to produce the perpetual annuity, This ranged from 2.25 % to 10.0 % depending on the specific property in 2012. The sum total of the discounted cash surpluses and the discounted potential selling value equals the gross present value of the property in question. The market-specific transaction costs of a potential acquirer of 0.2 % are then deducted from this gross present value, resulting in the net present value.

The commercial real estate portfolio had a carrying amount of EUR 348.2 m as of the reporting date. Commercial real estate was valued using the German capitalised earnings value method on the basis of the net capital value in accordance with the Real Estate Value Calculation Ordinance. The following table sets out the material assumptions underlying the capitalised earnings value method to calculate the fair value of the investment properties:

	2012		2011	
	Average	Range	Average	Range
Return in property in %	6.00	4.0–8.5	5.70	4.5–7.5
Usefull lives in years	40	16–66	41	16–67
Maintenance costs EUR/sqm	6.2	4.0–10.0	6.0	3.0–10.0
Managementcosts as a % of gross annual income	2.10	0.4–5.7	2.10	0.40–9.3

As the fair value calculated using the capitalised earnings value method matches the corresponding net figures, it was not necessary to include any deductions for transaction costs.

2. Intangible assets

The table below analyses the movements in intangible assets. Currently, there are no intangible assets with an indefinite useful life other than goodwill. As in the previous year, no impairment was recognised on intangible assets.

Intangible assets Historical cost	Goodwill TEUR	Order backlog TEUR	Others TEUR	Total TEUR
Amount on 01/01/2011	**2,364**	**1,614**	**1,263**	**5,241**
Additions from business combinations	2,243	0	208	2,451
Additions	0	0	481	481
Disposals	0	0	-58	-58
Amount on 12/31/2011	**4,607**	**1,614**	**1,894**	**8,115**
Additions from business combinations	0	0	7	7
Additions	0	0	1,295	1,295
Disposals	-4,607	-1,614	-681	-6,902
Amount on 12/31/2012	**0**	**0**	**2,515**	**2,515**

Cumulative depreciation	Goodwill TEUR	Order backlog TEUR	Others TEUR	Total TEUR
Amount on 01/01/2011	**0**	**0**	**330**	**330**
Additions	0	305	287	592
Disposals	0	0	-127	-127
Amount on 12/31/2011	**0**	**305**	**490**	**795**
Additions	0	183	571	754
Disposals	0	-488	-591	-1,079
Amount on 12/31/2012	**0**	**0**	**470**	**470**

Carrying amount on 12/31/2011	**4,607**	**1,309**	**1,404**	**7,320**
Carrying amount on 12/31/2012	**0**	**0**	**2,045**	**2,045**

The goodwill, order books and “Resolution”, “Accentro” and “Larus” brands reported in the previous year related to POLARES’ service business and were therefore disposed of upon the sale of that company effective 30 September 2012.

3. Property, plant and equipment

The table below sets out the movements in property, plant and equipment.

Property, plant and equipment Historical cost	Real estate TEUR	Technical equipment TEUR	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2011	**12,454**	**1,289**	**2,432**	**16,175**
Additions from business combinations	0	0	357	357
Additions	0	0	212	212
Disposals	0	0	-91	-91
Amount on 12/31/2011	**12,454**	**1,289**	**2,910**	**16,653**
Additions from business combinations	1,307	0	798	2,105
Additions	235	0	1,638	1,873
Disposals	-5,361	-1,289	-1,077	-7,727
Amount on 12/31/2012	**8,635**	**0**	**4,269**	**12,904**

Property, plant and equipment Cumulative depreciation	Real estate TEUR	Technical equipment TEUR	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2011	**1,824**	**884**	**1,477**	**4,185**
Additions	244	47	285	576
Disposals	0	0	-118	-118
Amount on 12/31/2011	**2,068**	**931**	**1,644**	**4,643**
Additions	223	47	702	972
Disposals	-1,585	-978	-812	-3,375
Amount on 12/31/2012	**706**	**0**	**1,534**	**2,240**
Carrying amount on 12/31/2011	**10,386**	**358**	**1,266**	**12,010**
Carrying amount on 12/31/2012	**7,929**	**0**	**2,735**	**10,664**

Within property, plant and equipment, land with a carrying amount of TEUR 7,929 (previous year: TEUR 10,386) is secured with real estate liens and the assignment of rental income.

4. Investments in associates

Movements in investments in associates were as follows:

Investments in associates	TEUR
Amount on 01/01/2011	**59,379**
Disposals as a result of first-time consolidation	-52,144
Share of profit/losses of associates	246
Reclassified as non-current assets held for sale	-7,420
Amount on 12/31/2011	**61**
Share of profit/losses of associates	7
Amount on 12/31/2012	**68**

Up until the beginning of 2011, disposals through first-time consolidation related to the shares in Colonia, which had been reported as investments in associates. Colonia was consolidated by TAG for the first time effective 31 January 2011.

In the previous year, the reclassification of investments in associates as non-current assets held for sale concerned the 21 % share in Estavis AG. The 2,967,712 shares held by TAG in Estavis AG were issued at the beginning of 2012 as the purchase price payment to the seller for the acquisition of an investment. The shares in Estavis AG disposed of were measured at the stock market price of EUR 1.95 per share as of 31 December 2011.

5. Other financial assets

Other financial assets comprise investments in affiliated companies not consolidated for materiality reasons and loans to these affiliated companies as well as other non-current loans. These are analysed in the following table:

Historical costs	TEUR
Amount on 01/01/2011	**366**
Additions	4,760
Additions from business combinations	7,804
Disposals	-644
Amount on 12/31/2011	**12,286**
Additions	13,399
Additions from business combinations	408
Disposals	-351
Amount on 12/31/2012	**25,742**

Kumulierte Abschreibungen	TEUR
Amount on 01/01/2011	**31**
Additions	105
Disposals	0
Amount on 12/31/2011	**136**
Additions	92
Amount on 12/31/2012	**228**
Carrying amount on 12/31/2011	**12,150**
Carrying amount on 12/31/2012	**25,514**

The additions in 2012 include the non-current receivable of TEUR 11,963, which has been discounted to its present value, arising from the sale of Polares. Of this, an amount of TEUR 240 was settled in 2012.

The additions to cumulative depreciation relate to impairments recognised on an equity investment held within the Colonia subgroup.

6. Deferred income tax assets/liabilities

Deferred income tax assets (+) and liabilities (-) break down as follows:

Deferred income taxes	2012 TEUR	2011 TEUR
Unused tax losses (incl. interest brought forward)	65.080	33.325
Gains / losses from remeasurement of investment properties	-197.898	-105.573
Gains / losses from remeasurement of hedge accounting (negative market values)	9.889	9.576
Gains / losses from remeasurement of hedge accounting (positive market values)	0	-6
Gains / losses from remeasurement of properties held as inventory	-1.140	263
Gains / losses from remeasurement of liabilities (deferred income tax assets)	7.825	807
Gains / losses from remeasurement of liabilities (deferred income tax liabilities	-2.835	-3.407
Gains / losses from remeasurement of convertible bonds	-3.925	-2.003
Others	1.147	252
Total deferred income tax assets	83.941	44.223
Total deferred income tax liabilities	-205.798	-110.989
Offset	82.439 -82.439	44.105 -44.105
Deferred income taxes recorded on the face of the balance sheet	1.502 -123.359	118 -66.884

7. Land with unfinished and finished buildings and other inventories

The table below sets out the movements in land with unfinished and finished buildings in the year under review:

Land with unfinished and finished buildings	2012 TEUR	2011 TEUR
Amount on 01 / 01	**37,413**	**113,973**
Additions from business combinations	105,374	0
Addittions	2,580	10,198
Reversal of impairments	1,011	0
Impairments	-8,509	-1,542
Disposals	-13,084	-18,457
Reclassification as investment properties	-35,143	-66,759
Amount on 12 / 31	**89,642**	**37,413**

Unfinished and finished buildings reported within current assets also include real estate which will probably only be sold after more than twelve months as of the balance sheet date.

