2013

Growing Assets

Annual Report

TAG Immobilien AG

Group financials IFRS

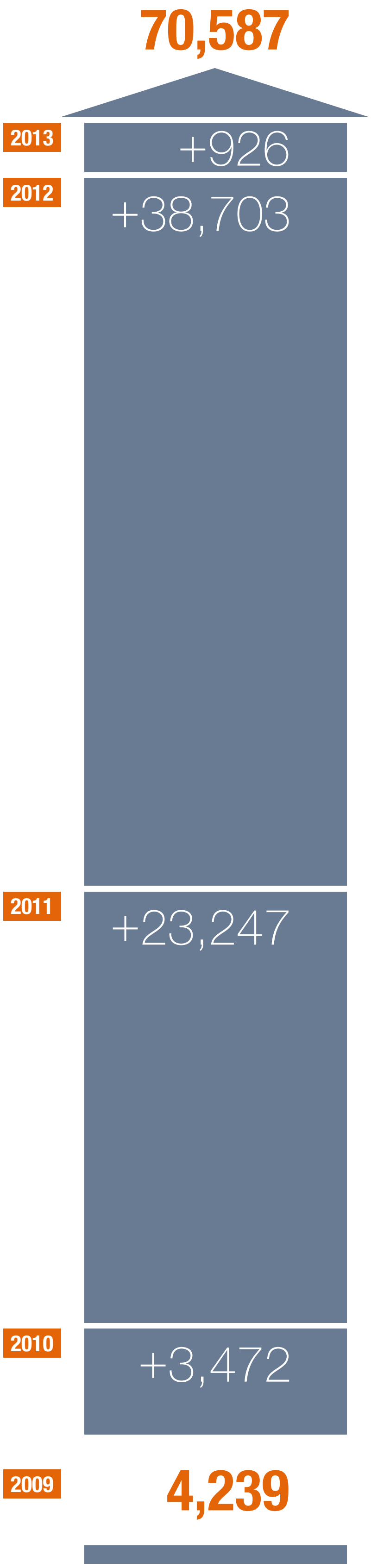
in TEUR	2013	2012	2011
A. Income statement key figures			
Revenues	375,822	252,833	178,303
a) Property sales	122,284	52,914	54,468
b) Rental income	250,991	192,462	115,377
c) Property management and other services	2,547	7,457	8,458
EBIT	127,629	289,125	145,122
EBT	23,084	202,551	83,273
Consolidated net profit / loss	26,995	177,922	65,904
FFO I in EUR m	68.1	39.6	–
FFO II incl. income from sales in EUR m	121.0	69.5	–
FFO I per share in EUR	0.52	0.42	–
FFO II incl. income from sales per share in EUR	0.92	0.73	–
Earnings per share in EUR	0.21	1.88	1.05
B. Balance sheet key figures			
Total assets	3,763,324	3,799,962	2,047,683
Equity before minorities	1,107,306	1,136,177	547,392
Equity ratio in %	29	30	27
Bank loans	2,635,958	2,641,950	1,189,393
of which current	245,638	508,135	172,568
Real estate volume	3,606,799	3,664,867	1,968,605
LTV in %	62.1	58.6	58.6
LTV in % incl. outstanding convertible bonds	65.0	63.7	64.3
EPRA NAV per share in EUR	9.45	9.96	8.72
Diluted NAV per share in EUR	9.31	9.49	8.51
Dividend per share in EUR	0.35*	0.25	0.20
C. Employees			
Number of employees	519	508	281

Other key figures	
Market cap at 30 December 2013 in EUR	1,152,799,223.30
Share capital in EUR	131,298,317.00
WKN / ISIN	830350 / DE0008303504
Number of shares	131,298,317
Free Float in %	100
Index	MDAX / EPRA

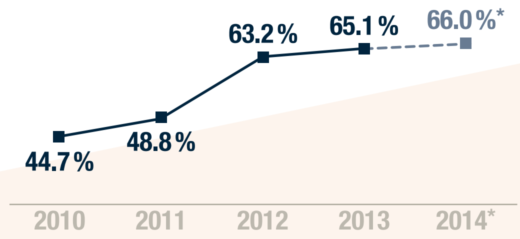
* pending approval by the shareholders

Table of contents

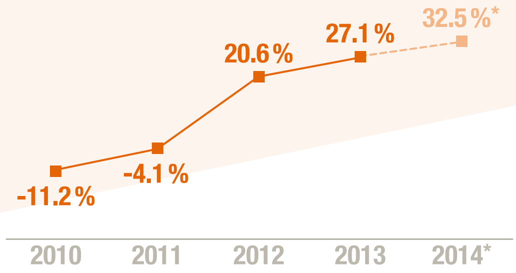
Units total 2009 – 2013



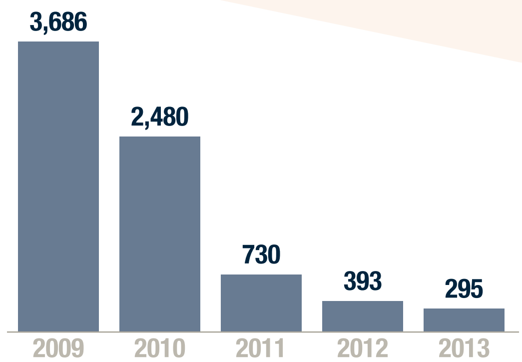
EBITDA Margin



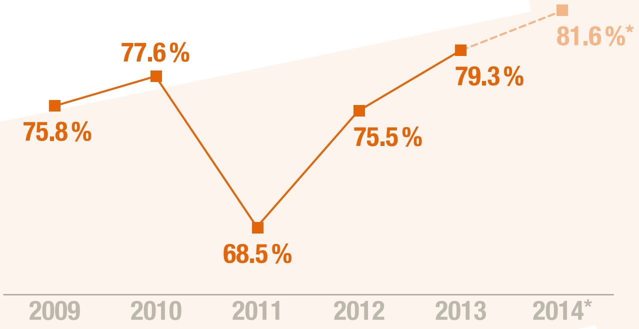
FFO Margin



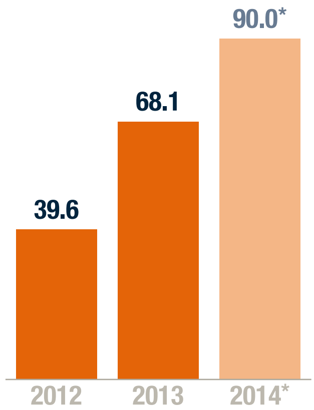
Selling, general & administrative expenses per unit in EUR p. a.



Rental Margin

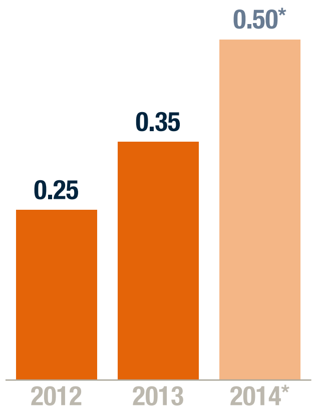


FFO I in EUR m

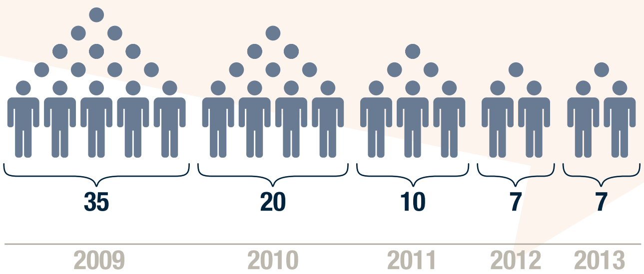


TAG: efficient, cost-conscious and strong on cashflow.

Dividend in EUR



Employees per 1,000 units p.a.



* Estimate

Foreword

Dear shareholders, ladies and gentlemen,

The fiscal year 2013 went extremely well from an operational perspective. We further reduced vacancy, increased rents, reduced interest payments by refinancing our debt, sold commercial properties, and improved our capital structure with a partial buyback of our convertible bonds. So TAG has strengthened its set-up considerably compared to the previous year.

We managed to increase our FFO I, which doesn't include proceeds from sales, to around EUR 68 m and, as expected, achieved our forecast. As already described in detail in the interim report, measures we have taken in the past are now starting to develop their positive effects after a time lag. At the end of the year, average rents in the residential portfolio had increased to EUR 5.05 per square meter and month. This translates to like-for-like growth of about 2.6 % per annum – or 3.2 % without our for-sale inventory.

We also continued our successful vacancy reduction in the second half of the year. Across the Group, we were able to reduce vacancy in the core residential portfolio from 9.3 % at the end of June 2013 to currently 8.7 %. It is particularly pleasing that vacancy in Salzgitter has fallen significantly and now stands at 18.6 % – in the first quarter of 2013, we were still at 20.8 %. All the while our rents continue to rise, since we are able to rent newly vacant apartments to new tenants at sometimes significantly higher prices. So reducing vacancy also has a disproportionately positive effect on the average rent.

The TAG Group thus remains focused on distinctly increasing its cashflow from operations. In addition to these operational effects, the refinancing undertaken last year also had a clearly positive impact. In 2013, we refinanced or extended approximately EUR 660 m in loans. Overall, this should lead to approximately EUR 10 m in savings on interest costs in 2014. Some of these savings already became effective in the third and fourth quarters of 2013; the rest will impact interest income accordingly in 2014.

Since the price of the TAG share developed differ to the steady improvement of our business in the first half of 2013, in July we decided to carry out a partial, selective and price-sensitive buyback of our convertible bonds. This allows us to reduce the dilutive impact of these instruments and increases the potential for our shareholders. The buybacks put us in a position to cancel the Convertible Bond 2010/2015, which paid 6.125 % interest per year, for early repayment. The repayment was made in early December 2013. To finance the buybacks, we had successfully issued a five-year, EUR 200 m bond with a coupon of 5.125 % at the beginning of August last year.

All in all, TAG has further strengthened its operations, is improving its cashflows, and at the same time seized an opportunity to optimise its balance sheet. The partial buyback of convertible bonds has reduced the difference between basic and diluted NAV per share to currently just 14 cents per share.

Dr. Harboe Vaagt,
CLO

Georg Griesemann,
CFO

Claudia Hoyer,
COO

Rolf Elgeti,
CEO

We will continue to work on the occasional opportunistic sale, exploit opportunities to buy, and further reduce our commercial portfolio. In the first half of the year, we managed to sell four properties from our commercial portfolio, and are currently in various promising negotiations for further sales. In the third quarter, we were able to sign a purchase contract with a Munich housing developers regarding Hofmannstraße in Munich, one of our largest commercial properties. Finally, in the fourth quarter of the year, we also succeeded in selling the office building on St.-Martin-Straße in Munich. We have noted a significant increase in demand for commercial property portfolios in recent months, and plan to take advantage of this environment to possibly sell off all of our remaining inventory.

At the same time we are working on a very attractive pipeline of selective acquisitions for our residential portfolio. As usual, we will proceed with extreme price discipline. We are in a very comfortable situation in that while we can and want to continue to grow, and also have the necessary liquidity, we are not under pressure of having to buy additional portfolios.

We were already able to demonstrate this in the fourth quarter by buying a portfolio of approximately 3,000 units with a very promising initial yield of over 12%. In January 2014, we followed this up with another portfolio of about 4,000 units and an initial yield of about 10%.

Our starting position for 2014 is excellent, both operationally and strategically. Due to the factors described above, we expect FFO I of about EUR 90 m this year. Our dividend policy of distributing about 75% of FFO I to our shareholders still applies, of course, which leads us to expect a dividend of about 50 cents per share for the 2014 financial year.

We thank you for your trust and confidence in us on this journey so far, and hope to demonstrate anew in 2014 that TAG is excellently positioned to benefit from the positive basic trends in the German housing market.

Yours sincerely,

Rolf Elgeti
CEO

Business operations and Group strategy

TAG continued to strengthen and improve its strategic and operating position in fiscal year 2013. While the previous years were characterised by dynamic development and strong growth, last year was dominated by a focus on the profitability of operations – among other things by optimizing costs – as well as on improving the financing structure.

The Group's residential property portfolio is concentrated in the regions of Thuringia / Saxony, the greater metropolitan areas of Berlin and Hamburg, and the Salzgitter and North Rhine-Westphalia regions. Its focus is on attractive and high-yield residential real estate in select locations that show 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.

The value of all real estate owned by the Group was EUR 3.6 billion at 31 December 2013, and the Company's market capitalisation at that date was EUR 1.152 billion.

TAG Group has offices in Hamburg, Berlin, Leipzig, Dusseldorf, Salzgitter, as well as in Erfurt, Rostock, Nauen, Döbeln and Gera. The Group employed a total of 519 people at year-end 2013.

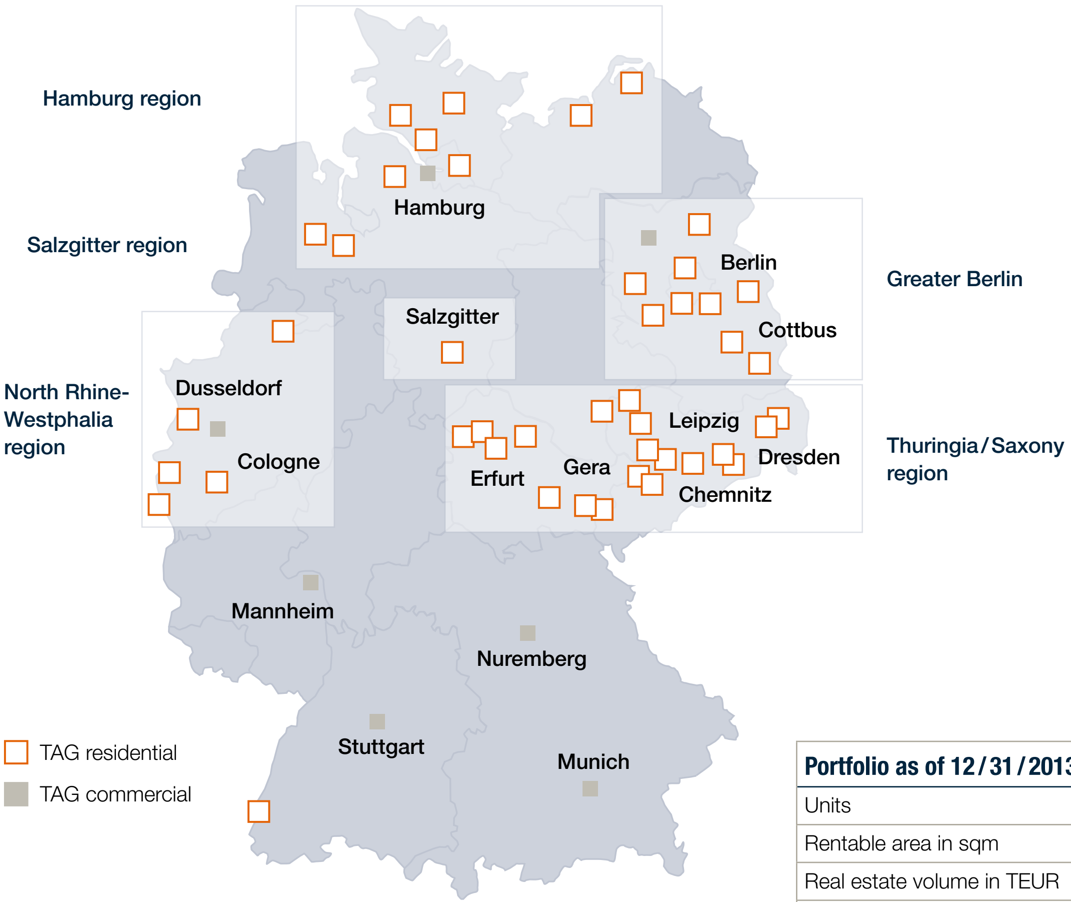
As part of its strategy, TAG specialises in the acquisition, development and management of residential real estate. Besides acquisition and property management (leasing and management of residential properties), and targeted measures to develop inventories with the goal of maximising the value and returns of the portfolio, the Group's business activity also includes property sales that serve to round out the portfolio, or that make economic sense for releasing equity when favourable market opportunities arise. 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 at least transparent, clear Corporate Governance. At the same time, we want financial investors to continue 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.

Portfolio in total (residential and commercial)

The total portfolio of TAG Group reflects the successful acquisitions of the past few years, and was expanded to over 70,000 units by the end of 2013. Most of the real estate portfolio is located in good urban locations in German growth regions. It focuses on the Greater Metropolitan Areas of Hamburg and Berlin, as well as the Thuringia/Saxony, North Rhine-Westphalia and Salzgitter regions – locations with development potential, stable cashflows and attractive returns, where TAG already has investment. This allows for centrally managing large parts of the portfolio with just a few branch offices, which makes for a particularly favourable opportunity/risk ratio since it lets us combine potential for rental growth, attractive initial yield, and a cost-efficient management of the portfolio. 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.



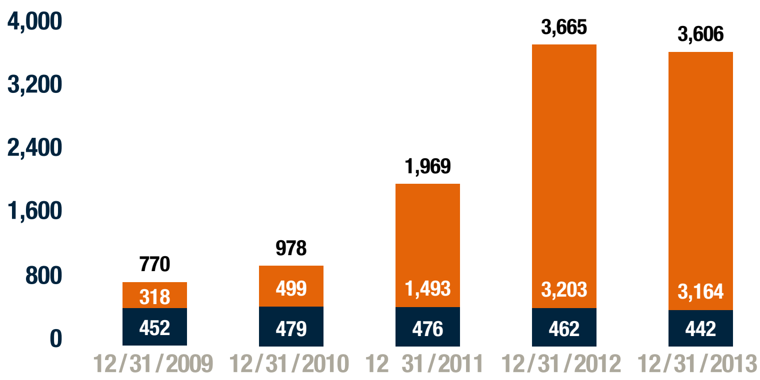
Portfolio as of 12/31/2013	Total
Units	70,587
Rentable area in sqm	4,582,344
Real estate volume in TEUR	3,606,799
Net actual rent in EUR/sqm	5.24
Vacancy in %	9.5

Development of the real estate volume

The value of all property in the inventory amounts to EUR 3.61 billion at the end of the reporting year 2013. The company has significantly expanded its inventory of residential units through acquisitions and purchases as part of its focus on the residential segment. The commercial portfolio, which is largely held by TAG Gewerbe, will be reduced step-by-step through selected disposals.

Real estate volume over time

Volume in EUR m



Residential portfolio incl. undeveloped properties

Commercial portfolio incl. undeveloped properties

Total portfolio as of 31 December 2013

Portfolio	Numbers of buildings	Units	Floor area sqm	Vacancy sqm	Vacancy %	Annualized net actual rental TEUR	Net actual EUR / sqm / per month	Target rent TEUR p.a.	Book value TEUR	Maintenance costs EUR / sqm p.a.*	Return on target rent p. a. at IFRS book value %
Residential portfolio											
2013	2,437	69,806	4,255,864	403,408	9.48	233,124	5.04	253,219	3,137,930	11.06	8.1
2012	2,608	68,816	4,203,419	416,369	9.90	226,069	4.97	247,031	3,171,570	7.40	7.8
Commercial portfolio											
2013	27	675	318,414	33,063	10.40	25,755	7.52	27,988	399,953	7.11	7.0
2012	31	738	348,560	52,740	15.10	26,911	7.58	30,961	458,199	6.08	6.8
Subtotal Portfolio											
2013	**2,464**	**70,481**	**4,574,278**	**436,471**	**9.54**	**258,879**	**5.21**	**281,207**	**3,537,883**	**10.79**	**7.9**
2012	2,639	69,519	4,551,979	469,109	10.30	252,980	5.16	277,992	3,629,769	7.30	7.7
Others**											
2013	117	106	8,066			1,592	16.40	2,021	68,916		7.1
2012	121	107	8,088			3,047	16.46	3,612	33,569		10.8
Overall portfolio											
2013	**2,581**	**70,587**	**4,582,344**	**436,471**	**9.53**	**260,471**	**5.24**	**283,228**	**3,606,799**		**7.9**
2012	2,760	69,661	4,560,067			256,027		281,604	3,663,338		7.7

* including investments
** properties and serviced apartments

Dachsweg, Ludwigsfelde

Successful reduction of vacancy through active asset and property management

Reducing vacancy across all regions increases operating cashflows and leads to a long-term increase in the value of its inventory. In 2013, vacancy was reduced as follows:

In the **overall Group** (residential and commercial), vacancy was 9.5 % at year-end 2013 (vs. 10.3 % at the end of 2012). Apart from a few commercial properties slated for sale, this rate is – as before – due to vacancy at the Salzgitter location, where vacancy was 24.7 % when the portfolio was acquired in early 2011; it was reduced to 18.6 % by year-end 2013. Year on year, vacancy in the **commercial portfolio** was reduced from 15.1 % at the end of 2012 to 10.4 % at 31 December 2013.

In the **residential portfolio,** the situation in the core inventory – i. e. without properties held for sale – is positive through and through: vacancy in the Group fell from 9.6 % at the end of 2012 to 8.8 %. This reflects a vacancy reduction or at least stable vacancy rates despite extensive construction, across all regions:

- Hamburg region unchanged at 8.4 %
- Greater Berlin from 5.1 % to 4.5 %
- Thuringia / Saxony region from 9.2 % to 8.5 %
- North Rhine Westphalia region from 4.5 % to 3.9 %
- Salzgitter region from 21.3 % to 18.6 %

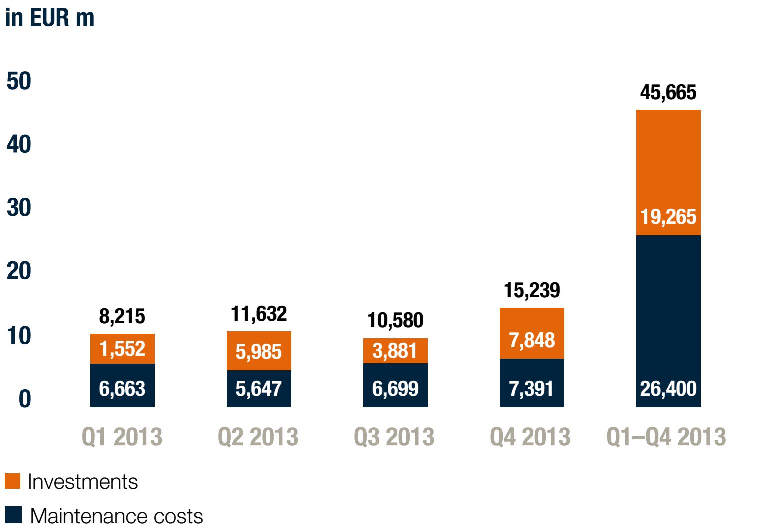
At the same time, rents in the TAG portfolio were increased by 2.6 % – or 3.2 % excluding properties held for sale – in 2013 thanks to active rental and asset management, and now average EUR 5.04 per sqm.

Thus in 2013, 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.

Last year, nearly EUR 46 m was spent on maintenance and investment across the entire portfolio, which is equivalent to EUR 10.70 per sqm. During the year, the sum of the maintenance activities totalling EUR 26.4 m was distributed evenly over the quarters and testifies to the excellent condition and the professional management, especially of the inventory the company has been able to acquire in recent years.

Investments made in 2013 reflected a significant increase, and totalled EUR 19 m at year-end. In all, investments were mainly made in the residential portfolio for modernization, expansion of space, and senior-friendly living, to steadily improve the quality of the portfolio in places like Bestensee, Elmshorn, Gera, Döbeln and Salzgitter. The challenge here is to carefully weigh the economic, environmental and social aspects and allocate capital with absolute discipline.

Total portfolio – maintenance costs and investments




Hubertusdamm, Potsdam

Property sales in 2013

Although TAG is primarily a long-term investor, it does sell off properties to optimise its portfolio and seize favourable market opportunities, so that freed-up capital can be invested in buying objects with a higher initial yield.

Sales from the residential portfolio and their completion:

Region	Units
Berlin (mostly completed in January 2013)	1,556
Thuringia / Saxony	69
NRW	37
Hamburg	23

As commercial real estate is no longer the focus of the Group's strategy, TAG successively continued its commercial portfolio disposal program in 2013, and managed to complete the sale of eight properties by the end of 2013. They are:

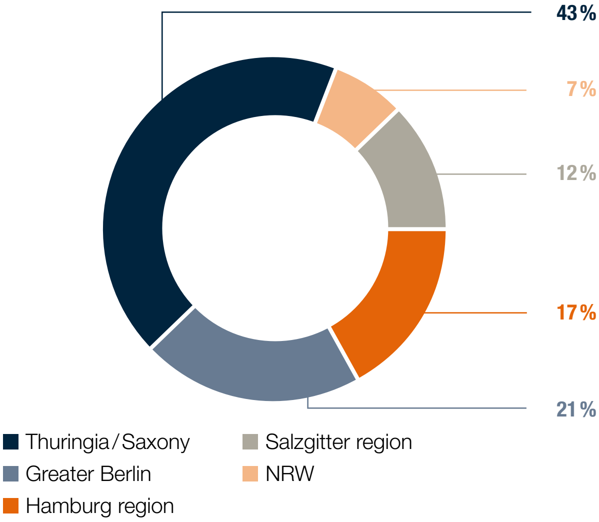
- Bogenstraße, Ahrensburg
- Königstorgraben, Nuremberg
- Stahltwiete, Hamburg
- Vahrenwalder Straße, Hanover
- Hofmannstraße, Munich
  (subject to conditions precedent by mid-2015)
- Neue Eiler Straße, Cologne (completion in January 2014)
- Kloster Blankenburg
  (subject to conditions precedent by mid-2014)
- St.-Martin-Straße, Munich
  (subject to conditions precedent by 2016)

In this segment, TAG benefits from the fact that the demand for good commercial properties in A-towns significantly exceeds the supply at this point, which serves to shift general buyer interest onto commercial real estate with development potential in B locations. In its September 2013 sale of the property on Hofmannstraße in Munich, approximately 23,000 sqm office building, TAG made sure through contractual agreements that it will participate in the value increase that will result from the proposed change of use and development of the entire area.

Residential Portfolio

The TAG Group residential portfolio was systematically augmented by several purchases during the fiscal year, and at year-end comprises a total of 69,806 residential units. The newly acquired portfolios are almost exclusively located in eastern Germany, with regional focuses in Thuringia and Saxony. The focus in these acquisitions was on potential for value creation standing by, the TAG invested in locations where it already has existing structures and can cost-effectively exploit synergies in development and management of new housing stock. TAG Group's five residential real estate portfolio locations are in Hamburg, Salzgitter, Greater Berlin, North Rhine-Westphalia and Thuringia / Saxony.

Residential real estate portfolio by region*



* as of 31 December 2013 according to balance sheet value

Portfolio Residential*

Region	Units	Floor area sqm	Vacancy %	Vacancy excluding properties for sale %	Net actual TEUR p.a.	Net actual EUR / sqm	Target rent TEUR p.a.	Book value TEUR	Maintenance costs EUR / sqm p.a.	thereof „Capex“ EUR / sqm p.a.	Return on target rent p.a. at IFRS book value %
Residential portfolio*	**69,806**	**4,255,864**	**9.48**	**8.81**	**233,124**	**5.04**	**253,219**	**3,137,930**	**11.06**	**4.67**	**8.1**
Thuringia / Saxony	31,850	1,920,496	10.00	8.47	101,278	4.88	109,911	1,357,663	9.42	4.62	8.1
Greater Berlin	13,545	825,666	4.70	4.45	47,794	5.06	49,738	664,059	11.64	4.75	7.5
Hamburg region	11,389	689,150	8.30	8.36	39,291	5.18	42,295	532,003	8.88	1.98	8.0
Salzgitter region	9,200	564,581	18.62	18.62	28,379	5.15	34,098	359,544	17.37	9.13	9.5
NRW	3,822	255,972	4.00	3.92	16,382	5.56	17,177	224,661	12.67	2.06	7.6

* as of 31 December 2013 according to balance sheet value

Acquisition of a portfolio with 219 residential units in Chemnitz in July 2013

At the beginning of July 2013, TAG acquired 219 residential units in a central location in Chemnitz, Saxony. The purchase price was approximately EUR 7.7 m. The property in question consists of contiguous, prefabricated 1970s apartment blocks with 2- to 4-room apartments. The total rental area is 13,271 sqm and average vacancy at the time of purchase was 6.9%. The annual net rental income is approximately EUR 0.7 m.

TAG Immobilien AG acquires a portfolio of around 3,000 residential units in former East Germany

In December 2013, the TAG expanded its residential portfolio by another 2,860 residential units and 57 commercial units, acquired from a complicated ownership structure for a purchase price of EUR 70.5 m. The properties, which are spread to twelve locations in former East Germany, especially Chemnitz with 660 and Cottbus with 416 units, as well as to Rostock, Dresden and Berlin, have development potential, and can be developed and efficiently managed using TAG's existing administrative structures. Total rental area is approximately 170,000 sqm; current annual rent is around EUR 8.6 m. Largely already renovated, the portfolio's reported vacancy is 12.6 %. In the years ahead, some EUR 3 m will be invested in the not-yet-renovated inventory in order to raise the average annual rent to well over EUR 9 m. Approximately 340 units that are not in our regional focus are slated for resale in the medium term.