Other inventories break down as follows:

Other inventories	2012 TEUR	2011 TEUR
Heating supplies	354	247
Others	214	0
Total	**568**	**247**

8. Trade receivables, income tax receivables claims and other current assets

Trade receivables break down as follows:

Trade receivables	2012 TEUR	2011 TEUR
Rental receivables	12,544	7,660
Receivables from the sale of properties	3,622	2,754
Others	3,967	2,774
Total	**20,133**	**13,188**

The income tax reimbursement claims chiefly relate to TAG Potsdam (TEUR 1,520) and TAG Wohnen (TEUR 1,157) and comprise corporate tax reimbursement claims including the solidarity surcharge and trade tax for the consolidated companies.

Other current assets break down as follows:

Other current assets	2012 TEUR	2011 TEUR
Compensation claim from acquisition of TAG Potsdam	3,423	0
Current loans to third parties	2,733	0
Creditors with a debit balance	752	750
Prepaid expenses	625	751
Deposit	517	216
Reveivables from investments	276	34
Receivables from associated companies	0	214
Receivables from affiliated companies	0	112
Others	6,562	1,215
Total	14,888	3,292

Impairments recognised on trade receivables and other current assets are analysed in the following table:

Impairments	TEUR
Amount on 01/01/2011	**1,473**
Additions from first-time consolidation	8,295
Utilised	-925
Reversed	-964
Additions	1,957
Amount on 12/31/2011	**9,836**
Additions from first-time consolidation	4,546
Utilised	-1,831
Reversed	-2,078
Additions	5,848
Amount on 12/31/2012	**16,321**

In the year under review, impairments (individual adjustments and bad debts) of TEUR 4,997 (previous year: TEUR 1,957) were recognised on trade receivables in the income statement due to insufficient credit worthiness on the part of customers. These impairments are reported in the income statement under impairments on inventories and receivables.

9. Cash and cash equivalents

Cash and cash equivalents include cash in hand at cash at banks. The cashflow statement includes the cash in hand and cash at banks less current bank borrowings. In this respect, cash and cash equivalents in the cashflow statement differ from the corresponding item reported in the balance sheet. The two items are reconciled in the notes to the cashflow statement.

As of the reporting date, cash and cash equivalents of TEUR 118 (previous year: TEUR 4,328) were subject to drawing restrictions. The amount reported concerns the bank balance temporarily pledged due to the breach of a loan covenant.

10. Assets held for sale

The table below sets out the changes in the assets held for sale:

Assets held for sale	in TEUR
Amount on 01/01/2011	**16,200**
Reclassification of investment properties as assets held for sale	54,490
Reclassification of investments in associates as assets held for sale	7,420
Disposals	-39,744
Amount on 12/31/2011	**38,366**
Reclassification of investment properties as assets held for sale	117,726
Sale of Tegernsee-Bahn Betriebsgesellschaft mbH	5,932
Reclassification of assets held for sale as investment properties	-4,300
Disposals	-46,093
Amount on 12/31/2012	**111,631**

The assets held for sale as of the reporting date comprise investment properties of TEUR 109,879 (previous year: TEUR 30,946) as well as other assets in Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee, valued at TEUR 1,751. In the previous year, this had also included the investment of TEUR 7,420 in Estavis AG.

Of the non-current assets held for sale in the previous year of TEUR 38,366, investment properties of TEUR 26,246 had been sold as of the date on which the balance sheet was prepared and investment properties of EUR 4,300 reclassified as investment properties as there was no longer any intention for them to be sold. It is highly likely that the property with a carrying amount of TEUR 400 which has not yet been sold will be sold in the first half of 2013.

Of the investment properties, residential real estate accounted for TEUR 106,976 (previous year: TEUR 20,176) and commercial real estate for TEUR 4,655 (previous year: TEUR 10,465) in the segment report.

11. Subscribed capital

TAG's fully paid up share capital amounted to TEUR 130,737,996.00 as of 31 December 2012 (previous year: EUR 74,905,174.00) and was divided into 130,737,996 (previous year: 74,905,174) no-par-value shares with equal voting rights. They are bearer shares.

In the year under review, the Company's subscribed capital was repeatedly increased on a cash and non-cash basis. A total of 55,832,822 new shares (previous year: 16,338,810 shares) were issued. Of these, 859,339 arose in connection with a non-cash equity issue relating to the acquisition of TAG Chemnitz Immobilien GmbH, 1,809,693 from the non-cash equity issue as a result of the contribution of shares of Colonia Real Estate AG, 20,663,737 from a cash equity issue using authorised capital and 30,000,000 from a cash equity issue. In addition, the Company's share capital increased by 2,500,053 shares following the conversion of the conversion rights under convertible bonds.

Authorised Capital 2012/I

In a resolution passed at the annual general meeting held on 14 June 2012, the shareholders authorised the Management Board subject to the Supervisory Board's approval to increase the Company's share capital by a total amount of no more than EUR 40 m by issuing up to 40,000,000 no par value ordinary shares on a cash and/or non-cash basis once or on repeated occasions on or before 13 June 2017.

In connection with the acquisition of further shares in Colonia, the Management Board made use of this authorisation in a resolution passed on 19 September 2012 and issued new shares worth EUR 1,809,693.00 on a non-cash basis. The new shares were entered in the commercial register on 15 November 2012.

To finance the acquisition of TAG Wohnen, the Management Board acting with the approval of the Supervisory Board passed a resolution on 19 November 2012 to issue up to around 30 m new shares on a cash basis. The new shares were offered to the shareholders for subscription on a 5-for-17 basis within a subscription period from 23 November 2012 up to and including 7 December 2012. In addition, the new shares have been offered to institutional and private investors in Germany in a public offer and in selected other countries in the form of a private placement. On 3 December 2012, the Management Board acting with the Supervisory Board's approval set the subscription price and the offering price for the new shares offered in an advance placement at EUR 9.00 per share. The proceeds from the issue came to EUR 270 m. The equity issue was entered in the commercial register on 11 December 2012. At the same time, an application was submitted for admission of the new shares to the regulated market of the Frankfurt Stock Exchange (Prime Standard).

After this utilisation, authorised capital 2012/I of around EUR 8,190,307.00 is thus still available.

Authorised capital 2011/I and 2011/II

To finance the acquisition of TAG Potsdam, the Management Board acting with the approval of the Supervisory Board passed a resolution on 28 February 2012 to execute a cash equity issue entailing the utilisation of the existing authorised capital to issue up to around 20.7 m new shares. The new shares were offered to the shareholders on a 3-for-11 basis in a subscription period between 2 and 16 March 2012. Subscription rights were excluded for fractional amounts. In addition, the new shares have been offered to institutional and private investors in Germany in a public offer and in selected other countries in the form of a private placement. The new shares were placed in full at a subscription price of EUR 6.15 each. The proceeds from the equity issue thus came to EUR 127 m. The issue of a total of EUR 20,663,737 was entered in the commercial register on 19 March 2012. The new shares, which are dividend-entitled from 1 January 2011, were admitted to trading in the regulated market (Prime Standard) of the Frankfurt Stock Exchange on 20 March 2012.

The authorised capital 2011/I and 2011/II approved at the annual general meeting in 2011 had previously been utilised in full and is therefore no longer available.

Contingent capital 2009/I

At the annual general meeting held on 27 August 2009, the shareholders authorised the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds on or before 26 August 2014. The Management Board also made use of this authorisation with the Supervisory Board's approval in resolutions passed on 17 December 2009 and 15 April 2010 and issued two convertible bonds of EUR 12.5 m and EUR 30 m respectively. Accordingly, the authorisation of 27 August 2009 was utilised in full. The bearers or creditors of these convertible and/or option bonds are granted conversion or option rights on new shares in TAG with a proportionate share in its share capital of up to EUR 8.2 m in accordance with the terms and conditions determined. Following the exercise of conversion rights under the convertible bonds issued in December 2009 and April 2010, the Company's share capital increased by 2,505,304 shares, while contingent capital 2009/I contracted to EUR 6,099,947.00 in the year under review.

Contingent capital 2010/I

At the annual general meetings held on 25 June 2010 and on 14 June 2012, the shareholders additionally authorised the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds of an amount of up to EUR 18 m on or before 24 June 2015. The bearers or creditors of the convertible and/or option bonds issued on the basis of this authorisation are granted conversion and/or option rights on new shares in TAG with a proportionate share in its share capital of up to EUR 9.8 m in accordance with the terms and conditions determined. In resolutions passed by the Management Board and approved by the Supervisory Board on 14 October 2010 and 15 November 2010, use was also made of this authorisation and a convertible bond in a nominal value of EUR 66.6 m issued. The contingent capital 2010/I underlying this convertible bond would thus increase the share capital by up to EUR 9.8 m on a contingent basis. This means that the authorisation has been largely utilised. No conversion rights were exercised under this convertible bond in 2012.

Contingent capital 2011/I

At the annual general meeting held on 26 August 2011, the shareholders additionally authorised the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds with a total nominal amount of up to EUR 150.0 m on or before 25 August 2016 and to grant the bearers or creditors of such bonds conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to EUR 15.0 m in accordance with the terms and conditions determined. In connection with the contingent capital which had been approved in the previous year, the shareholders passed a resolution at the meeting held on 14 June 2012 providing once more for the possibility for excluding the shareholders' preemptive subscription rights upon this convertible bond being issued in accordance with the shareholders' resolution. Finally, in resolutions passed by the Management Board and approved by the Supervisory Board on 25 June 2012, use was made of this authorisation and a convertible bond in a nominal value of EUR 85.3 m issued. The holders of these convertible bonds have not yet exercised any conversion rights. A volume of around 9,700,000 shares has been reserved for the convertible bond issued on 25 June 2012. Accordingly, the unused contingent capital stands at around 5,300,000 shares.

12. Share premium

The share premium primarily contains the premium on the equity issues executed in the year under review and in earlier years net of withdrawals to equalise the net losses for the year recorded in accordance with German commercial law. In addition, effects from increases or decreases in shares without any change of status are allocated to this item.

Reference should be made to the consolidated statement of changes in equity for an analysis of this item in the year under review.

In the year under review, equity issue costs of TEUR 11,602 (previous year: TEUR 2,810) net of the related income tax benefits of TEUR 3,745 (previous year: TEUR 907) were reported within the share premium.

13. Other reserves

Other reserves break down as follows:

Other reserves	2012 TEUR	2011 TEUR
Legal reserve	46	46
Miscellaneous retained earnings	481	481
Retained earnings	527	527
Hedge accounting reserve	-20,833	-16,818
Currency translation reserve	96	31
Total	**-20,210**	**-16,260**

The legal reserve complies with the provisions contained in Section 150 of the German Stock Corporations Act. Other retained earnings comprise the profit retained in earlier years.

The hedge accounting reserve includes gains and losses from interest hedges (cashflow hedges) net of deferred taxes and breaks down as follows:

Hedge accounting reserve	2012 TEUR	2011 TEUR
Amount on 01 / 01	**-16,817**	**-10,034**
Unrealised gains and losses	4,060	-12,947
Recorded in profit and loss	-9,010	4,057
Deferred tax effect	934	2,107
Amount on 12 / 31	**-20,833**	**-16,817**

The amounts reported within net borrowing costs chiefly concern amounts recycled from the hedge accounting reserve to profit and loss due to the execution of the expected transaction.

The currency translation reserve comprises currency translation differences arising when foreign Group companies translate their accounts into the Group's functional currency.

14. Unappropriated surplus

This item is analysed in the consolidated statement of changes in equity.

The Management Board and the Supervisory Board plan to propose a dividend of EUR 0.25 per share for the year under review for approval at the upcoming annual general meeting. This proposal is subject to the approval of the Supervisory Board and the shareholders.

15. Non-controlling interests

This item refers to the shares held by minority shareholders in the equity and net profit or loss for the year of the consolidated subsidiaries The net profit attributable to the equity holders of the parent company equals the difference between the consolidated net profit before non-controlling interests and the non-controlling interests reported in the income statement.

16. Bank borrowings

Bank borrowings chiefly consist of liabilities arising in connection with the acquisition of investment properties or the acquisition and development of available-for-sale properties. Financing is usually agreed on a non-current basis for investment properties and on a current basis for land available for sale. Lending terms and conditions (interest rates, repayments) are adjusted at regular intervals. As in the previous year, repayments are generally between 1 % and 2 % p.a. The bank borrowings are secured in an amount of TEUR 2,216,047 (previous year: TEUR 1,189,393). For the most part, collateral takes the form of real property liens, the assignment of rental income and pledges on investments in affiliated companies.

17. Retirement benefit provisions

The retirement benefit provisions relate to the commitments made in earlier years to former members of the Management Board and employees of Bau-Verein and TAG Potsdam and their dependants. This item breaks down as follows:

Retirement benefit provisions	**in TEUR**
Opening amount on 01/01/2011	**1,801**
Additions from acquisitions	40
Utilised	-217
Reversed	-70
Added (interest costs, included in personnel costs)	206
Amount on 12/31/2011	**1,760**
Additions from acquisitions	3,517
Disposals as a result of sale	-29
Utilised	-439
Reversed	-48
Added (interest costs, included in personnel costs)	365
Amount on 12/31/2012	**5,126**

The table below sets out the paragraphmeters used as a basis for calculating the retirement benefit provisions:

	2012	**2011**
Interest rate	3.80 %	5.00 %
Rate of salary increase	1.50 %	1.50 %
Retirement age	In accordance with social code VI	

As in earlier years, changes in the actuarial assumptions, which however were only of minor importance, were recognised in profit and loss within personnel costs. Of the retirement benefit provisions, an amount of TEUR 439 (previous year: TEUR 228) is due for payment within one year. These amounts together with other pension obligations are reported within non-current liabilities. The table below sets out movements in the net liabilities recognised:

	2012 TEUR	**2011 TEUR**
Amount on 01/01	**1,760**	**1,801**
Additions from first-time consolidation	3,517	40
Staff costs	317	136
Pension payments	-439	-217
Deconsolidation	-29	0
Amount on 12/31	**5,126**	**1,760**

As in the previous year, the present value of the defined-benefit obligation corresponds to the liability shown in the consolidated balance sheet. A reconciliation statement has therefore been dispensed with. The present value of the defined-benefit obligation stood at TEUR 1,801 as of 31 December 2010, TEUR 1,880 as of 31 December 2009 and TEUR 1,920 as of 31 December 2008.

18. Non-current liabilities under convertible bonds, derivative financial instruments and other non-current liabilities

This item breaks down as follows:

	2012 TEUR	2011 TEUR
Non-current liabilities from convertible bonds	173,105	93,868
Derivative financial instruments (non-current part)	23,796	28,222
Other non-current liabilities	3,643	153
Total	**200,544**	**122,243**

The Company issued 125,000 convertible bonds in a nominal amount of EUR 100.00 each on 21 December 2009. These bearer bonds with a nominal amount of TEUR 12,500 had a coupon of 4.5 % p.a. and originally expired on 31 December 2012. The original conversion price was EUR 5.15. This convertible bond was bought back on 28 May 2010, resulting in a gain of TEUR 1,121. The bond was issued again on 17 August 2010 and converted in full in 2012.

On 13 May 2010, the Company issued a further 300,000 convertible bonds with a nominal amount of EUR 100.00 each. The nominal amount of the bearer bonds stands at TEUR 30,000. The convertible bond has a coupon of 6.375 % p.a. and expires on 13 May 2015. The initial conversion price for the Company's bearer shares is EUR 5.47. As of 31 December 2012, 546 bonds had been converted into shares.

A further 9,000,000 convertible bonds with a nominal amount of EUR 7.40 were issued on 10 December 2010. The nominal amount of the bearer bonds stands at TEUR 66,600. The convertible bond has a coupon of 6.5 % p.a. and expires on 10 December 2015. The initial conversion price for the Company's bearer shares is EUR 7.40.

As of 31 December 2011, convertible bonds also included an instrument of TEUR 2,634 which had been issued by Colonia. Colonia had issued this bond on 11 May 2010 at a nominal amount of TEUR 11,441 and a coupon of 5.875 %. The initial conversion price stands at EUR 6.01 per Colonia Real Estate share. Following the acquisition of the majority of the voting rights in Colonia by TAG AG on 15 February 2011, it disclosed the change of control and the resultant right of termination accruing to the holders of the convertible bond which it had issued. Thereupon, convertible bonds with a nominal value of TEUR 8,089 were prematurely converted and those with a nominal value of TEUR 231 prematurely repaid.