Acquisition 2013 Top 5 cities	Units
Chemnitz (Saxony)	634
Bad Kösen (Saxony-Anhalt)	427
Cottbus (Brandenburg)	412
Sangerhausen (Saxony-Anhalt)	410
Rostock (Mecklenburg-Vorpommern)	162

Purchase of approximately 4,000 residential units in Thuringia and Saxony at the beginning of the year 2014

At the beginning of February 2014, TAG acquired 3,985 residential units and 26 commercial units at a purchase price of approximately EUR 120.5 m. The regional focus of this portfolio is Thuringia with about 3,000 units along the A4 autobahn and its university towns of Jena, Erfurt and Weimar, as well as Saxony and Saxony-Anhalt. The rental area totals approximately 236,000 sqm, expected annual rent is around EUR 12.4 m, and vacancy at the time of purchase was 10.7 %. The portfolio therefore also offers interesting potential for development. Approximately 440 units are slated for resale in the medium. The purchase increases TAG's portfolio holdings increases to around 74,000 units at the beginning of 2014.

The acquisitions made in 2013 and early 2014 increase TAG's stature and footprint in the eastern German housing market, and strengthen its local property management expertise.

Acquisition 2014 Top 5 cities	Units
Hermsdorf (Thuringia)	1,483
Jena (Thuringia)	525
Weimar (Thuringia)	436
Erfurt (Thuringia)	314
Chemnitz (Saxony)	233

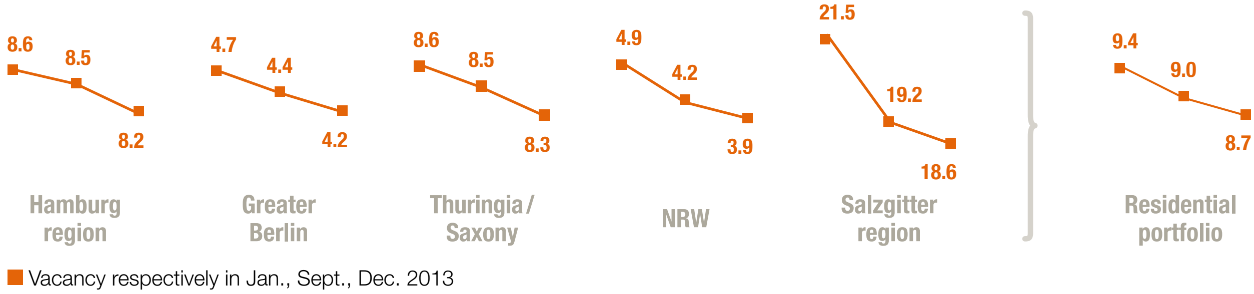
Portfolio residential – Top 20 cities residential units*

City	Region	Units	IFRS book value TEUR	Book value EUR / sqm	Recent lettings lowest – highest rent EUR / sqm	ø net actual rent EUR / sqm
Salzgitter	Salzgitter	8,741	312,738,270	585	4.39 – 6.26	4.78
Gera	Thuringia / Saxony	7,199	271,543,986	629	2.99 – 6.24	4.46
Erfurt	Thuringia / Saxony	5,555	262,304,427	809	4.83 – 7.16	5.11
Berlin (City)	Greater Berlin	5,403	307,216,108	923	4.37 – 9.00	5.32
Dresden	Thuringia / Saxony	2,964	211,424,334	1,071	4.79 – 7.70	5.86
Döbeln	Thuringia / Saxony	2,254	62,738,449	496	3.88 – 5.66	4.21
Nauen	Greater Berlin	1,753	82,783,102	775	4.01 – 6.15	4.90
Chemnitz	Thuringia / Saxony	1,532	64,484,234	698	4.10 – 7.50	4.94
Merseburg	Thuringia / Saxony	1,436	56,077,620	691	4.40 – 8.61	5.05
Rostock	Hamburg region	1,390	67,340,658	791	3.86 – 7.19	5.41
Bestensee	Greater Berlin	1,235	55,068,070	723	4.60 – 6.90	4.86
Leipzig	Thuringia / Saxony	1,226	73,862,322	936	4.83 – 6.30	5.46
Strausberg	Greater Berlin	1,193	55,474,226	790	4.94 – 8.60	5.09
Elmshorn	Hamburg region	1,094	59,610,000	873	4.38 – 6.93	5.64
Eberswalde	Greater Berlin	1,066	38,323,200	640	4.10 – 5.90	4.35
Stralsund	Hamburg region	932	45,057,547	803	4.50 – 6.96	5.12
Delmenhorst	Hamburg region	903	32,825,218	679	4.26 – 6.09	4.89
Schwerin	Hamburg region	794	33,692,578	680	3.90 – 8.32	4.64
Hamburg	Hamburg region	720	60,586,863	1,407	5.91 – 11.49	7.62
Dessau	Thuringia / Saxony	712	27,054,693	678	3.99 – 9.74	4.71

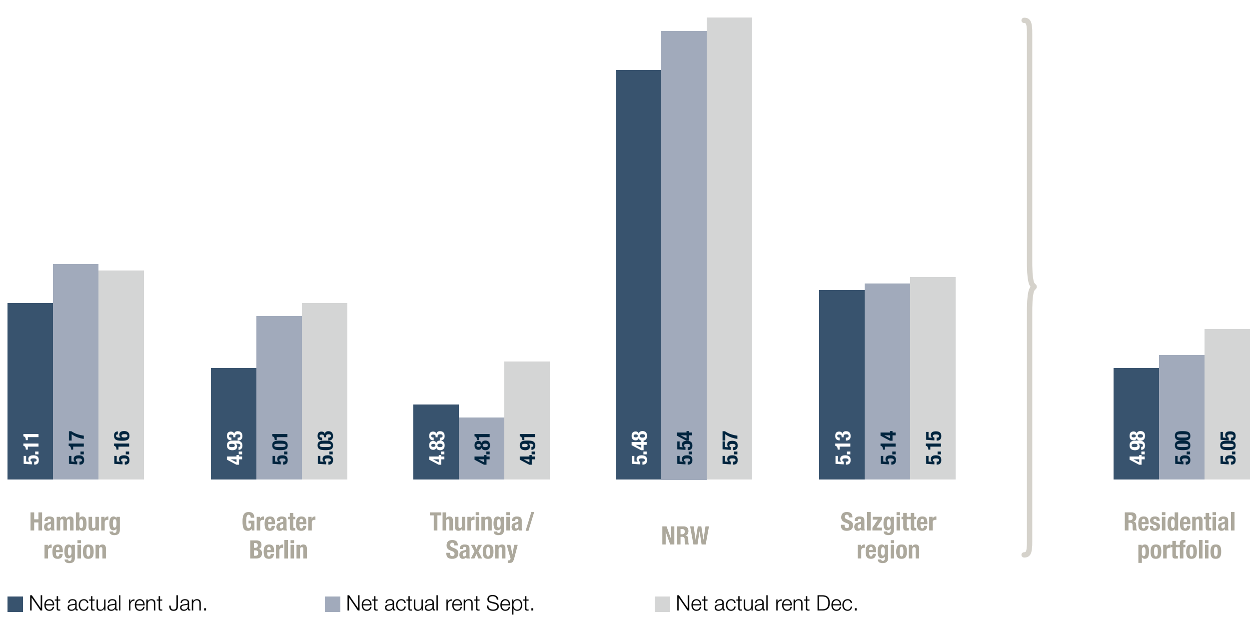
* as of 31 December 2013

Development of vacancy and actual rents through December 2013, by region

The year's successes in reducing vacancy continued during the fourth quarter. Across the Group, vacancy in the core inventory of the residential portfolio was reduced to currently 9.5 %, after 9.6 % at the end of 2012. In the residential portfolio without properties held for sale, vacancy across the regions was at 8.8 %, or even 8.7 % **excluding the acquisition at the end of December.** One particularly pleasing development is that vacancy in Salzgitter fell again significantly during the fourth quarter and now stands at 18.6 %. At the end of Q1, the figure was still 20.8 %. Vacancy in the five regions of the TAG residential portfolio developed as follows from January to the end of the third quarter through the end of the year:



At the same time, the Group was able to exploit rent increase potential and increase its rental income: on the one hand, existing rents were adjusted to the prevailing market rent, on other hand units standing empty so far, partly rented at much higher rents to new tenants. The average rent in the apartment portfolio increased from EUR 4.98 per sqm at the beginning of the year to EUR 5.05 at the end of the fourth quarter. Not including purchases and sales, this translates to growth of 3.2 % in 2013, of which 1 % alone in the fourth quarter.



The residential real estate portfolio – distributed to five regions

TAG's diversified residential portfolio gives it a footprint in five regions. As part of its strategy, TAG will continue to make future purchases at locations where it can build on the existing infrastructure, and the inventory can be cost-effectively integrated and profitably managed.

In the following, we present the five regions of our residential real estate portfolio and highlight examples of the measures we take / investments we make to develop our inventory.

Thuringia / Saxony region

Thuringia / Saxony is a major location in the TAG portfolio, which includes nearly 32,000 units in the region at an average net rent of EUR 4.88 per sqm.

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 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 illustrated in falling levels of unemployment.

Many eastern German cities are experiencing an influx as droves of people move from rural areas to nearby cities, where they find better economic, social and cultural opportunities. In particular, Dresden, Leipzig and Erfurt benefit from 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 205,000 inhabitants, is the largest city in the state. TAG's inventory includes approx. 5,400 residential units here. In parallel to the positive population development, the Erfurt rental market is also benefiting from a positive economic mood in the region, which has been reflected in rising rents in recent years.

Conversion and renovation in Gera

In Gera, a town with a population of about 100,000, TAG has around 7,000 residential property units in its portfolio. Here, too, tenants have a wide choice of flats on offer, which appeal to both families and senior citizens. In the leafy, southern district of 'Lusan', the most populous area in Gera, the renovation of a block of flats began in 2013 with the reconditioning of facades, bathrooms and electrics. After completion of the work in 2014 new floor plans especially tailored for families will offer balconies, kitchen and bathrooms with a window as standard. But also in the portfolio's 'Liebschwitz' district new modern boiler systems are being installed and facades renovated, thereby improving the ecological profile and reducing running costs for tenants. TAG is investing almost EUR 3.8 m in around 150 flats.

Tietzstraße, Dresden

TAG provides its tenants in Döbeln with 'made-to-measure living' and more

The 'Boot City' of Döbeln, is situated between the Saxon cities of Leipzig, Dresden, and Chemnitz and has a population of 22,000. TAG benefits from the fact that many people from the surrounding area, especially pensioners, are drawn here by to enjoy the infrastructural advantages of a city. Renovations are ongoing here as elsewhere: in east Döbeln EUR 2.6 m is being invested in senior-friendly renovations to provide wheelchair-accessible, comfortable 1 and 2-bedroom flats with balconies, in line with people's income levels. During the renovations TAG placed a premium on convenience, but always with an eye to keeping rents affordable.

In order to increase the attractiveness of the residential area, the strip malls are also rented to suitable tenants – for example a day centre run by the Workers' Welfare Association (AWO) and a hairdressers. Also, all tenants have access to an AWO emergency call system.

In Döbeln TAG is launching a new product on the market as it renovates the units: 'Made-to-measure living' is designed to attract another tenant clientele. Potential tenants who are prepared to help invest in their own apartment get to choose their floor coverings, interior doors and tiles in return. Three specially decorated model apartments show the choice of furnishings available in 'Made-to-measure living'. Besides individually designed apartments, TAG tenants in Döbeln are also offered the option of using TAG guest flats for family and friends if their own homes are too small.

TAG has created a whole new kind of meeting place with the opening of 'L(i)ebenswert Wohnen' (A Loving/Living Space) in Döbeln in May 2013. The intergenerational centre with its own library is visited daily by children, teens and seniors, and offers everything from crafts courses and computer courses to homework tutorials – or simply a place where people can hang out together. The meeting place was happily not affected by the great flood of June 2013, and instead served as a very welcome information centre and a base for launching relief efforts.

Greater Berlin

Berlin is the German capital and the seat of the German government. In 2013, the federal state of Berlin had a population of approx. 3.5 m. Berlin continues to see a strong influx from neighbouring European countries (about 40,000 people per year). At fewer than 3,200 units in 2012, the completion of new housing units remains far below the 10,000 to 15,000 units currently required. Rapid population growth and migration have resulted in a halving of average vacancy from 5.6 % in 2005 to 2.8 % in 2012, while rents rose by 32 %. However, in many parts of the city rents remain at a level that is too low to allow for new construction projects. The 'Mietpreisbremse' (curb on rents) agreed by the Grand Coalition is designed to counteract the trend of rising prices in densely populated areas: in regions with a tight housing market, new rental contracts may only be at terms that are a maximum of ten % above the customary local rent. Berlin is a tenant's market, but it is not homogeneous; each of the 12 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 13,545 residential units in the Berlin region, 5,400 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 3,000 units in Nauen. Due to the rent increases recorded in the Berlin region, at an average rental price of EUR 5.06 per sqm, TAG has an attractive offer.

Bestensee renovation increases convenience and comfort

TAG has 1,200 flats in Bestensee, a good 20 kilometres from the southern outskirts of Berlin. The housing estate's rural suburban location, with good infrastructure links to shopping is mainly in demand with families and senior citizens.

Last year TAG began redeveloping parts of the existing property, resulting in modern 2- to 4-bedroom flats whose layout was optimised by changing the floor plans. At the 'Am Glunzbusch' housing estate, bathroom renovations and the addition of balconies enhance tenant comfort, and above all, care was taken to ensure wheelchair accessibility so that the units are also suitable for senior citizens. The complete renovation of around 50 flats was completed ahead of schedule in February 2014, and another 30 units are to be upgraded by redevelopment in the current year. After completing the measures TAG expects to be able to achieve a net actual rent of up to EUR 7.20 per sqm.

Bestensee, near Berlin

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. With a population of about 1.8 m, Hamburg is Germany's second largest city after Berlin. Hamburg's appeal is reflected among other things in its ever-increasing population; more than half of the city's households are single-person households. 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 11,389 units, the northern region is TAG's third-largest location; average net annual rent without incidental and heating costs is EUR 5.18 per sqm.

Energy-efficient and age-appropriate renovation in Elmshorn: Konrad-Struve-Straße 41 undergoes refurbishment

Back in 2012, after an in-depth review, TAG saved an Elmshorn property from demolition and opted for a renovation instead. Last year, the dilapidated eight-storey building at Konrad-Struve-Straße 41 was completely gutted, and then renovated for energy efficiency and thoroughly modernised. When it is completed – probably by mid-2014 – the process will result in 42 modern 1-bedroom apartments, each between 29sqm and 35 sqm, each with a a balcony, and together providing 1,350 sqm of living space. The façade including windows have been completely renovated and at the same time insulated in accordance with energy efficiency standards, thereby reducing CO_2 emissions. All apartments will be connected to the existing combined-heat-and-power (co-generation) plant via the heating system.

In addition to wheelchair-friendly 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 are also wheelchair-accessible – including the balconies – and senior-friendly bathroom modernisations have been carried out. After completing these measures with a total estimated volume of EUR 2.3 m, TAG Immobilien AG expects to achieve a net actual rent of EUR 8.50 per sqm.

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

Potential tenants are welcome to contact the local rental office by writing to the following email address: Konrad-Struve-Strasse41@tag-ag.com

Salzgitter region

The Salzgitter region is situated in south-eastern Lower Saxony along the axis of the Hanover-Brunswick-Göttingen-Wolfsburg 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 December 2013, 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 9,200 units, of which 8,738 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 2013 was EUR 5.15 per sqm.

Systematic utilities cost management

Rent including utilities is becoming cheaper for nearly the entire residential housing inventory of 8,800 units with over 15,000 tenants in Salzgitter, where savings of up to 20 % of the total rent per apartment or up to EUR 340 a year can be achieved. An active, systematic management of operating costs has optimised expenditure on energy costs, waste disposal and caretaking (janitorial) services. This helps to improve the location's quality and appeal for customers and indirectly reduces vacancy in the portfolio. The sustainability of the measures deserves special mention: in Salzgitter, for instance, eco-friendly green power is supplied to the households via combined heat and power plants, and depending on individual consumption, EUR 60–275 per apartment per year can be saved on heating costs. By changing the service provider and actively managing the waste areas (household waste, bulky waste, waste paper), disposal costs will be cut by more than half going forward. At the same time, caretaking services for the entire inventory have been enhanced, adding 24-hour availability and achieving a high level of service for tenants. In addition, modern remote meter reading was installed for electricity/gas/water, guaranteeing technically precise and accurate measurement of consumption and further cost savings.

Kurze Straße, Dortmund

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 8.6 % on 31 January 2014, with 789,380 people out of work. At the end of 2013, the average net annual rent without incidental and heating costs for TAG portfolio properties in the North Rhine-Westphalia region was EUR 5.56 per sqm, while average vacancy was just 4 %.

The TAG residential brand becomes established

A year ago, TAG bundled all of its tenant-related activities in a separate brand, TAG WOHNEN. TAG WOHNEN offers its renters high-end service quality with creative rental concepts tailored to regional requirements, forward-looking energy concepts, and consistent customer care.

Following the rapid growth of TAG in recent years, it was necessary to clarify the many individual companies' affiliation with the group for tenants and customers. The name TAG WOHNEN was deliberately chosen to highlight TAG's core competence: as an owner-manager of residential properties, it regards its duties and responsibilities to tenants across all sites as a cornerstone of the business strategy behind its operating business. This is what the staff at all TAG locations stand for under the Group's new residential brand, thereby contributing to tenant satisfaction.

The brand homepage at www.tag-wohnen.de can be used for finding apartments or for tenants to contact their customer service agents. It contains comprehensive information about the various locations. Also, the five regional residential journals can be viewed online: people seeking information about everything from waste separation and housing benefits to balcony gardening will find it here.

TAG WOHNEN's uniform external image increases our customers recognition of and identification with the brand. Customer loyalty leads to lower tenant churn and a more sustainable management of resources, both ecologically and economically.

To coincide with the introduction of its residential brand, TAG developed various rental concepts last year. 'Wohnen nach Maß' ('Made-to-measure living') offers individual solutions for tenants to realise their own living preferences according to their budgets and requirements. Show homes specifically tailored to the needs of seniors, families and young couples illustrate the concept and help people visualise when choosing a TAG apartment.

For tenants aged 60+, depending on the location there are a variety of additional options that make it possible for them to continue living in their own apartment. In cooperation with professional and voluntary care associations, neighbourhood meetings and emergency call systems are offered to give older tenants a sense of security in their homes.

The many innovative strategies for waste disposal, metering services or reasonably negotiated energy contracts not only noticeably increase tenant satisfaction, but also bring many tenants appreciable economic benefits. For example, at the Salzgitter site we have created the conditions for 15,000 tenants to reduce their incidental costs of renting by several hundred euros per annum each.

Ernst-Thälmann-Straße, Senftenberg

Net Asset Value – NAV

The acquisitions of recent years were made under the premise that purchases are only made if they each increase both the company's FFO and NAV (Net Asset Value) per share. NAV is the international benchmark for evaluating real estate companies; it represents the company's intrinsic strength. The calculation of NAV in accordance with EPRA (European Public Real Estate Association) guidelines is designed to show the fair value of net assets on a consistent and long-term basis.

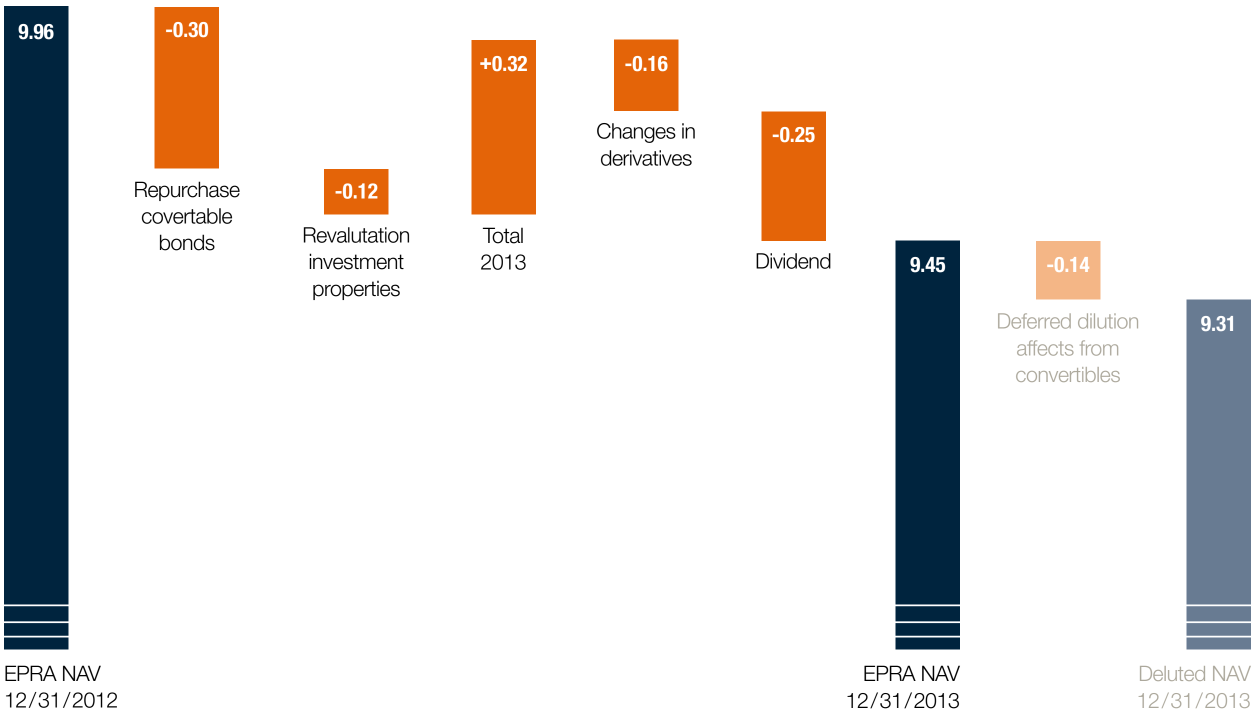
When calculating NAV only the equity before minority interests according to the balance sheet is considered, divided by the number of shares. Derivatives and deferred taxes are not included in the calculation. All values that are relevant for the calculation are validated by expert opinions/valuations.

In addition to the NAV, we also report the diluted EPRA NAV, which imputes the effects of exercising all conversion rights and the shares arising therefrom, as all currently outstanding TAG convertible bonds have a conversion price below TAG's current share price. So at the beginning of the year, the diluted EPRA NAV was calculated based on a diluted share capital of EUR 155,597,393. The repurchase of convertible bonds in late July 2013 and the cancellation of a convertible bond in October 2013 at a nominal amount of EUR 30 m and the subsequent repayment in December 2013, has reduced the dilution effect by around 11 m TAG shares to a diluted share capital of EUR 144,576,807. Accordingly, dilution per share has been reduced from EUR 0.47 to EUR 0.14.

There are various valuation approaches for calculating the NAV: TAG evaluates its real estate based on a DCF or earnings value method, net of the transaction costs that a potential buyer would include in the calculation. Like our major competitors, we commission CBRE to perform this valuation for our residential portfolio.

NAV per share

in EUR / share



Gross and net valuation approach

For valuation purposes, our portfolio is structured into two parts depending on market typing. In the regional markets, where according to the information from the 'Gutachterausschüsse' (surveyors' councils) asset deals are the norm / asset deals make up the majority of the transactions, 7–8 % is deducted for transaction costs. By contrast, property valuation in regions where there is no clear main market, or the majority of transactions are share deals (where real estate taxes are minimised), only 0.2 % transaction costs are taken into account. The first group includes about one-third of the residential portfolio and all of the commercial portfolio. So for a weighted average, about 1.8 % is deducted from the valuation results to take the transaction costs into account.

- **Gross approach:** share deal valuation deducting hypothetical transaction costs of 0.2 % for TAG's residential portfolio in the Thuringia/Saxony, Lower Saxony / Salzgitter regions
- **Net approach:** asset deal valuation deducting hypothetical transaction costs of 7–8 % for TAG's residential portfolio in the Berlin, Hamburg, and North Rhine-Westphalia regions, the entire commercial portfolio, and all held-for-sale inventory

Given the new IFRS accounting rules which now, regardless of individual intent, demand that the majority market conduct be taken into account, at the end of the year that part of the portfolio that is assigned to an "asset deal market" and where transaction costs are to be recognised in the amount of 7–8 %, increased considerably. As a result, the value attributable to this part of the portfolio fell by around EUR 52 m.

On average, sales from the residential and commercial portfolio in the years between 2009 and 2013 were concluded at prices significantly well above the book values. This is a clear indication that the external valuation of TAG's portfolio was performed at the lower end of the respective market potential.

Funds From Operations – FFO

Passage on FFO at TAG Group at the end of the reporting year 2013

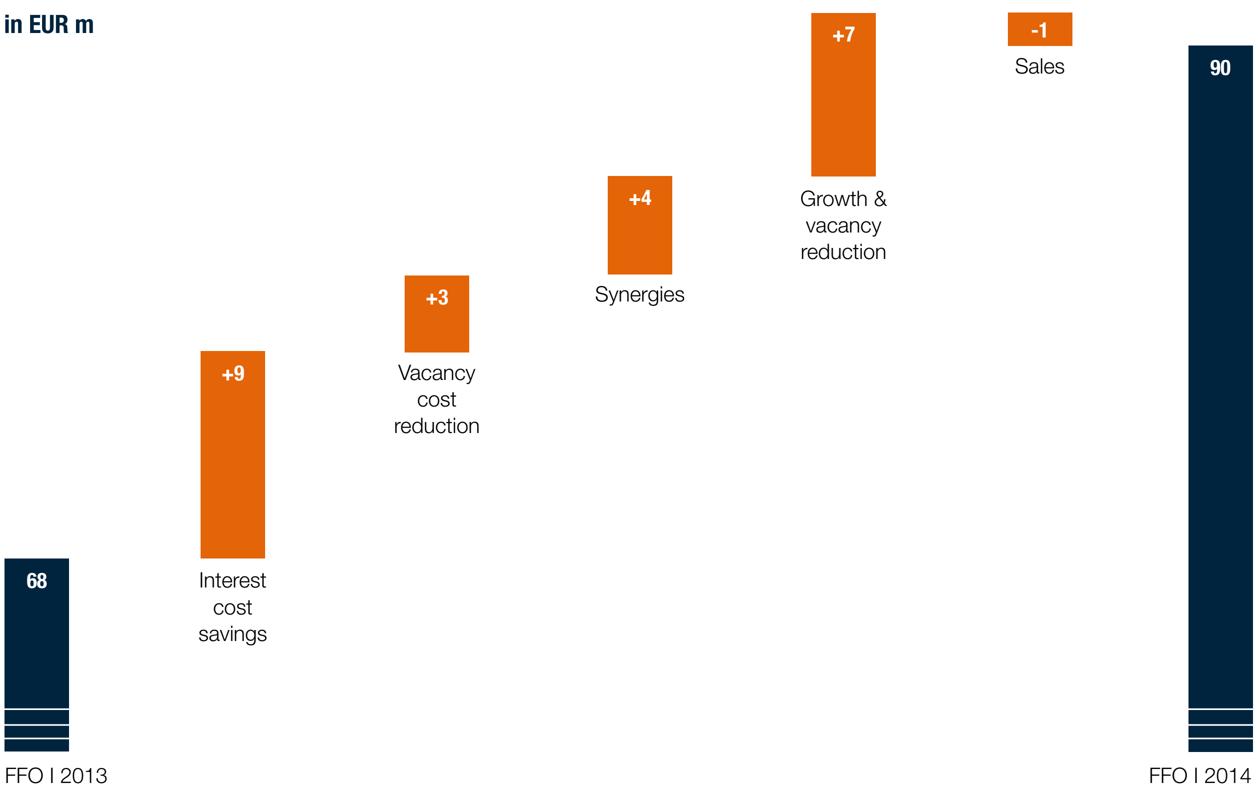
Funds From Operations (FFO) describes a company's operational profitability and is therefore an important indicator for real estate companies. FFO I is calculated from EBT, adjusted for non-cash items. At the end of the fourth quarter 2013 FFO I, which does not include proceeds from sales, was EUR 19.6 m, bringing the total for the full year 2013 to EUR 68.2 m. This represents a further increase over the first three quarters of 2013 (Q1 EUR 15.1 m / Q2 EUR 16.4 m / Q3 EUR 17.1 m / Q4 EUR 19.6 m).