TAG issued convertible bonds of EUR 85.3 m in June 2012. These bonds expire on 28 June 2019 and may be converted into 9,640,248 no-par-value shares in TAG. The conversion period is from 8 August 2012 until the tenth anniversary prior to the repayment date. The coupon was fixed at 5.5 % p.a. and, hence, at the upper end of the original range of 4.50 - 5.50 %. The conversion price was set at EUR 8.8483 and thus equals a conversion premium of 20.0 % over the reference price of EUR 7,3736. The issue of the convertible bond resulted in interest advantages of TEUR 4,595 compared with alternative forms of finance net of deferred income taxes and proportionate transaction costs. This interest advantage was recorded within the share premium. As a result of the anti-dilution rules, the conversion price was changed to EUR 8,7669 following the equity issue executed in December 2012.

The liabilities from the negative market values of interest rate swaps chiefly comprise interest rate swaps, the gains and losses from which are recorded within other comprehensive income. More details can be found in the section on interest risks.

19. Other provisions

Other provisions break down as follows:

Other provisions in TEUR	Amount 01/01/2012	Additions from first-time consoli-dation	Utilised	Re-versed	Interest cost	Added	Reclas-sification as assets held for sale	Amount 12/31/2012
Subsequent purchase price payments	3,000	0	3,000	0	0	3,500	0	3,500
Outstanding services in connection with properties sold	2,154	0	507	242	0	0	0	1,405
Outstanding construction costs	1,400	0	997	70	0	846	0	1,179
Repairs	1,667	0	222	631	0	314	0	1,128
Outstanding invoices	3,657	11,334	5,303	1,039	0	9,663	-156	18,156
Legal, consulting and auditing costs	1,311	927	1,628	89	0	1,382	-9	1,894
Bonuses	2,122	294	1,556	428	0	2,278	0	2,710
Others	2,496	14,008	11,264	3,857	17	2,172	0	3,572
Total	**17,807**	26,563	**21,477**	**6,356**	**17**	**20,155**	-165	**33,544**

The provisions for additional purchase price payments contain possible obligations in connection with real estate purchases in earlier years. The provisions for outstanding services in connection with sold land primarily concern construction activities still to be performed and risks arising from compensation claims in connection with sold properties. The provisions for outstanding construction costs relate to expected obligations with respect to construction services which have not yet been invoiced. The provisions for repairs relate to obligations to remedy any faults exhibited by sold real estate. Provisions for outstanding invoices primarily relate to maintenance and renovation.

As the provisions are expected to be utilised in the short term for the most part, no allowance has been made for any material interest effect.

20. Income tax liabilities

Income tax liabilities include current income tax liabilities for corporate tax (including the solidarity surcharge) and trade tax.

21. Trade payables

Trade payables comprise liabilities from the purchase of land and other trade payables.

22. Current liabilities under convertible bonds, derivative financial instruments and other current liabilities

These items break down as follows:

Other current liabilities	2012 TEUR	2011 TEUR
Derivative financial instruments (current part)	29,368	11,379
Current liabilities from convertable bonds	1,532	13,901
Value added tax	412	1,239
Prepayments received	423	2,675
Deferred income	652	577
Liabilities to associates	0	11
Others	8,208	7,043
Total	**40,595**	**36,825**

23. Liabilities held for sale

Liabilities held for sale as of 31 December 2012 relate solely to Tegernsee-Bahn.

Notes on the income statement

24. Revenues

The Group's revenues comprise rental income, revenue from the sale of real estate and service income.

Rental income breaks down into income from investment properties and other rented properties held as inventories or available for sale.

Rental income	2012 TEUR	2011 TEUR
Rental income on investment properties	182,970	109,034
Rental income on properties held for sale	9,492	6,343
Total	**192,462**	**115,377**

25. Other operating income

The table below analyses the main items of other operating income:

Other operating income	2012 TEUR	2011 TEUR
Gains from business combinations	148,169	56,758
Income from the reversal of provisions	6,356	2,322
Deconsolidation of POLARES	5,374	0
Other off-period income	1,641	3,517
Others	9,217	4,206
Total	**170,757**	**66,803**

26. Total net fair value gains and losses on investment properties

This item comprises gains and losses from the fair-value measurement of investment properties as of the balance sheet date, broken down by net fair value gains and losses from the initial measurement of newly acquired investment properties and from the remeasurement of the other investment properties.

27. Expenses from the rental and sale of real estate and the cost of providing services

Rental expenses also include the increase/decrease in as yet unbilled rechargeable heating and operating costs in the year under review as well as billed heating and operating costs in the previous year (change in inventories). Reimbursements by tenants for operating and ancillary costs are netted with rental expenses.

Expenditure on the sale of properties primarily comprises portfolio costs for properties sold in the year under review. Accordingly, the expense from the sale of portfolio real estate chiefly comprises the expenses in connection with inventories sold, which are recognised through profit and loss.

The cost of providing services includes the personnel costs directly attributable to the revenues generated from the provision of services.

28. Personnel costs

Personnel costs breaks down as follows:

Staff costs	2012 TEUR	2011 TEUR
Wages, salaris and bonuses	18,857	10,750
Social security	3,849	1,750
Post-retirement benefit costs	404	247
Total	**23,110**	**12,747**

Including the personnel costs directly attributable to the revenues generated from the provision of services, total personnel costs came to TEUR 27,130 in the year under review (previous year: TEUR 18,099). Roughly half of the social security expense includes payments to the statutory pension fund.

29. Depreciation / amortisation

Depreciation/amortisation breaks down as follows:

Depreciation / amortisation	2012 TEUR	2011 TEUR
Amortisation of intangible assets	754	592
Depreciation of property, plant and equipment	972	576
Total	**1,726**	**1,168**

30. Impairments on receivables and inventories

This item breaks down as follows:

Impairments	2012 TEUR	2011 TEUR
Impairments on receivables	4,997	1,957
Impairments on inventories	8,509	1,542
Total	**13,506**	**3,499**

31. Other operating expenses

The table below analyses the main items of other operating expenses:

Other operating expenses	2012 TEUR	2011 TEUR
Legal, consulting and auditing costs	5,428	4,788
Cost of premises	2,269	1,242
Travel expenses (including motor vehicles)	1,625	795
IT costs	1,383	729
Project start-up costs	1,156	824
Costs of repairs to sold properties	1,083	1,148
Loan arrangement fees	903	566
Other off-period expenses	903	1,443
Ancillary personnel costs	841	703
Telephone costs, postage	707	256
Supervisory Board costs	599	429
Advertising	483	140
Restructuring costs for Colonia	0	1,323
Others	2,698	5,580
Total	**20,076**	**19,966**

In the year under review, other operating expenses included payments under operating leases of TEUR 2,922 (previous year: TEUR 1,577) for copiers, motor vehicles and office space.

32. Share of profit of investees

In the year under review, this item includes investment income of TEUR 262 (previous year: TEUR 72) chiefly in the form of the dividends received from the Colonia subgroup.

33. Share of profit of associates

The share of profit of associates breaks down as follows:

Ergebnis assoziierte Unternehmen	2012 TEUR	2011 TEUR
Recognition of proportionate net assets valued at their fair value from acquisition	0	0
Share of profits/losses	7	53
Net gains/losses from fair-value remeasurement of shares in Estavis	0	-1,975
Profit from translation to full consolidation	0	2,168
Share of profits/losses of associates	**7**	**246**

34. Impairments of financial assets

This item concerns the impairments of TEUR 92 (previous year: TEUR 105) recognised at the level of Colonia on investments in associates.

35. Absorption of loss

This item concerns the absorption of the loss of a non-consolidated subsidiary within the TAG Potsdam subgroup.

36. Net borrowing costs

Net borrowing costs consist of the following items:

Net borrowing costs	2012 TEUR	2011 TEUR
Interest income	10,917	5,614
Borrowing Costs	-97,655	-67,676
Total	**-86,738**	**-62,062**

Interest income comprises income from financial assets of TEUR 9,308 (previous year: TEUR 2,155), from interest rate derivatives used for hedging purposes of TEUR 1,221 (previous year: TEUR 3,369) and from interest rate derivatives without any hedging relationship of TEUR 388 (previous year: TEUR 90).

Interest expense comprises expense on financial liabilities of TEUR 80,371 (previous year: TEUR 53,136), from interest rate derivatives used for hedging purposes of TEUR 15,636 (previous year: TEUR 14,264) and from interest rate derivatives without any hedging relationship of TEUR 1,648 (previous year: TEUR 276).

Reference should be made to "Changes in presentation compared with the previous year" in the "Significant accounting policies" section for further information on net borrowing costs.

37. Income taxes

Income taxes recorded in the income statement break down as follows:

Income taxes	2012 TEUR	2011 TEUR
Actual income tax expense	-941	-779
Deferred income taxes	-24,116	-16,482
Total	**-25,057**	**-17,261**

Actual tax expense includes income tax refund claims of TEUR 2,320 for prior years. Of the deferred income tax liabilities, a sum of TEUR 917 relates to prior periods. A sum of TEUR 2,719 of the deferred income tax liabilities is attributable to unused tax losses and interest carried forwards. An amount of TEUR 26,835 of the deferred income tax liabilities results from changes in temporary differences.

Expected and actual net tax expense is reconciled as follows:

Actual net tax expense	2012 TEUR	2011 TEUR
Earnings before income taxes (EBT after other taxes)	202,980	83,165
Expected net tax expense (32,275 %)	-65,512	-26,841
Reconciled with tax effects from:		
Income and expenses from earlier years	1,403	722
Adjustments to deferred income taxes	-10,595	-10,292
Tax-free returns and non-deductible expenses	-585	-4,563
Trade tax exemption for current earnings and first-time application	3,205	9,002
Net gains/losses from consolidation	47,058	15,615
Share of profits/losses of associates	0	79
Others	-31	-983
Actual net tax expense	**-25,057**	**-17,261**

The tax effect from net consolidation gains is chiefly due to the acquisition of TAG Potsdam and TLG Wohnen (previous year: chiefly the acquisition of the Colonia subgroup and the “arsargo” companies).

The effects from the trade tax exemption are primarily related to the extended trade-tax deduction for real estate. Companies which generate their income solely from the management of their own real estate are able to deduct this income from their trade income with the result that in such cases they effectively only pay corporate tax plus the solidarity surcharge.

The theoretical tax rate is calculated as follows:

Theoretical tax rate	12/31/2012 %	12/31/2011 %
Corporate tax	15,000	15,000
Solidarity surcharge	0,825	0,825
Trade tax	16,450	16,450
Total	**32,275**	**32,275**

The notional Group tax rate for the year under review stands at 12.3 % (previous year: 20.8 %). Deferred income taxes of TEUR 2,488 (previous year: TEUR -715) were recognised within other comprehensive income in the year under review.

Deferred income tax assets did not include unused corporate tax losses of around EUR 71 m (previous year: EUR 80 m) and unused trade tax losses of EUR 105 m (previous year: EUR 114 m) as well as interest carried forward of EUR 50 m (previous year: EUR 9 m) as utilisation currently does not appear to be likely. The sum total of unrecognised temporary differences in connection with shares in subsidiaries, associates and joint ventures stands at around EUR 5 m (previous year: EUR 5 m). The Group does not expect any strain from this as there are currently no plans for these to be reversed.

38. Other taxes

Other taxes mainly comprise motor vehicle tax and VAT backpayments for earlier years.

39. Earnings per share

Earnings per share state the earnings for a period attributable to a single share. For this purpose, consolidated earnings are divided by the weighted number of shares outstanding. This ratio may be diluted by "potential shares" (e.g. from convertible bonds). Earnings per share break down as follows:

Earning per share	2012	2011
Consolidated net profit (in TEUR)		
Consolidated net profit after non-controling interests	179,076	66,882
Interest expense on convertible bonds	10,568	5,381
Consolidated net profit after non-controlling interests (diluted)	189,644	72,263
Number of shares (in thousands)		
Weighted number of shares outstanding	95,128	63,898
Effect of conversion of convertible bonds	23,052	16,910
Weighted number of shares (diluted)	118,180	80,808
Earnings per share (in EUR)		
Basic earnings per share	1.88	1.05
Diluted earnings per share	1.60	0.89

Notes on the cashflow statement

The statement of cashflows from operating activities was prepared using the indirect method and distinguishes between operating, investing and financing activity. The cash and cash equivalents reported as of the balance sheet include all bank accounts and overdraft facilities with banks due for settlement within three months of the balance sheet date as well as a small volume of cash in hand and break down as follows:

Cash and cash equivalents as reported in the cashflow statement	12/31/2012 TEUR	12/31/2011 TEUR
Cash and cash equivalence as reported in the balance sheet	55,753	31,714
Bank overdraft	-24,041	-10,115
Total	**31,712**	**21,599**

Further cashflows included in cashflow from operating activities in the cashflow statement include the following components:

Cashflows	2012 TEUR	2011 TEUR
Interest paid	-92,840	-71,687
Interest received	8,032	10,141
Dividends received	271	72
Taxes paid	-640	-814
Taxes received	1,181	35

In addition to the investments included in the cashflow from investing activities in the cashflow statement, major investments also took the form of business combinations, the acquisition of real estate assets and increases in shareholdings of EUR 8.1 m in the year under review which are not included in the cash flow statement due to the related issue of new shares (previous year: EUR 35.8 m).

Reference should be made to the section on business combinations for details of the prices paid for the business combinations and the assets and liabilities acquired.

Notes on segment reporting

The segment report constitutes an integral part of the notes to the consolidated financial statements. For reasons of convenience, it is shown in a separagraphte table in front of the notes to the consolidated financial statements.

Following adjustments to the internal structures, the composition of the reportable segments has changed. Thus, a new regional breakdown has been adopted for the Residential segment, while the Services and Other Activities segments have been combined to form a single Other Activities segment.

The figures disclosed in the segment report are based solely on the IFRS accounting rules. The segments presented are Residential and Commercial, which comprise the Company's real estate assets and the income derived from them.

The Residential segment is additionally divided into categories based on the regional distribution of the properties for information purposes. Within the Residential portfolio, a regional distinction is drawn between Hamburg (including other Northern German regions), Berlin, North Rhine-Westphalia (NRW), Salzgitter and Thuringia/Saxony.

The revenues recorded in the Residential and Commercial segments correspond to the net rental income generated by the corresponding properties. In the commercial real estate segment, the largest customer accounted for revenues of EUR 9.2 m (previous year: EUR 10.1 m).

The Other Activities column primarily comprises income from the lease of the railway infrastructure in Tegernseer Tal as well as service business, which had been allocated to a separaghte segment in the previous year. The Consolidation column chiefly entails the elimination of internal Group rental income for the head office and internal Group income from the management of the Group's own properties.

As in the previous year, the Group did not have any non-domestic real estate holdings and all income was generated within Germany.

Disclosures on financial instruments

Risks as a result of financial instruments

The Group's business activities expose it to various risks of a financial nature. These risks comprise interest, liquidity and loan risks. On the basis of the guidelines issued by the Company's managing bodies, risk management is based in the central finance department. The counterparty default risks for derivative financial instruments and financial transactions are minimised by selecting investment-grade financial institutions.

Capital risk management

The Group manages its capital with the aim of maximising income from its investments by optimising its equity and debt capital. In this connection, precautions are taken to ensure that all Group companies are able to operate in accordance with the going-concern assumption. The consolidated equity capital (before non-controlling interests) shown on the balance sheet is used as the paragraphmeter for managing capital.

As a joint stock company, TAG is subject to the minimum capital requirements specified in the German Stock Corporation Act. In addition, the Group is subject to the customary and industry-standard minimum capital requirements stipulated by the financial services industry, particularly with respect to the finance of specific items of real estate. Compliance with these minimum capital requirements is monitored on an ongoing basis and was ensured at all times in the year under review as well as in the previous year.

Risk management reviews the Group's capital structure on a quarterly basis in the light of the cost of capital and the risk inherent in each capital class. In order to satisfy the external capital adequacy requirements, accounting ratios are tracked and forecast regularly. This includes capital service ratios for specific properties, loan-to-value paragraphmeters and financial covenants.