TAG's business activity regularly includes property sales. For this reason, we also report another indicator, FFO II, which includes cash inflows from disposals. At the end of December 2013, FFO II came to EUR 121.0 m, which mainly reflects the sales of the residential properties and commercial properties in Berlin that were in 2013; it does not include the properties St.-Martin-Straße, Munich, the Kloster Blankenburg monastery and Neue Eiler Straße, Cologne.

in EUR m	2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Total 2013
EBT	**202.6**	**13.3**	**11.7**	**13.5**	**-15.5**	**23.1**
Adjustment for non-cash items						
valuation result	-29.4	0.1	0.3	-4.2	19.7	15.9
gains from first-time consolidation of DKBI in 2012	-99.1	–	–	–	–	–
deconsolidation Polares in 2012	-5.4	–	–	–	–	–
first time consolidation TLG in 2012	-49.0	–	–	–	–	–
depreciation	1.7	0.5	0.6	0.6	0.6	2.2
impairment losses on receivables and inventories	13.6	1.2	1.9	5.3	9.0	17.4
impairment of financial assets	–	–	–	–	0.2	0.2
non-cash financial expenses / income / one off's refinancing	4.6	0.4	1.1	2.1	5.6	9.2
sales result	0.1	-0.5	0.9	-0.2	-0.1	0.2
FFO I	**39.6**	**15.1**	**16.4**	**17.1**	**19.6**	**68.1**
plus liquidity from sales	29.9	44.9	2.7	4.5	0.8	52.9
FFO II	**69.5**	**60.1**	**19.0**	**21.6**	**20.4**	**121.0**
FFO per share in EUR	**0.42**	**0.12**	**0.13**	**0.13**	**0.15**	**0.52**
FFO II per share in EUR	**0.73**	**0.46**	**0.15**	**0.17**	**0.15**	**0.92**

FFO I forecast 2014

The company easily achieved its FFO I forecast for 2013 without liquidity from sales. The detailed guidance for 2014 was published back in November 2013, and TAG expects FFO I of EUR 90 m for 2014. In 2015, the operating result should rise again significantly. The potential from the negotiations to refinance the loans, including for acquisitions made during the year, are not yet reflected in the indicators for 2014, so there is already further potential from the refinancing side alone.



Refinancing update

By the end of 2013, TAG was able to achieve further savings from the refinancing of loans. The Group's only CMBS loan, which was assumed as part of the Colonia acquisition, was refinanced with traditional mortgages from German banks: overall, the level of interest rates for this part of the portfolio was lowered from originally 4.30 % to an average of about 2.87 % p.a. Low interest rates on a loan volume of approximately EUR 170 m were negotiated for the Emersion Grundstücksverwaltungs-Gesellschaft portfolio in Salzgitter and the Domus Grundstücksverwaltungs-Gesellschaft portfolio (in Freiburg and Cologne among other locations) when the financing expired at the end of August 2013. The overall term of the loans is approximately five years and ten years, respectively. The resulting savings had an effect on the earnings and cashflow, especially in the fourth quarter.

Parallel to this, in October the Colonia subgroup's Nauen and Berlin portfolios were freed from a high-interest financing in advance of the original maturity date in January 2014. The new conditions for the portfolio in Marzahn take effect from October; here, interest on EUR 70 m was lowered from 4.92 % to 2.98 % per annum. For the portfolio in Nauen, a loan volume of EUR 54 m was also refinanced long-term at favourable conditions, which will take effect from the first quarter of 2014.

As early as the middle of the year, savings were achieved for the financing of TAG Wohnen as well. The portfolio was acquired with loans for EUR 290 m at an average interest rate of approximately 4.37 % p.a., and has now be refinanced at an average of about 2.70 % p.a.

In all, refinancing of debt assumed as part of acquisitions resulted in refinancing of a loan volume of around EUR 660 m in 2013, leading to significant interest savings. The favourable conditions will contribute to a lower net financial result and improved cashflow from operations.

Significant loan refinancing in 2013

Bank dept in EUR m	Amount old	Amount new	ø old in %	ø new in %	Interest saving in EUR Mio. p.a.	Maturity years
Closed in 2013						
TAG Wohnen	209	290	4.37	2.70	1.3	6
TAG NRW	11	13	3.75	3.15	0.0	10
Quokka-CMBS (Salzgitter, Domus)	214	171	4.31	2.87	4.0	10
Bau-Verein – Berlin	12	19	5.75	3.45	0.0	7
Bau-Verein – Norderstedt	7	11	3.54	3.90	-0.2	10
Colonia – Marzahn	63	70	4.92	2.98	1.0	5
Colonia – Grasmus	31	31	5.92	3.50	0.7	25
Colonia – Nauen	65	54	5.28	3.99	1.3	10
Refinancing volume 2013	**612**	**658**	**4.59**	**2.97**	**8.5**	**8.4**

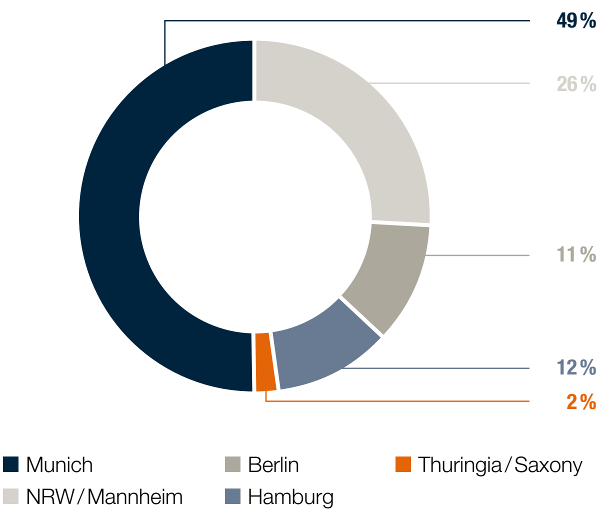
Königstorgraben, Nuremberg

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 commercial 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 cash-flows, which are improved through the ongoing management of the portfolio. Of the long-term leases, more than half (55 %) have a remaining maturity of over three years.

Commercial real estate holdings by region*



* as of 31 December 2013 according to balance sheet value

The value of the commercial real estate portfolio is characterized unchanged in urban locations in the German cities by good potential. Expanding the commercial portfolio, which is largely held by TAG Gewerbe, is not a priority for TAG. Rather, the real estate inventory in this segment is being reduced through targeted transactions. The following is a list of the inventory of the commercial portfolio, including the properties sold in 2013.

Commercial portfolio as of 31 December 2013

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 per month	Target rent TEUR p.a.
Siemensdamm	13629 Berlin, Siemensdamm 50, Wernerwerksweg 16	53,962	16.95	–	0.00	3,000	11.65	4.63	3,000
Dynamostraße	68165 Mannheim, Dynamostraße 4	32,032	10.06	–	0.00	2,373	9.21	6.17	2,373
Franz-Geuer-Straße	50823 Cologne, Franz-Geuer-Straße 10	26,492	8.32	–	0.00	2,400	9.32	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	25,580	8.03	2,089	8.17	3,408	13.23	12.09	3,731
Logistikzentrum Gründlacher Straße	90765 Furth, Gründlacher Straße 258	23,964	7.53	–	0.00	1,098	4.26	3.82	1,098
Pegasus Business Center	85716 Unterschleißheim, Gutenbergstraße 5	21,465	6.74	–	0.00	1,945	7.55	7.55	1,966
St.-Martin-Straße (Kustermannpark) (sold, transfer b&e 2016)*	81669 Munich, St.-Martin-Straße 53/55	19,987	6.28	711	3.56	2,301	8.94	9.95	2,397
Kloster Blankenburg (sold, transfer b&e 2014)*	26135 Oldenburg, Klostermark 70–80	17,520	5.50	14,451	82.48	106	0.41	2.86	579
Bartholomäusstraße	90489 Nuremberg, Bartholomäusstraße 26	15,447	4.85	1,359	8.80	1,512	5.87	8.94	1,626
Oststraße	22844 Norderstedt, Oststraße 73c	12,358	3.88	–	0.00	648	2.52	4.37	648
Werther Carré	42275 Wuppertal, Bachstraße 2, Kleiner Werth 30, Kohlgarten 7	9,811	3.08	–	0.00	1,100	4.27	9.34	1,100
Ferdinand-Porsche-Straße	51149 Cologne, Ferdinand-Porsche-Straße 1, 1a	6,527	2.05	3,247	49.75	474	1.84	12.03	818
Planckstraße	22765 Hamburg, Planckstraße 13/15	6,259	1.97	308	4.93	822	3.19	11.51	874
Steckelhörn	20457 Hamburg, Steckelhörn 5–9	6,230	1.96	–	0.00	1,246	4.84	16.66	1,246

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 per month	Target rent TEUR p.a.
Oßwaldstraße	82319 Starnberg, Oßwaldstraße 1a, 1b	5,504	1.73	1,501	27.28	438	1.70	9.13	745
Titotstraße	74072 Heilbronn, Titotstraße 7–9	5,033	1.58	1,482	29.44	400	1.55	9.39	481
Rathausgalerie Markkleeberg	04416 Markkleeberg, Rathausstraße 33–35	4,902	1.54	450	9.18	529	2.05	9.90	550
Neue Eilerstraße (sold, January 2014)	51145 Colgne, Neue Eiler Straße 50–52	4,613	1.45	4,337	94.02	22	0.09	6.73	263
Innere Kanalstraße	50823 Colgne, Innere Kanalstraße 69	4,255	1.34	181	4.26	486	1.89	9.94	496
FAZ Dachau	85221 Dachau, Hochstraße 27	3,625	1.14	315	8.69	526	2.04	13.25	575
Boschstraße	82178 Puchheim, Boschstraße 1	2,716	0.85	–	0.00	297	1.15	9.13	297
Porschezentrum	86368 Gersthofen, Porschestraße 5	1,995	0.63	–	0.00	365	1.42	15.26	365
Schleinufer	39104 Magdeburg, Schleinufer 14	1,846	0.58	395	21.41	73	0.28	4.21	113
Harburger Straße	21435 Stelle, Harburger Straße 1	1,698	0.53	1,028	60.54	29	0.11	3.58	69
Steinweg	59821 Arnsberg, Steinweg 13	1,755	0.55	207	11.78	65	0.25	3.51	85
Hauptstraße	56170 Bendorf, Hauptstraße 186	1,536	0.48	–	0.00	88	0.34	4.80	88
Heiterblick	04347 Leipzig, Heiterblickstraße 26	1,300	0.41	1,000	76.92	2	0.01	0.68	2
Portfolio Gewerbe		**318,414**	**100.00**	**33,063**	**15.13**	**25,755**	**100.00**	**7.58**	**30,961**

Bogenstraße (sold, February 2013)	22926 Ahrensburg, Bogenstraße 47	1,676	–	880	52.50	50	–	5.21	86
Vahrenwalder Straße (sold, April 2013)	30165 Hanover, Vahrenwalder Straße 12–14	1,422	–	1,184	83.30	22	–	8.05	126
Königstorgraben (sold, June 2013)	90402 Nuremberg, Königstorgraben 7	2,598	–	51	2.00	285	–	9.32	287
Stahltwiete (sold, August 2013)	22761 Hamburg, Stahltwiete 20	2,839	–	–	0.00	375	–	11.00	375
Hofmannstraße (sold, Joint Venture, transfer b&e 2015)*	81379 Munich, Hofmannstraße 51	23,152	–	23,152	100.00	–	–	–	–

* transfer b&e: transfer of benefits / encumbrances

Staff and employees at TAG

A culture of partnership, commitment to shared business goals, and flat hierarchies characterize the working atmosphere in our Group. Responsibility and competence, and the fairness and friendliness of our staff in the sensitive area of customer relations, are an essential priority and prerequisite for the success of the company.

Excluding trainees, caretaker and cleaning staff, TAG employed a total of 519 people at the end of the 2013 fiscal year, after 508 employees at year-end 2012. As part of the takeover of purchased companies, most of the employees of TAG Potsdam and TAG Wohnen were integrated into TAG Immobilien AG in 2013. In addition to this, TAG employs an average 112 caretakers (previous year: 60).

The performance of each employee affects the success of the TAG group, so staff training and encouraging employee qualification is given a particularly high priority. This is achieved through a number of training measures, which are becoming more and more important in the competition for qualified staff, and are essential for effective employee retention. In this context, vocational training and the promotion of young talent play a special role in the medium and long term:

The TAG Group currently employs 44 apprentices. Six staff members are completing a dual degree program in Business Administration with a focus on the real estate industry. TAG strives to offer these trained real estate professionals continued employment at its various sites future once they graduate. The cooperation and sponsorship contract signed with the Technical University of Darmstadt also serves to advance the promotion of young talent that TAG supports.

Improving the compatibility of family and career (work-life balance) is an important factor in the attractiveness of an employer, given the demographic developments in society. That is why the TAG Group has several part-time working models and Home Office schemes in place, to achieve the highest possible flexibility in the workplace. The proportion of women in the company is currently at 70 %. On the governing bodies, Women make up 25 % of the Executive Board and 33 % of the Supervisory Board. The age structure across the Group as a whole is as follows:

Under 30 years	18 %
Under 40 years	27 %
Under 50 years	22 %
Under 60 years	26 %
Over 60 years	7 %

Sustainability report 2013

Forward-looking residential property management is no longer conceivable without considering sustainability aspects. TAG Group, too, devoted itself to this topic at an early stage and has for years formulated its business policy not only with economic aspects in mind, but also with a view to environmental and social factors – albeit with commercial success creating the means for social responsibility in the first place. A key point here is the respectful and fair treatment of internal stakeholders, especially employees and shareholders, as well as external stakeholders, first and foremost our tenants and other business partners.

Our sustainability efforts are based on the TAG Group's governing values: compliance with the rules, respect, discipline, and transparency. Therefore, in addition to requirements for compliance with legal regulations, our business principles also address our public image, our donations policy, rules on conflicts of interest, and in particular how we expect people within the company to treat each other, and managers to act as role models.

In fiscal 2013, the Group concentrated its sustainability efforts on the following areas:

Residential real estate management

TAG Group's actions as a long-term real estate investor are directed at safeguarding the value of the property, generating income from stable cashflows, and levering potential in its portfolio. A constant focus on the needs of the tenants is essential to achieve this.

To keep the inventories attractive long term, TAG Group invests in an effective, long-view maintenance policy. For example, regular maintenance and inspections of the buildings' technical facilities (heating, lifts, fire alarm systems, smoke detectors, fire doors, ventilation systems, etc.) are carried out to ensure a long service life for parts and avoid excessive wear, which leads to premature replacement.

Also, each year, numerous properties at various locations are renovated and modernised. As part of these renovation and modernisation measures, TAG Group gives some of the properties a fundamental overhaul, renovating them to be environmentally compatible in accordance with the EnEV (German regulation for energy saving in buildings and building systems) as well as contemporary requirements for floor plans and amenities. Here, the needs and requirements of various potential customer groups are specifically taken into account. For instance, in 2013 we modernised properties on Konrad-Struwe-Straße in Elmshorn and at Lommatzsche Straße 23 and 24 in Döbeln to make them suitable for senior living. In the process, one major challenge is to strike a balance between amenities and cost effectiveness. At other locations, such as in Erfurt and Rostock, individual construction projects such as wall insulation or the installation of new windows were carried out. This leads to significantly lower energy consumption and therefore serves both environmental and economic purposes by reducing ancillary costs. To enhance the family-friendliness of the neighbourhoods, playgrounds were replaced or renovated and large family apartments were built during construction projects such as the one on Heeresbergstraße in Gera.