The equity ratio as of the end of the year is as follows:

	12/31/2012 TEUR	12/31/2011 TEUR
Equity (before non-controlling interests)	1,136,177	547,392
Total equity and liabilities	3,799,962	2,047,683
Equity ratio in %	**30**	**27**

Categorisation of financial instruments in accordance with IFRS 7

The following tables reconcile the carrying amounts of the financial instruments with the categories specified in IAS 39 and disclose the fair values of the financial instruments for each category together with the source of measurement:

31 December 2012	Carrying amount TEUR	Of which coming with the scope of IFRS 7	Category[1] TEUR	Fair value TEUR
ASSETS				
Other financial assets (non-current)	25,514	25,514		
of which investments	6,359	6,359	AfS	n/a
of which non-current receivables	19,155	19,155	LaR	19,155
Trade receivables	20,133	20,133	LaR	20,133
Derivative financial instruments (current)	8,850	8,850		
of which with hedging relationship	2	2	n/a	2
of which without hedge relationship	8,848	8,848	HfT	8,848
Other current assets	14,888	13,746	LaR	13,746
Cash and cash equivalents	55,573	55,573	LaR	55,573
LIABILITIES				
Bank borrowings (non-current)	1,600,910	1,600,910	AmC	1,676,018
Derivative financial instruments (non-current)	23,796	23,796		
of which with hedging relationship	22,622	22,622	n/a	22,622
of which without hedge relationship	1,174	1,174	HfT	1,174
Liabilities from convertible bonds and other non-current liabilities	176,748	176,748	AmC	191,240
Bank borrowings (current)	615,137	615,137	AmC	615,137
Trade payables	13,784	13,784	AmC	13,784
Derivative financial instruments (current)	29,368	29,368		
of which with hedging relationship	16,019	16,019	n/a	16,019
of which without hedge relationship	13,349	13,349	HfT	13,349
Liabilities from convertible bonds (current)	1,532	1,532	AmC	1,532
Other current liabilities	8,620	8,620	AmC	8,620

1) AfS: available-for-sale financial assets; LaR: loans and receivables; AmC: amortised cost; HfT: held for trading

31 December 2011	Carrying amount TEUR	Of which coming with the scope of IFRS 7	Category[1] TEUR	Fair value TEUR
ASSETS				
Other financial assets (non-current)	12,150	12,150		
of which investments	6,458	6,458	AfS	n/a
of which non-current receivables	5,692	5,692	LaR	5,692
Trade receivables	13,188	13,188	LaR	13,188
Derivative financial instruments (current, with hedging relationship)	489	489	n/a	489
Other current assets	3,292	2,541	LaR	2,541
Cash and cash equivalents	31,714	31,714	LaR	31,714
LIABILITIES				
Bank borrowings (non-current)	1,016,825	1,016,825	AmC	1,027,216
Derivative financial instruments (non-current, with hedging relationship)	28,222	28,222	n/a	28,222
Liabilities from convertible bonds and other non-current liabilities	94,021	94,021	AmC	94,021
Bank borrowings (current)	172,568	172,568	AmC	172,568
Trade payables	16,380	16,380	AmC	16,380
Derivative financial instruments (current)	11,379	11,379		
of which with hedging relationship	10,495	10,495	n/a	10,495
of which without hedge relationship	884	884	FLHfT	884
Liabilities from convertible bonds (current)	13,901	13,901	AmC	13,901
Other current liabilities	11,545	11,545	AmC	11,545

1) AfS: available-for-sale financial assets; LaR: loans and receivables; AmC: amortised cost; HfT: held for trading

Fair value of financial instruments

Financial instruments at fair value through profit and loss can be classified and allocated to the appropriate hierarchical level according to the importance of the measurement input used. This is done on the basis of the significance of the input factors for the overall measurement. Specifically, the lowest level applicable to the measurement as a whole is applied. The hierarchical levels are determined on the basis of the input factors:

Stufe 1: Prices quoted in active markets for identical assets or liabilities (such as share prices)
Stufe 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Stufe 3: Valuation techniques for which any significant input is not based on observable market data (non-observable inputs)

The financial instruments recorded at fair value in the consolidated financial statement are all based on Level 2 information and input factors. These entail solely derivative financial instruments, whose value chiefly depends on interest levels. There was no reclassification in the year under review.

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

Trade receivables, other current assets and cash and cash equivalents have short settlement periods. Accordingly, their carrying amount as of the balance sheet date comes close to their fair value. This also applies to current bank borrowings, trade payables, other current liabilities and liabilities in connection with non-current available-for-sale assets (if coming within the scope of IFRS 7). The fair value of non-current bank borrowings and other non-current liabilities is calculated using the discounted cash flow method. The discount rate is based on an appropriate market interest rate.

Net gains and losses from financial instruments

Impairments on financial instruments are described in the corresponding disclosures on other financial assets (Note 5), trade receivables and other current asset (Note 8), receivables from associates (Note 33) and financial instruments (Note 34).

Further information on net gains and loss can be found in the disclosures on the share of profit of associates (Note 32) and net borrowing cost (Note 36).

Purposes of financial risk management

The main risks monitored and managed by means of the Group's financial risk management comprise interest, credit, finance and liquidity risks.

Interest risk

The Group's activities expose it to risks arising from changes in interest rates. This risk is minimised by the derivative financial instruments described below which are used to hedge bank borrowings. Risks from other financial instruments, which are predominantly current in nature, are not considered to be material.

The Group uses derivative financial instruments to the extent necessary for managing existing interest risks. These include interest swaps, albeit only in a small volume, as well as caps to minimise the risk of changing interest rates and sensitivity in the event of rising interest rates. The Group does not enter into or trade in any financial instruments including derivative financial instruments for speculative purposes. Payer swaps constitute synthetic fixed-rate agreements in connection with a variable underlying. Under these contracts, fixed interest rates calculated on the basis of agreed nominal amounts are swapped for variable ones. In this way, the Group 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. The Group'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.

As of 31 December 2012, Group companies had interest derivatives (mainly payer swaps) of roughly EUR 687.8 m (previous year: EUR 671.9 m). These interest-rate swaps break down as follows:

Interest rate hedges	**Nominal volume**		**Market value**	
	2012 TEUR	**2011 TEUR**	**2012 TEUR**	**2011 TEUR**
Interest rate swaps	641,565	665,697	-53,156	-39,132
■ of which due for settlement in less than 1 year	304,872	104,780	-19,416	-1,818
■ of which due for settlement in 1–5 years	327,291	455,411	-33,212	-21,594
■ of which due for settlement in more than 5 years	9,402	105,506	-528	-15,720
Caps	46,259	6,200	227	20
■ of which due for settlement in less than 1 year	14,490	4,700	370	3
■ of which due for settlement in 1–5 years	21,144	1,500	24	17
■ of which due for settlement in more than 5 years	10,625	0	-167	0
Total	**687,824**	**671,897**	**-52,929**	**-39,112**

Derivative financial instruments with a nominal volume of EUR 136.3 m (previous year: EUR 8.2 m) and a fair value of EUR -14.3 m (previous year: EUR -0.9 m) are not included in a hedge relationship. They chiefly arise from the acquisition of TAG Wohnen. In addition, derivative financial instruments include an option of EUR 8.6 m (previous year: EUR 0). The table also shows the periods in which the hedged payment flows arise in essentially identical parts. The Group assumes that the payment flows will also be included in net profit/loss for this period.

In the event of any changes in market interest rates, derivatives accounted for by means of hedge accounting may have an impact on the hedge accounting reserve under equity.

	12/31/2012 TEUR	12/31/2011 TEUR
Change in market value in the event of a 0.5 pp increase in interest levels	7,025	13,436
Change in market value in the event of a 0.5 pp decrease in interest levels	-7,097	-13,808

The change in the value of the interest derivatives in this fictitious analysis would solely affect consolidated equity in the light of the effect on income tax considerations assuming the unchanged effectiveness of the hedge relations.