In 2013, TAG Group's efforts for the customer group of seniors were mainly centred in Salzgitter among other sites. Here, in collaboration with Caritas, older tenants were offered a housing consultation, with the aim of enabling them to stay in their own homes for as long as possible through minor alterations to their flats. Tenants were given expert advice on age-related problems, and with the assistance of care funds, support handles, special toilet seats and walk-in showers were installed in bathrooms, e.g.

Art & home project: tenants paint, Salzgitter

Another focus of the Group's sustainability efforts in 2013 was the management of operating and heating costs. The Group leveraged the size it has now attained to negotiate new energy supply contracts for the benefit of tenants. Besides the switch to green electricity in many locations such as Bestensee and Schwerin, the heating system technology was also optimised at selected locations. Intelligent system controls enabled a significant energy savings. Expiring contracting agreements are regularly reviewed and assessed to see whether the existing heating or district heating systems provide sustainable benefits for the tenants and the environment; whether new equipment needs to be installed and when; or whether an energy-related upgrade of an existing system would produce a corresponding effect. As last year, there was a focus on the issue of waste management. Apart from introducing waste sorting, waste locks were also introduced at many locations that register the volume deposited by each tenant, thereby directly rewarding those who cut down on the amount of rubbish they throw away. All these measures have two aims: to reduce energy consumption / volume of waste, which is a clear environmental goal, as well as to reduce costs for tenants. However, achieving this goal also requires the active support of tenants in terms of their consumption patterns. To actively support this process, tips on recycling and proper heating and ventilation have been posted on the homepage at www.tag-wohnen.de.

To provide tenants with a wide range of services and meet TAG Group's own standards of service quality, in 2013 the strategy of providing all property-related services in-house was systematically driven forward. In particular, the company further built up its own team of caretakers / janitors, who are now active at several major sites as well, including Gera, Erfurt and Döbeln. Since the third quarter of 2013, TAG Group has been consolidating its infrastructural and technical contractors with a view to an energy-saving and therefore sustainable process landscape.

Furthermore, new tenant offices were opened in order to be more available to tenants. In receivables management, TAG Group continues to provide assistance to tenants in arrears. For example in Döbeln, a social manager advises tenants in financial difficulties.

Social responsibility

As in previous years, in 2013 TAG Group further expanded its social efforts for tenants, including neighbourhood developments and matters.

TAG's work received the greatest recognition in May when it won the Braunschweig Chamber of Commerce's Social Transfer Award 2013 – with the Workers' Welfare Association (AWO) – for a joint project in Salzgitter. Under a cooperation contract, TAG shoulders the annual personnel and material costs for the AWO centre in the Fredenberg district of Salzgitter. The contract parties received the award for a project that promotes special language courses for immigrants including practical support for everyday life in Germany (authorities, kindergartens, schools, forms, applications, etc.)

A cooperation was also agreed with the Church's welfare and social workers (Diakonie) in Salzgitter, to set up and run inter-generational meetings in the Lebenstedt district. It gives sprightly seniors, young women, and children as well as disabled people, singles in need, and the socially disadvantaged a place to meet daily and form a community that supports one another and cares for the neighbourhood. Social support reinforces social cohesion in the neighbourhood and makes it a more attractive place to live.

The 'meine Szitty-Club Salzgitter e.V.', on a constant budget, continued to support projects for children, teenagers and senior citizens in TAG's residential districts in 2013, as well as equipping kindergartens, giving Christmas presents to children served by the 'Tafel e.V.', providing subsidised lunches and extra teaching for socially disadvantaged primary school pupils in Fredenberg, etc.

A new project was launched in Döbeln in May 2013: 'L(i)ebenswert Wohnen' (Loving this Living Space), where two flats were converted, in collaboration with local craftsmen and utility companies, into a meeting place that offers residents an extensive library, a fully equipped nursery, and computer stations, along with the assistance of two social workers. This too, serves to promote social interaction in the urban district and encourage a sense of caring and community.

TAG continues its work on neighbourhood councils and associations in various urban areas, such as the Marzahn and Hellersdorf district councils or the 'Die Platte lebt' club in Schwerin. In Bestensee, a dedicated social officer works to promote social cohesion in the neighbourhood.

In Gera, TAG and other major housing companies sponsor the INKA project, which was created to promote the social integration of disadvantaged citizens, and especially to help get young people back to work.

The company also supports or organises sports clubs (including the youth teams of Gera's 1. FC Post and VfL 1990, as well as 1. FC Marzahn), kindergartens (including in Strausberg and Moers), tenant and district festivals (e.g. the summer festival in Erfurt, the Stralsund meadow festival, tenant party as thanks for their help during the floods in Döbeln, and many more) through a variety of individual measures.

Conclusion

Sustainable action is a cornerstone of TAG Group's business policy. This includes the sustainable management of real estate to attain stable cashflows, maintain or increase the value of the properties, and exploit potential, as well as the shouldering of environmental and social responsibility. TAG Group is involved in social efforts at many locations to develop residential neighbourhoods, improve the attractiveness of city districts, and provide added value for its tenants. All of these measures are ultimately aimed at increasing the attractiveness of TAG Group apartments. This basic principle was further mainstreamed into the Group in 2013 and will continue to determine the actions of everyone involved going forward.

The TAG share

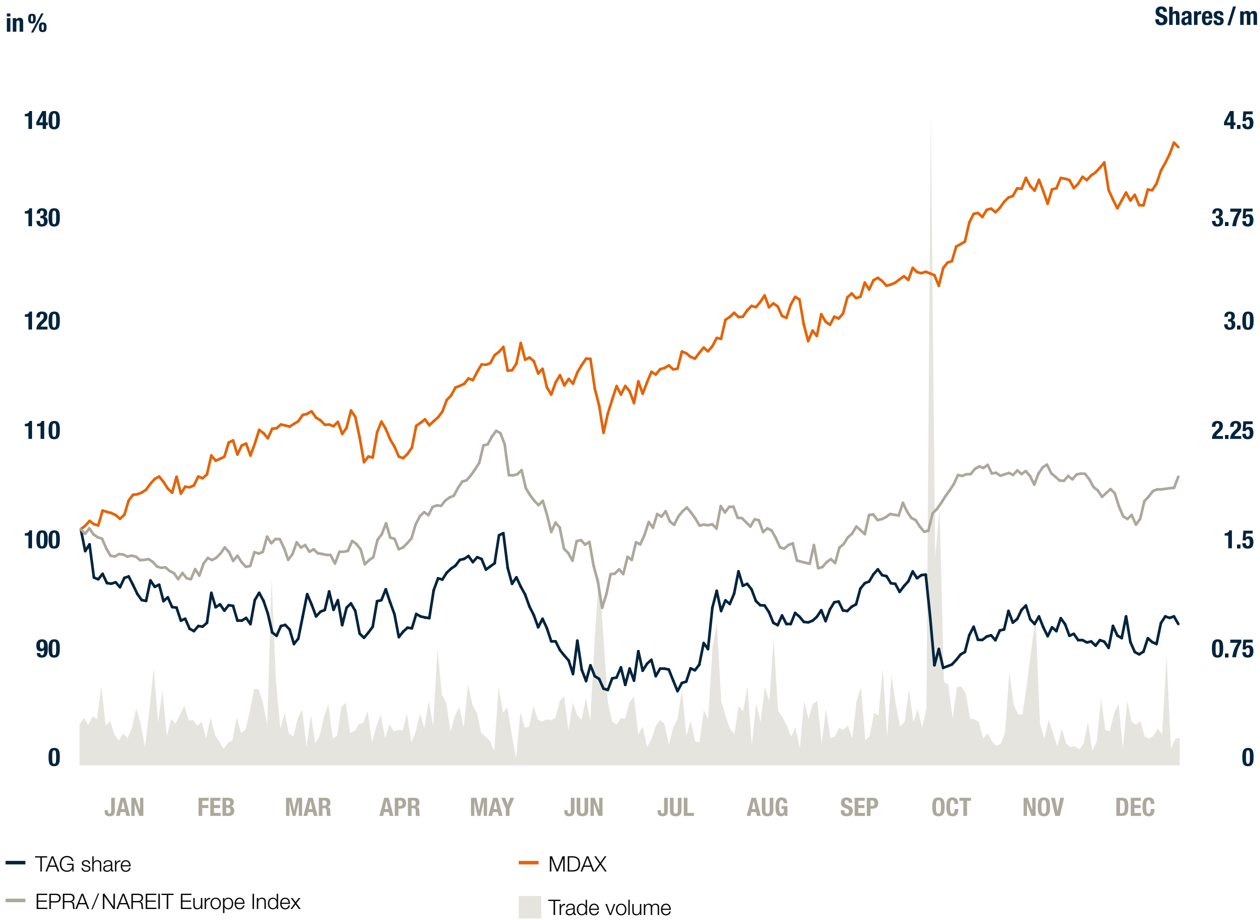
As the euro crisis that kept Europe and the world on its toes for the past four years was increasingly brought under control, the economic situation in many European countries has stabilised in recent months. German share prices were among the beneficiaries of the European economic recovery in 2013. During the year, the DAX was steadily headed in one direction, finishing at 9,552 points, the biggest increase since almost ten years and within reach of the historic 10,000-point record. Additional positive impetus was provided by historically low interest rates and continued expansionary fiscal and monetary policies.

Against this backdrop, the MDAX-listed TAG share price showed a slight dip (-9 %) in 2013, and proved unable to keep pace with the comparable indices; the European real-estate index EPRA increased by 5 %, the MDAX by fully 36 % during the year. Listed at EUR 9.65 – the year's high – at the beginning of 2013, the TAG share price closed at EUR 8.78 on 30 December 2013.

The share capital and number of shares (131,298,317 at the end of December 2013) have increased by 560,321 shares since year-end 2012 due to the exercise of conversion rights. Free float is still at 100 %. With shares listing at EUR 8.78 on 30 December 2013, TAG's market capitalisation is EUR 1,152,799.3 m. The average daily trading volume in 2013 was 310,200 shares.

At the AGM on 14 July 2013, Messrs Lothar Lanz, Chief Financial Officer of Axel Springer AG, and Dr. Philip Wagner, lawyer, were newly elected to the Supervisory Board of TAG.

Share price 2013

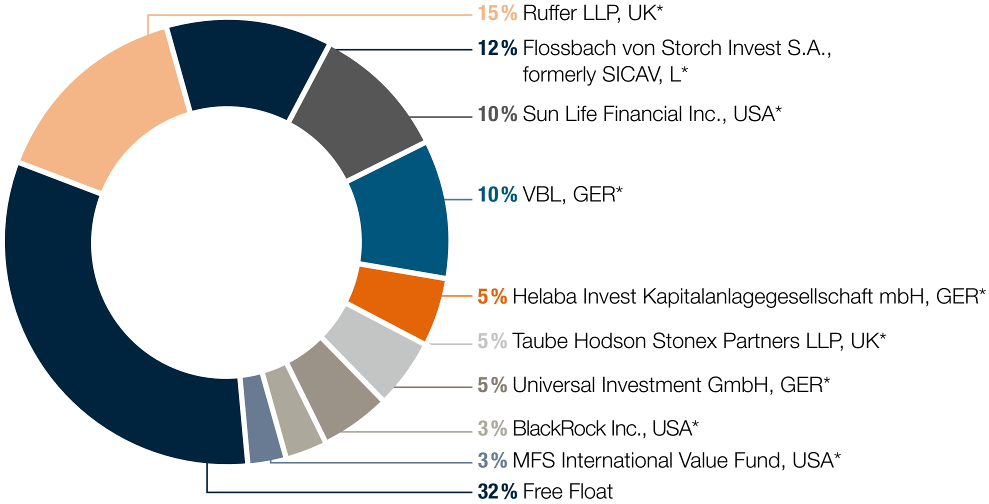


Further changes are pending for the Annual General Meeting next June 2014:

The Chairman of the Supervisory Board Dr. Lutz R. Ristow will resign from the Supervisory Board for age reasons. His deputy, Prof. Ronald Frohne will also resign his mandate for personal reasons. Dr. Hans-Jürgen Ahlbrecht and Dr. Hans-Ingo Holz, both from Berlin, are to be proposed as successors. With their expertise and many years of experience in the German real estate market, both will enriches the supervisory body of the TAG. Lothar Lanz is slated as a candidate to become the next Chairman of the Supervisory Board.

As before, most of TAG's shareholders are domestic and international Investors, most of whom have a long-view investment strategy.

Shareholder structure as of 31 December 2013



* Deutsche Böre definition including institutionel investors

Corporate bond

At the beginning of August 2013, TAG issued a EUR 200 m fixed-rate corporate bond and successfully placed it within a few days. The bond has a maturity of up to five years, was issued as “par” and has a 5.125 % p.a. coupon. It is included under ISIN XS0954227210 in the Open Market, Entry Standard of the Frankfurt Stock Exchange with participation in the Prime Standard for corporate bonds.

With effect from 7 February 2014, the bond capital was increased by a further EUR 110 m in a private placement, issued at 103 % of the nominal value, which is about the current price of the bond. The proceeds from the bond increase will primarily be used to further optimise the company's capital and financing structure, especially for repaying higher interest-bearing bank loans. In addition, the Company intends to use the net proceeds to fund TAG's continued growth and for other general business purposes.

Convertible bonds

At the beginning of August 2013, TAG made a buyback offer to the holders of three different convertible bonds, which were issued in the years between 2010 and 2012. The offer led to a redemption in the total nominal amount of EUR 76.4 m, and was financed with funds from the bond that was issued at the same time. This step reduced the dilutive effect of the outstanding convertible bonds.

On 18 October, the cancellation and early redemption of the EUR 30 m convertible bond 5/2010/2015, coupon 6.375 % p.a., conversion price EUR 5.0263 (ISIN: DE000A1ELQFO), was announced. This was possible because, as a result of successful repurchases, the total par value of the outstanding convertible bonds had fallen below 20 % of the total par value of the original bond issue. During the exercise period, from 12 November 2013 to 2 December 2013, the bondholders had their last opportunity to exercise their conversion rights in accordance with applicable terms and conditions; otherwise, the bonds were subject to early repayment at their par value of EUR 100 each on 3 December 2013. Interest in the amount of 6.375 % per annum on par value was accordingly paid for the period between 13 May 2010 until the date of redemption.

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. 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 35 cents per share will be proposed at the next Annual General Meeting.

Steckelhörn, Hamburg

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 indices including Xetra

Opening price	01/02/2013	EUR 9.65
Closing price	12/30/2013	EUR 8.78
High	01/02/2013	EUR 9.65
Low	07/17/2013	EUR 8.16
Current share price	03/31/2014	EUR 9.00
Deluted NAV per share	12/31/2013	EUR 9.31

Corporate Governance

TAG Corporate Governance report for fiscal 2013

'Corporate Governance' comprises the principles of a company's management and in general refers to the existing regulatory framework for managing and supervising a business. In particular, '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 'GCGC' 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 published on page 82 of the Annual 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 applied. The latest Declaration of Conformance adopted in December 2012 was updated several times in 2013 because at its February meeting, the Supervisory Board decided to introduce an age limit for Supervisory Board members and to establish committees. At the AGM on 14 June 2013, the shareholders then approved an amendment to the statute establishing a separate remuneration for committee members, so that a further update to the Declaration of Conformance was discussed at the Supervisory Board meeting on 11 September 2013 and subsequently published.

Any deviations from the recommendations of the GCGC are mainly for technical reasons. Please refer to the Declaration of Conformance published in September 2013 and included at the end of this report for the reasons for deviations from the recommendations of the GCGC. At its meeting on 2 December 2013, 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 supervisory board members, and promote diversity. The Supervisory Board has specified its rules and criteria regarding the composition of the Supervisory Board 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 and 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.

TAG strives to achieve a fair representation of women in leadership positions. The current share of women is 1/3 of the Supervisory Board, 1/4 of the Management Board, and about 50 % in second-level/middle management. The Supervisory Board and Management Board still feel that setting a mandatory quota for women would not be constructive.

Disclosure of conflicts of interest

Part of 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 Report drawn up by the company and reviewed by the auditor, which describes the legal relationship between TAG and Colonia Real Estate AG in fiscal year 2013. Any legal transactions carried out within the Group involved due consideration in each case, and all legal transactions were made at market rates. Professor Ronald Frohne is close to the Noerr LLP law firm, but is not affiliated with it under company law or as a partner, nor through profit sharing. The firm provided consulting services in 2013 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 303,818.63 (net) in 2013, 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.

Directors' dealings and shareholdings

In the year under review, members of the Supervisory Board and Management Board acquired and sold shares of TAG Immobilien AG. The company issued announcements of the transactions in accordance with Section 15 of the German Securities Trading Act.

Purchase of 105,341 shares and exercise of conversion rights (par 542,100) in 107,455 shares by Supervisory Board Chairman Dr. Lutz R. Ristow; total sales of 250,000 shares by Supervisory Board member Prof. Dr. Ronald Frohne; purchase of 6005 shares and exercise of conversion rights (par 110,000) in 21,884 shares by CEO Rolf Elgeti. As at 31 December 2013, the members of the Supervisory Board collectively own 1.56 % of the share capital, and the members of the Management Board own 0.14 %.

As at 31 December 2013, the following shares and convertible bonds were held by Board members:

Shareholders	Number of shares	Convertible bonds
Dr. Lutz R. Ristow and Rita Ristow	1,987,269	164,517
Albert Asmussen GmbH (Prof. Dr. Ronald Frohne)	59,677	6,750
Rolf Elgeti (CEO)	174,884	–
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 1/2 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.

Beyond this, members of the Audit Committee receive an additional remuneration: the Chairman receives EUR 10,000.00, the members EUR 5,000.00 each, the members of the Personnel Committee receive an attendance fee of EUR 500.00 per session.

In all, the following net remuneration was paid for 2013*:

Dr. Lutz R. Ristow (Chairman)	EUR 175,000
Prof. Ronald Frohne (Deputy Chairman)	EUR 30,000
Andrés Cramer (until 06/14/2013)	EUR 10,000
Bettina Stark (until 06/14/2013)	EUR 10,000
Andrea Mäckler	EUR 20,000
Wencke Röckendorf	EUR 20,000
Lothar Lanz (from 06/14/2013)	EUR 12,500
Dr. Philipp K. Wagner (from 06/14/2013)	EUR 10,000

* The fees for meetings and committee members have not yet been fully settled

Compliance

'Compliance' refers to the observance of and compliance with the laws that apply for TAG's business activities, the recommendations of the German Corporate Governance Code, and the Company's own internal policies and directives. Compliance is part of TAG's internal system of controls, alongside risk management and the Internal Audit department. The Management Board regularly reports to the Supervisory Board regarding the risk situation, risk management and risk controlling, and on compliance. The Compliance Officer and the Internal Audit department report directly to the Management Board.

The continual updating and improvement of overall compliance and risk management, and compliance with the GCGC, remains an ongoing task for management.

Allegations of conflicts of interest in the press

Beginning in October 2013, a national German daily and Sunday paper made allegations of past acquisitions that that were supposedly disadvantageous to TAG, and of the existence of conflicts of interest.

Specifically, TAG and its organs were accused of the following:

- paying inflated prices for residential portfolios in Chemnitz in 2011 and Eberswalde in 2012, and thereby having possibly acted to the detriment of TAG
- a potential conflict of interest in connection with CEO Mr Rolf Elgeti's purchase of an apartment building in Rostock in 2012
- Mr Rolf Elgeti's private business activities in various companies were not disclosed.

The Supervisory Board and Executive Board judged this report to be biased, misleading, and otherwise incomplete. The Supervisory Board also expressed its full confidence to the CEO, but nevertheless, given the negative share price reactions immediately following the report, on 23 October 2013 it commissioned the auditing company PricewaterhouseCoopers AG ('PWC' in the following) to investigate the allegations against the organs of TAG and the CEO in greater detail to avert further damage to the company.

During the period from October 2013 to January 2014 PWC conducted a special investigation into the aforementioned allegations. TAG made all the information and documents available to PWC. Similarly, Mr Rolf Elgeti provided information about the private real estate investments he had made, the overwhelming majority of which were made before he took office in 2009 and were not only permitted by his employment contract, but which he also coordinated in detail with the Chairman of the Supervisory Board in each case.

PWC submitted the audit report in January 2014 and came to the following conclusions:

- The residential portfolios in Chemnitz and Eberswalde were not purchased at an inflated price. In each case, the purchase price was within the corridor of the offers received by TAG and within the portfolios' market values as determined by third parties including PWC. Since the purchase prices were partly paid in shares at a price above the share price on that day, it can be assumed that favourable financing was obtained at attractive terms.
- PWC rules out that the acquisition of the Rostock property by the CEO was in any way a preferential purchase. TAG had declined to purchase the property prior to its purchase by the buyer, in which Mr Elgeti owns a 19 % stake, in October 2012. The purchase price paid exceeded the market value at the time as determined by PWC during its special audit.
- The private real-estate transactions that Mr Elgeti has made since taking over the office of CEO in 2009 were covered in the employment contract and were made with the Supervisory Board's approval in each case. PWC found no evidence of exertion of influence by Mr Elgeti regarding purchase decisions, nor of conflicts of competition and/or interest.

On the basis of these statements and given the thorough, detailed investigation, the Supervisory Board and Executive Board consider the allegations in the newspaper to be completely refuted and are confirmed in their assessment of the allegations.

Further to this matter, Mr Elgeti has decided to transfer his private business activities to a trustee and as long as he is a member of the TAG Executive Board will hire an accounting firm to fulfil his mandates as CEO and general partner/shareholder (trustee model). The regulations came into force in early 2014 and in addition to an amendment to his employment contract, which prohibits Mr Elgeti from carrying out the previously permitted activities in future, also contain a penalty clause declaration in which Mr Elgeti has undertaken not to conduct further business activities in real estate companies and not to exercise significant influence on his existing holdings. The agreements provide the Supervisory Board with extensive rights to information and disclosure vis-à-vis the trustee. This should rule out any future allegations, insinuations and accusations of alleged conflicts of interest.

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" (GCGC) Government Commission, as published by the Federal Ministry of Justice in the official section of the Bundesanzeiger (Federal Gazette), in the versions of 15 May 2012 and 13 May 2013, with the following exceptions in each case:

The company's group financial statements will not be published within 90 days after the end of the fiscal year (Section 7.1.2 GCGC). 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, September 2013

The Management and Supervisory Boards of TAG Immobilien AG

Kleiststraße, Leipzig

Supervisory Board report

Dear Shareholders, Ladies and Gentlemen,

After the strong growth of the TAG Immobilien AG group of companies in previous years, and the significant extensions to the portfolio, last years business activities focused on strengthening the profitability of operations, optimising the financing and capital structure, and improving the organisation. In the first half, TAG Wohnen GmbH (formerly TLG Wohnen GmbH), which was acquired in late 2012, was organizationally integrated into the TAG Group. The successful placement of a EUR 200 m corporate bond in July 2013 and the subsequent increase by another EUR 110 m in February 2014 underlines the fact that the capital market continues to keep a positive eye on TAG's direction, and gives the company the trust that is necessary for its strategy, regardless of the allegations raised against the company's boards by a newspaper last fall. The Supervisory Board wishes to thank all shareholders and investors for their support in fiscal 2013.

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 worked with and regularly advised the Management Board in the discharge of its duties, and monitored the management of the company. In accordance with Section 90 paragraph 1 and paragraph 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, as well as on the integration process and further measures taken to optimise the organisation of the Group. The Supervisory Board was involved in all decisions of fundamental importance to TAG Immobilien AG and the Group.

As in previous years, the Board reports covered the financial position and profitability of TAG and its subsidiaries, their business progress, the risk situation, as well as risk management and compliance.

The reports were made 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.

For the first time, the Supervisory Board formed committees. Since 16 April 2013, there exists an Audit Committee and an Personnel Committee, both of which took up their work in the 2013 fiscal year.

Deliberations and resolutions of the Supervisory Board

In a total of six 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 of 26 February 2013 centred on discussions on the preliminary results for 2012 and the dividend proposal to be put to the Annual General Meeting. Reports from the Group's operations mainly concerned the integration of TAG Wohnen GmbH and other acquisitions from fiscal year 2012.

In this session, the Supervisory Board discussed the formation of committees and approved the formation of an Audit Committee and an Personnel Committee. Finally, the agenda for this meeting included discussions on corporate governance and on revising the criteria for the composition of the Supervisory Board.

At the meeting to approve the year-end financial statements on 16 April 2013, the Supervisory Board dealt in detail with the 2012 annual financial statements and the audit results from the auditors, who reported personally on the outcome of the audit and discussed the resulting financial statements extensively with the Board. Furthermore, the resolution items for the agenda of the AGM on 14 June 2013 were set at this meeting, and the candidates for the upcoming Supervisory Board elections were named based upon the recommendations of the Personnel Committee.

The Executive Board reported in detail on the introduction of a single ERP system at TAG Group, as well as the homogenisation and standardisation of work processes (TAG 2.0). The Supervisory Board approved the budget submitted for the introduction of the Group-wide single ERP system.

At the meeting of 13 June 2013, among other things the Supervisory Board dealt with the refinancing of the residential real estate portfolios of Emersion Grundstücksverwaltungsgesellschaft mbH and Domus Grundstücksverwaltungsgesellschaft mbH, companies that are part of the Colonia Real Estate AG subgroup. The portfolios of these companies were financed through a CMBS loan that was due for repayment by the end of August 2013. The Executive Board reported on the status of the refinancing and the plan to replace the CMBS financing with traditional mortgage loans, which has since been carried out. Finally, the Executive Board presented further sales of properties from the commercial portfolio. The Supervisory Board supports the strategy of gradually reducing the commercial portfolio, depending on the regional market situation and demand, and of thereby continuing to focus the Group on the housing industry.

At the constituent meeting of the Supervisory Board on 14 June 2013, which was held after the Annual General Meeting and the election of the new Supervisory Board members, Dr. Ristow was elected Chairman of the Supervisory Board, and Prof. Frohne his deputy. Moreover, the issuance of a corporate bond with a volume of up to EUR 200 m was discussed at this meeting. Among other things the funds were to be used for partial redemption of the convertible bonds issued by TAG. The Supervisory Board agreed to the issuance in principle.

The meeting held on 11 September 2013 focused on classic business operations matters. The Executive Board reported in particular on TAG's latest measures to improve tenant satisfaction and reduce vacancy. The ERP project was extensively discussed once again.

At the Supervisory Board meeting on 2 December 2013, following the earlier meeting of the Audit Committee, the Supervisory Board dealt with the accounting approach to property valuation, and the 2014 budget. Regarding the Group's operative business, at this meeting the Executive Board presented the acquisition of a portfolio consisting of about 3,000 units, which the company managed to complete before the end of December 2013. Furthermore, the Supervisory Board approved the sale of the commercial property on St.-Martin-Straße in Munich, subject to conditions precedent.

Finally, the Supervisory Board conducted the efficiency review stipulated by the German Corporate Governance Code at its December meeting 2013, and discussed its results in detail at the meeting.

Meetings of the Supervisory Board committees

In order to efficiently perform its duties, the Supervisory Board formed committees in 2013. Specifically, two committees existed during the reporting year:

- Audit Committee
- Personnel Committee

The Audit Committee reviews the documentation for the year-end financial statements and the consolidated financial statements, and prepares adoption and/or approval of this documentation, and of the Board's proposal for the appropriation of net income. The Committee discusses with the Board the principles of compliance, risk assessment, risk management and the adequacy of the internal control system's effectiveness. The Audit Committee's duties also include preparing the appointment of the auditor by the Annual General Meeting and reviewing their required independence. The members of the Audit Committee possess accounting and auditing expertise, and the composition meets all requirements regarding independence in accordance with EU recommendations on the role of Supervisory Board members and the recommendation of the German Corporate Governance Code.

The Personnel Committee, which also serves as a Nominating Committee, is responsible for all personnel matters relating to the Supervisory Board and the Executive Board, the conclusion and content of management contracts, and of related discussion topics. In particular, the Personnel Committee proposes to the Supervisory suitable candidates for its election proposals at the AGM.

Essentially the committees prepare the decisions of the Supervisory Board and topics to be discussed in the Supervisory Board. To the extent permitted by law, individual committees can be assigned decision-making powers in the bylaws or through resolutions by the Supervisory Board. The committee chairmen make regular and comprehensive reports of the content and results of committee meetings at the Supervisory Board meetings.

The Audit Committee held four meetings during the year under review, in which it dealt with relevant items of the Supervisory Board's work. The focus of the discussions in the year 2013 was on the balance sheet valuation of the properties, which in light of new IFRS rules led to a review of TAG's currently used methodology and resulted in a partial adjustment. In addition, the Audit Committee discussed the audit of the annual accounts and consolidated financial statements begun in fall 2013, the interim reports of the financial year, and the risk management system used by TAG. That is why representatives of the auditor sometimes attended the meetings. The Audit Committee made a recommendation to the Supervisory Board regarding the selection of an auditor for the year 2013. Finally, at its December meeting the Audit Committee received the report of the IT officer.

The Audit Committee consists of the following members:

Prof. Dr. Ronald Frohne (Chairman)
Dr. Lutz Ristow
Mr Lothar Lanz
Ms Andrea Mäckler

The Personnel Committee, which met three times during the year, is comprised of the following members:

Dr. Lutz Ristow (Chairman)
Prof. Dr. Ronald Frohne
Frau Wencke Röckendorf

Auditors in 2013

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 2013 to audit the annual financial statements of TAG Immobilien AG for 2013.