If interest rates on constant liabilities to banks are assumed to increase (decrease) by 0.5 % age points, net interest result deteriorates (improves) as follows:

Interest sensitivity	12/31/2012 TEUR	12/31/2011 TEUR
Net borrowing costs for the current year	-86,738	-62,062
Average interest rate on non-current loans in %	3.6	3.2
Average interest rate on current loans in %	1.4	3.7
Change in net interest expense in the event of a 0.5 % increase in interest levels	-3,894	-3,779
Change in net interest expense in the event of a 0.5 % decrease in interest levels	3,894	3,779

The change in interest expenditure in this fictitious analysis would directly affect consolidated net profit and consolidated equity in the light of the effect on income tax considerations.

Credit risk

The credit risk is the risk of loss for the Group if a counterparty fails to honour its contractual obligations. The Group enters into business relations solely with credit-worthy counterparties and, if appropriate, requests collateral to reduce the risk of loss in the event of the counterparty's failure to comply with its duties. The Group uses available financial information including its own records to evaluate its customers. Risk exposure is monitored on an ongoing basis.

There are trade receivables due from a large number of customers spread over different sectors and regions. Regular credit assessments are performed to determine the financial condition of the receivables. Impairments are fundamentally determined on the basis of the age structure of the receivables. Material receivables are predominantly held against customers with good credit ratings.

With the exception of a guarantee of TEUR 505 (previous year: TEUR 505), the carrying amount of the financial assets recognised in the consolidated financial statements less any impairments constitutes the Group's maximum credit risk. This does not include any collateral received.

Liquidity risk

The Management Board is responsible for liquidity risk management and has established an appropriate model for managing short, medium and long-term finance and liquidity requirements. The Group controls liquidity risks by maintaining reasonable reserves and bank facilities and by means of ongoing monitoring of forecast and actual cashflows and the reconciliation of the maturities of financial assets and liabilities.

The following tables set out the contractual durations of the Group's financial liabilities Based on the non-discounted cashflows of financial liabilities as of the earliest day on which the Group is under any settlement obligation.

Residual maturity of financial liabilities	**12/31/2012 TEUR**	**12/31/2011 TEUR**
Due for settlement in less than 1 year	411,261	210,353
1 to 5 years	831,165	771,954
More than 5 years	973,621	338,892
Total	**2,216,047**	**1,321,199**

In addition, there are estimated future payment outflows from interest on financial liabilities due for settlement in less than one year of around EUR 93 m (previous year: around EUR 43 m), in more than one but less than five years of around EUR 230 m (previous year: around EUR 96 m) and in more than five years of around EUR 446 m (previous year: around EUR 120 m).

The following table analyses the maturities of financial assets expected by the Group based on the non-discounted contractual maturities of financial assets including interest.

Residual maturity of financial assets	**12/31/2012 TEUR**	**12/31/2011 TEUR**
Due for settlement in less than 1 year	97,742	47,932
1 to 5 years	3,000	0
More than 5 years	24,216	12,150
Total	**124,958**	**60,082**

The Group is able to utilise overdraft facilities. The total amount not utilised as of the balance sheet date stands at TEUR 45,330 (previous year: TEUR 3,827). The Group expects to be able to settle its liabilities from operating cashflow, the inflow of financial assets due for settlement and existing credit facilities at all times.

Finance risk

The Group is dependent upon the receipt of bank loans to finance further acquisitions. Similarly, it must renew these loans when they expire or find alternative sources of finance. In all these cases, there is a risk of not being able to renew the loans at the same terms.

Similarly, the convertible bonds of EUR 30.0 m and EUR 66.6 m issued in May and December 2010, respectively, and the convertible bonds issued in August 2012 of EUR 85.3 m are subject to certain terms and conditions which, if breached, may constitute a liquidity risk. In the event of any breach of the terms of issue, e.g. a change of control, these convertibles may be subject to a right of premature termination.

In addition, loans of around EUR 1,393 m (previous year: EUR 923 m) have been raised within the Group for which financial covenants specifying certain capital service ratios and equity/debt ratios have been agreed. If any of these covenants are breached, premature loan repayments may be necessary. In 2012, these covenants were breached in three cases. With respect to these contracts for an amount of around EUR 22.0 m, additional collateral of a total of TEUR 118 was deposited in consultation with the banks concerned. However, the covenants were complied with again in the course of the year.

Collateral

The Group holds collateral in the form of financial assets (on-demand accounts and savings accounts) from tenants valued at around EUR 28.1 m (previous year: EUR 15.8 m). The relevant contracts provide for collateral equalling three monthly rental instalments to be provided.

Other Information

Contingent liabilities and other financial obligations

As of the balance sheet date, these broke down as follows:

Other financial obligations	2012 in TEUR	2011 in TEUR
Rentals for business premises	8,287	7,485
Others (e.g. administration, leases, rental guarantees)	11,831	1,761
Total	**20,118**	**9,246**

One part of the other financial obligations of TEUR 8,094 (previous year: TEUR 2,106) is due for settlement in less than one year, a further part of TEUR 11,741 (previous year: TEUR 4,633) between one and less than five years and a further part of TEUR 283 (previous year: TEUR 2,507) in more than five years. Of the increase, an amount of EUR 6.0 m is due to manager contracts with Polares, which was sold in the year under review.

Minimum lease payments under operating leases

In the commercial real estate segment, there are fixed future claims to minimum lease payments under long-term operating leases of EUR 76 m (previous year: EUR 82 m). Of this, an amount of EUR 17 m (previous year: EUR 17 m) is due for settlement in less than one year, EUR 29 m (previous year: EUR 33 m) between one and five years and EUR 30 m (previous year: EUR 31 m) in more than five years. It is customary for leases to have fixed minimum terms of up to ten years. In some cases, the tenants are offered renewal options. In such cases, rental adjustment clauses reduce the market risk of long-term fixed prices.

In the residential real estate segment, rental contracts are generally subject to a statutory notice period of 3 months. There are no claims to minimum lease payments beyond this.

Material transactions with related persons

The following main transactions with related parties arose in the year under review:

Business relations with associates

- Bau-Verein issued a guarantee towards a bank for TEUR 505 (previous year: TEUR 505) in favour of GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG in 2004. No remuneration has so far been agreed.

Business relations with other related parties

- Dr. Lutz R. Ristow, Chairman of TAG's Supervisory Board, received fees of TEUR 92 in the previous year for additional services over and above his office on the Supervisory Board. There were no reportable business relations in 2012.
- Nörr LLP, Munich, and Nörr Stiefenhofer Lutz Partnerschaft, Frankfurt am Main, with which Prof. Dr. R. Frohne, a member of the Supervisory Board, is related, received payments of TEUR 1,132 in the year under review (previous year: TEUR 567) for the provision of legal advice. Net outstanding invoices were valued at TEUR 365 as of 31 December 2012 (previous year: TEUR 21).
- WH Vermögensverwaltungs GmbH, Düsseldorf, with which Rolf Hauschildt. a member of the Supervisory Board, is related, provided additional collateral free of charge as security for a bank loan in an outstanding amount of TEUR 9,984 (previous year: TEUR 15,925) as of the reporting date. TAG primarily provided collateral of its own to secure the loan.
- As of the reporting date, there are ongoing receivables of TEUR 30,130 (previous year: TEUR 9,382) due from TAG Beteiligungs GmbH & Co. KG, in which members of TAG's Management Board hold shares indirectly via the general partner, subject to interest of 6% p.a.

Fees payable to statutory auditors

The fees of TEUR 1,441 (previous year: TEUR 832) paid to the independent auditors KPMG (previous year: Noerenberg Schroeder GmbH Wirtschaftsprüfungsgesellschaft GmbH) for the entire Group include fees for the audit of the financial statements of TEUR 656 (previous year: TEUR 651), fees for other attestation activities of TEUR 412 (previous year: TEUR 98), fees for other tax consulting activities of TEUR 373 (previous year: TEUR 9) and fees for other services of TEUR 0 (previous year: TEUR 74), plus value added tax in all cases. The other auditing activities chiefly comprise fees arising in connection with the equity issues and review of the interim financial statements. In addition, insurance premiums of TEUR 357 (previous year: TEUR 37) were recharged in this connection.

Headcount

The Group had a total headcount of 508 as of 31 December 2012 (previous year: 281). The annual average stood at 451 (previous year: 262). In addition, a further average of 60 (previous year: 27) people were employed as janitors.

Supervisory Board

The members of the Supervisory Board and the offices held by them in other supervisory boards or comparagraphble domestic and international corporate governance bodies in 2012 are listed below:

- Dr. Lutz R. Ristow, businessman, Hamburg (Chairman)
  - TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg, chairman of the supervisory board (until 14 December 2012)
  - Colonia Real Estate AG, Cologne, chairman of the supervisory board
- Prof. Dr. Ronald Frohne, New York, attorney and public auditor (Deputy Chairman)
  - Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (Chairman) (until 14 December 2012)
  - Würzburger Versicherungs-AG, Würzburg
  - TELLUX-Beteiligungsgesellschaft mbH, Munich
  - AGICOA, Geneva, Switzerland
  - CAB, Copenhagen, Denmark
- Bettina Stark, business woman, Berlin (since 14 June 2012)
  - SKG Bank AG, Saarbrücken, (since 1 January 2013)
- Rolf Hauschildt, business man, Düsseldorf (until 14 June 2012)
  - Germania-Epe AG, Gronau-Epe (Chairman)
  - ProAktiva Vermögensverwaltung AG, Hamburg (Chairman)
  - Allerthal Werke AG, Grasleben
  - Solventis AG, Frankfurt/Main (Deputy Chairman)
  - Scherzer & Co. AG, Cologne
- Andrés Cramer, business man, Hamburg
  - Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (until 14 December 2012)
- Andrea Mäckler, Hamburg, office assistant, Hamburg, staff representative
- Wencke Röckendorf, office assistant, Hamburg, staff representative

The remuneration paid to the Supervisory Board in the year under review came to TEUR 285 (previous year: TEUR 163).

Management Board

The members of the Management Board and the offices which they hold in other supervisory boards or comparagraphble domestic and non-domestic supervisory bodies in 2012 are set out below:

- Rolf Elgeti, member of the Management Board responsible for business development, sales and marketing, asset management, facility management and commercial real estate, Potsdam
  - Estavis AG, Berlin
  - Sirius Real Estate Limited, Guernsey, UK
  - treveria plc, Isle of Man, UK (until April 2012)
- Herr Hans-Ulrich Sutter, Chief Financial Officer, Berlin (until 7 January 2012)
  - TAG Potsdam-Immobilien GmbH formerly TAG Potsdam-Immobilien AG (until 7 January 2013)
  - TAG Gewerbeimmobilien GmbH formerly TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg (until 14 December 2012)
  - Colonia Real Estate Aktiengesellschaft
- Georg Griesemann, Chief Financial Officer, Hamburg (from 1 June 2012)
- Dr. Harboe Vaagt, member of the Management Board responsible for legal and organisation matters, Halstenbek
  - TAG Potsdam-Immobilien GmbH formerly TAG Potsdam-Immobilien AG (until 7 January 2013)
  - TAG Gewerbeimmobilien GmbH formerly TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg (until 14 December 2012)
  - Colonia Real Estate Aktiengesellschaft
- Claudia Hoyer, Chief Real Estate Officer, Potsdam (since 1 July 2012)

Remuneration paid to the Management Board in the year under review came to TEUR 2,402 (previous year: TEUR 1,637) and breaks down as follows:

	Fixed remuneration*	Variable remuneration
Rolf Elgeti	TEUR 563 Previous year: TEUR 458	TEUR 734 Previous year: TEUR 466
Georg Griesemann	TEUR 145 Previous year: TEUR 0	TEUR 73 Previous year: TEUR 0
Claudia Hoyer	TEUR 123 Previous year: TEUR 0	TEUR 63 Previous year: TEUR 0
Hans-Ulrich Sutter	TEUR 373 Previous year: TEUR 300	TEUR 250 Previous year: TEUR 133
Dr. Harboe Vaagt	TEUR 307 Previous year: TEUR 230	TEUR 125 Previous year: TEUR 50

* including taxable benefits

The fixed remuneration paid to Mr Sutter in 2012 includes the disbursement of salary entitlement until March 2013 of TEUR 223. The variable remuneration paid to Mr Rolf Elgeti for 2012 included a special bonus of TEUR 234 (previous year: TEUR 200).

Corporate Governance Code declaration pursuant to Section 161 of the German Stock Corporation Act

The joint declaration of the Management Board and the Supervisory Board concerning the recommendations of the Government Commission on the German Corporate Governance Code required pursuant to Section 161 (1) of the German Stock Corporation Act has been prepared and made available to shareholders on the TAG website.

Utilisation of Sections 264 (3) and 264b of the German Commercial Code

The following domestic subsidiaries made use of the exemption provisions under Sections 264 (3) and 264b of the German Commercial Code in 2012:

Exemption in accordance with Section 264 (3) of the German Commercial Code:

- Kraftverkehr Tegernsee-Immobilien GmbH, Tegernsee
- Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg
- Bau-Verein zu Hamburg „Junges Wohnen“ GmbH, Hamburg
- BV Hamburger Wohnimmobilien GmbH, Hamburg
- Wohnanlage Ottobrunn GmbH, Hamburg

Exemption in accordance with section 264b of the German Commercial Code:

- Colonia Portfolio Bremen GmbH & Co. KG, Hamburg
- Colonia Portfolio Hamburg GmbH & Co. KG, Hamburg
- Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin
- TAG Logistik Immobilien GmbH & Co. KG, Hamburg
- TAG Wohnimmobilien Beteiligungs AG & Co. KG, Hamburg
- TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, Hamburg
- Patrona Saxoniae GmbH & Co. KG, Hamburg
- TAG Dresdner Straße GmbH & Co. KG, Hamburg

Material events after the balance sheet date

Sale of real estate portfolio in Berlin

At the end of 2012, TAG sold three residential packages located in Berlin comprising 1,384 dwellings for a total price of EUR 87 m effective 31 January 2013. On the basis of the IFRS carrying amounts, this transaction yielded a profit before tax of around EUR 12 m. The new owner is Union Investment Institutional Property GmbH, which acquired the residential portfolio for one of its special-purpose real estate funds.

Sale of Tegernsee-Bahn Betriebsgesellschaft mit beschränkter Haftung

In addition, the binding offer submitted to Kreissparkasse Miesbach-Tegernsee in 2010 for the sale of the properties located in Tegernsee as well as the shares in Tegernsee-Bahnbetriebsgesellschaft was accepted within the agreed period. The properties and shares in the company were acquired by the town of Tegernsee, the municipality of Gmund and the shire of Miesbach. With the execution of the contract at the end of February 2013, TAG has now fully abandoned its railway and historical business activities in Tegernsee and, moving forward, will continue to concentrate on residential real estate.

Hamburg, 28 March 2013

Rolf Elgeti	**Georg Griesemann**	**Claudia Hoyer**	**Dr. Harboe Vaagt**
Vorstandsvorsitzender	**Vorstand**	**Vorstand**	**Vorstand**

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 Group's assets, financial position and earnings situation, and the Group management report includes a fair review of the development and performance of the business and the Group's situation, as well as a description of the principal opportunities and risks associated with the expected development of the Group.

Hamburg, 28 March 2013

Rolf Elgeti	**Georg Griesemann**	**Claudia Hoyer**	**Dr. Harboe Vaagt**
CEO	**CFO**	**COO**	**CLO**

Independent auditors' report

We have audited the consolidated financial statements prepared by the TAG Immobilien AG, Hamburg, comprising consolidated balance sheet, group income statement, consolidated statement of comprehensive income, group cash flow statement, statement of changes in consolidated equity, notes to the consolidated financial statement, together with the group management report for the business year from January 1st, 2012 to December 31th, 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch „German Commercial Code"] are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 12 April 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Signature	Signature
Madsen	**Drotleff**
Wirtschaftsprüfer	**Wirtschaftsprüfer**

TAG Financial calendar

18 April 2013	Publication of the consolidated financial statements/annual report 2012
8 May 2013	Interim Report – 1st quarter of 2013
14 June 2013	Annual General Meeting 2013 in Hamburg
8 August 2013	Interim Report – 2nd quarter of 2013
7 November 2013	Interim Report – 3rd quarter of 2013

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The English version of the annual report is a translation of the German version of the annual report. The German version of this annual report is legally binding.

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