The auditors submitted their declaration of independence as 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 2013, 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 9 April 2014. 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 early detection system for risks that had been installed by the 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

Dr. Lutz R. Ristow

Board's proposal for the appropriation of net profit to pay a dividend of EUR 0.35 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 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 2013.

Regarding the isolated allegations in the press concerning the existence of supposed conflicts of interest in the years 2011 / 2012 and in the context of the private business activities of the company's Chairman & CEO, please refer to the section in the Corporate Governance Report, in which the Management Board and the Supervisory Board comment on this matter. On 9 October 2013, the Supervisory Board had decided to have the press allegations reviewed by an independent auditor. Please see page 48 of the annual report.

The Declaration of Conformance was repeatedly adapted in 2013 in connection with the formation of the committees and the resulting necessary amendments to the Statute concerning the remuneration of committee members. In each case, the latest Declaration of Conformance was jointly adopted by the Supervisory Board and the Management Board.

Personel data

With effect from the end of the Annual General Meeting on 14 June 2013, Ms Bettina Stark, Senior Vice President of DKB Bank, and Mr Andrés Cramer resigned from the Supervisory Board and did not stand for re-election. The Annual General Meeting on 14 June 2013 elected Mr Lothar Lanz, Chief Financial Officer of Axel Springer AG, and Dr. Philip Wagner, LLM, lawyer, to succeed them on the board. In addition, Dr. Lutz Ristow and Prof. Ronald Frohne were re-elected. The Supervisory Board thanks the departing members for their steadily constructive participation on the Supervisory Board.

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 2014

The Supervisory Board

Dr. Lutz R. Ristow
Chairman

Group Management Report 2013

I. Foundations of the Group

Overview and corporate strategies

TAG continued to strengthen and improve its strategic and operating position in fiscal year 2013. While the previous years were characterised by dynamic development and strong growth, last year was dominated by a focus on the profitability of operations – among other things by optimizing costs – as well as on improving the financing structure.

The Group's residential property portfolio is concentrated in the regions of Thuringia/Saxony, the greater metropolitan areas of Berlin and Hamburg, the Salzgitter region, and North Rhine-Westphalia. Its focus is on attractive and high-yield residential real estate in select locations that show 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.

'Highlights' of the year 2013 include the following acquisitions and transactions:

- January 2013: Completed the sale of approx. 1,400 residential units in Berlin for EUR 87 m
- Beginning of August 2013: Issued a EUR 200 m corporate bond
- August 2013: Acquired 219 residential units in Chemnitz
- August 2013: Successfully refinanced the EUR 214 m Quokka CMBS loan
- August 2013: Started a buyback programme for convertible bonds totalling EUR 107 m
- December 2013: Purchased a portfolio in eastern Germany comprising 2,860 residential units for approx. EUR 70 m
- December 2013: Finalised refinancing for TAG Wohnen GmbH (formerly TLG Wohnen GmbH) to the tune of EUR 300 m, and EUR 124 m for Colonia Portfolio Berlin GmbH.

The value of all properties held totalled EUR 3.6 billion at 31 December 2013, on par with last year's level. Rental revenues in 2013 were EUR 251 m. EBT was EUR 23 m, FFO (funds from operations) at around EUR 68 m and NAV (Net Asset Value) came to EUR 9.45 per share at year-end. The Loan to Value (LTV) ratio at 31 December 2013 was 62.1 %. The revenue and FFO forecasts for the year 2013 were reached. 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 and one-off effects of interest income, and the revenue result). The Company's market capitalisation amounted to EUR 1.2 billion at 31 December 2013.

2013 saw a further improvement of the financing structure and a reduction in the average interest rate paid. The range of debt instruments was further diversified by refinancing more than EUR 600 m in bank loans, issuing a EUR 200 m bond, and repurchasing approximately EUR 107 m in convertible bonds. The average interest paid on bank loans was reduced to 3.7 % at 31 December 2013 (previous year: 4.2 %).

As part of its strategy, TAG specialises in the acquisition, development and management of residential real estate. Besides acquisition and property management (leasing and management of residential properties), and targeted measures to develop inventories with the goal of maximising the value and returns of the portfolio, the Group's business activity also includes property sales that serve to round out the portfolio, or that make economic sense for releasing equity when favourable market opportunities arise. 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 continue 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.

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, Purchasing and Legal are housed directly at the TAG Immobilien AG premises. 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 with around 24,500 units; Colonia Real Estate AG with about 19,000 units; TAG Wohnen GmbH with around 11,500 units and Bau-Verein zu Hamburg Immobilien GmbH with approximately 3,000 units. TAG Potsdam, Colonia, Bau-Verein each have subsidiaries of their own, and therefore form subgroups within TAG Group. As of 31 December 2013, TAG holds approximately 80 % 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 442 m as at 31 December 2013, is mainly held by TAG Gewerbe Immobilien GmbH.

A complete overview of all companies in the Group is shown in the Notes.

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 customer service agents 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 nine LIMs In the residential segment, who manage the entire TAG portfolio spanning five regions. The LIMs report directly to the Management 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 controlling system. Key performance indicators that are regularly identified and reported in the area of revenues are rental income and vacancy over time, and the current rent per sqm. Other key operating indicators include maintenance and modernization expenses. For corporate controlling, the development of the NAV, the FFO and the LTV in particular are regularly planned and plotted.

The current liquidity situation and liquidity planning for the next 12 months are regularly and promptly compiled. 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 and at Group level 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, Financing, Cash management, Commercial
- CFO: Taxes, Controlling, Accounting
- COO: Real estate management, Facility Management services, Shared Services Center, Data management
- CCO/CIO: Legal, IT, Residential property management, Compliance, Interne Revision, Injunctive rent collection

Research and 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 and the TAG Wohnen brand are copyrighted.

II. Business report

a) The overall economy

The financial and debt crisis has been allayed especially in the recession-stricken member states of the euro area, thanks to stabilising measures by the ECB such as relief on interest rates on loans and facilitation of new loans. At the same time, the global economy is gradually picking up; economic experts expect to see noticeable impetus for exports and investment from the industrialised countries in particular. However, the heterogeneity between Member States will remain considerable. Against this backdrop, the German economy is showing modest growth of 0.4 %, mainly due to private consumption, and thus remains slightly below expectations.

The economic forecast for Germany in 2014 issued by the Munich-based Ifo Institute is positive, though it does warn of possible price bubbles due to the exceedingly inexpensive provision of liquidity: Uncertainty among companies has fallen, and interest in comparatively secure investments in Germany is growing. Prospects for private household incomes are also good. The president of Munich's Ifo Institute expects moderate growth of 1.9 % for 2014, against inflation of 1.6 % in 2013 and 1.5 % in 2014. The Ifo Institute further continues to expect that unemployment will stabilise at 6.8 % in 2014 (after 6.7 % in 2013).

b) The German real estate market

Compared with the rest of Europe, 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 Euro 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 2013 came to EUR 13.8 billion, increasing for the fourth consecutive year. The number of residential units traded grew again in 2013, from approx. 193,000 to 221,000 units. The number of portfolios traded grew in 2013 to 193 from 165 in 2012. It is noteworthy that, like last year, several transactions comprising over 10,000 units were successfully completed. By far the largest group of buyers were – not least because of the German Wohnen AG/GSW AG Deal – real-estate companies, which accounted for 54 %. With regard to the origins of the buyers, domestic investors dominate with a share of nearly 75 % of the transaction volume, followed by Luxembourg investors (about 6 %) and buyers from Austria (5 %).

For 2014, the real estate services company Savills expects that the housing market may have reached its cyclical high, since the number of large transactions is declining for lack of supply. Much of what happens on the capital market will be in the form of IPOs (which are not included in the sales statistics) as well as corporate mergers and takeovers.

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

Thuringia / Saxony region

Thuringia / Saxony is a major location in the TAG portfolio, which includes nearly 32,000 units in the region at an average net rent of EUR 4.88 per sqm. 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 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 illustrated in falling levels of unemployment.

Many eastern German cities are experiencing an influx as droves of people move from rural areas to nearby cities, where they find better economic, social and cultural opportunities. In particular, Dresden and Leipzig benefit from 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 203,000 inhabitants, is the largest city in the state. In parallel to the positive population development, the Erfurt rental market is also benefiting from a positive economic mood in the region, which has been reflected in rising rents in recent years.

Greater Berlin

Berlin is the German capital and the seat of the German government. In 2013, the federal state of Berlin had a population of approx. 3.4 m. Berlin continues to see a strong influx from neighbouring European countries (about 40,000 people per year). At fewer than 3,200 units in 2012, the completion of new housing units remains far below the 10,000 to 15,000 units currently required. Rapid population growth and migration have resulted in a halving of average vacancy from 5.6 % in 2005 to 2.8 % in 2012, while rents rose by 32 %. However, in many parts of the city rents remain at a level that is too low to allow for new construction projects. The 'Mietpreisbremse' (curb on rents) agreed by the Grand Coalition is designed to counteract the trend of rising prices in densely populated areas: in regions with a tight housing market, new rental contracts may only be at terms that are a maximum of 10 % above the customary local rent. Berlin is a tenant's market, but it is not homogeneous; each of the 12 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 13,545 residential units in the Berlin region, 5,400 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 3,000 units in Nauen. Due to the rent increases recorded in the Berlin region, at an average rental price of EUR 5.06sqm, TAG has an attractive offer.

Salzgitter region

The Salzgitter region is situated in south-eastern Lower Saxony along the axis of the Hanover-Brunswick-Göttingen-Wolfsburg metropolitan region. Approximately 4 m people live here on 19,000 km^2. Salzgitter itself is an expansive town of 31 districts on over 224 km^2. In December 2013, 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 9,200 units, of which 8,738 are located directly in Salzgitter in the districts of Lebenstedt, Fredenberg and Hallendorf and 462 in Wolfsburg. Average net rent without utilities in TAG's Salzgitter region portfolio at the end of 2013 was EUR 5.15 per sqm.

Hamburg region

For purposes of management by TAG Group, 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. With a population of about 1.7 m, Hamburg is Germany's second largest city after Berlin. Hamburg's appeal is reflected among other things in its ever-increasing population; more than half of the city's households are single-person households. 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 11,389 units, the northern region is TAG's third-largest location; average net annual rent without incidental and heating costs is EUR 5.18 per sqm here.

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 German state. 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 8.6 % on 31 January 2014, with 789,380 people out of work. Average net rent in TAG's portfolio for the NRW region was EUR 5.56 per sqm at the end of 2013, with average vacancy at just 4 %.

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 not inconsiderable relevance to TAG Group's business performance. Its development was positive last year, as confirmed by the figures of the past year. In 2013, the volume of transactions in the German commercial investment market increased again for the fifth year in a row. A total of EUR 30.5 billion was invested in commercial real estate, up once again by 22 % over the high-sales 2012 business year.

As in past years, the transaction volume was largely concentrated in Germany's TOP 6 locations. Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne and Munich saw total investments of EUR 11.3 billion (previous year: EUR 12.9 billion). With an investment volume of more than EUR 4.6 billion (+27 %), Munich was ahead of Berlin and Frankfurt this year, which accounted for transaction volumes of EUR 3.2 billion (-15 %) and EUR 3.5 billion (+16 %), respectively. Dusseldorf saw the steepest increase, thanks especially to the sale of the Kö-Bogen development, at EUR 1.9 billion (+140 %).

Traditionally investor interest focuses on office buildings, and nearly exclusively at the TOP locations. This asset class accounted for nearly 50 %, followed by retail properties with a 25 % share of the market. Logistics properties follow at a distance with a share of 7 %. In the course of 2013, vacancy in the big cities fell from 8.8 % to 8.5 %, the lowest it's been since 2002.

Given the favourable conditions, strong demand and the portfolios on the market, a high level of interest in German commercial real estate can be expected for 2014 as well.

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. The current book value of the commercial inventory represents about 10 % of the entire real estate volume. And yet the inventory continues to generate attractive returns and stable cashflows, which are further enhanced through our ongoing portfolio management. Of the long-term leases in the portfolio, more than half (55 %) 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 2013 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 separate 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 the years 2011 through the beginning of 2014:

Acquisitions 2011 – 2014

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 Wohnen	12/31/2012	11,350	471.1	711,561	662	42.6	9.1	11.0	570.9	60	76
Chemnitz-Helbersdorf	08/31/2013	224	8.1	13,274	613	0.7	8.8	11.4	8.6	66	0.4
Eastern Germany	12/19/2013	2,923	75.2	171,730	438	8.7	11.5	8.7	92.4	74	13
Thuringia/ Saxony	02/04/2014	4,011	128.1	236,262	542	12.6	9.8	10.2	147.4	69	15
Total		**68,848**	**2,645.0**	**4,197,916**	**630**	**220.3**	**8.3**	**12.0**	**2,981.7**	**57**	**325**

TAG successfully placed a corporate bond on the capital market for the first time at the beginning of August 2013. The order book was significantly oversubscribed and the conditions achieved were better than originally expected. A total of EUR 200 m was raised at par value with a coupon of 5.125 % and a maturity of five years. Among other things, the proceeds were used for a programme to buy back convertible bonds. A total of EUR 107 m in convertible bonds were repurchased. Due to the positive development of the price, the bond was increased by a further EUR 110 m in February 2014. The bond increase was issued at 103 % of par value, so that the effective interest rate on this increase is approximately 4.3 %.

Equity was on par with the previous year's level and only increased slightly due to the exercise of conversion rights. Overall, the Company's share capital amounts to EUR 131.2 m as of 31 December 2013. As in the previous year the equity ratio is around 30 %.

Apart from the acquisitions and refinancing, during the year under review operations were focused on further decreasing vacancy. Across the entire residential portfolio, vacancy decreased from 9.9 % to 8.8 %, or 8.7 % excluding the acquisition at the end of December.

As part of its portfolio optimisation and acting on opportunity, TAG carried out individual sales during the reporting year. The purchase agreement for approximately 1,400 residential units in Berlin signed at the end of 2012 was completed in early 2013 for a total purchase price of EUR 87 m. Furthermore, the Group was able to sell some properties from the commercial portfolio. For instance, properties in Hamburg, Hanover, Nuremberg, Ahrensburg, Munich and Cologne were sold for a total selling price of EUR 64,6 m. The transfer of ownership for „St.-Martin-Straße", "Hofmannstraße" properties in Munich and a property in Cologne that were sold earlier is expected for 2014 and 2015.

As part of harmonising the IT landscape and adapting the standardisation of property management and accounting processes, the introduction of new ERP software was begun under the "TAG 2.0" project. The four existing ERP systems within TAG Group are gradually being migrated to SAP Promos. By 1 January 2014 the rollout of SAP promos had already taken place in about half of the inventory. By 1 January 2015, the entire Group will then be managed using this common management and accounting platform. This results in further cost savings and efficiency gains that our tenants and employees will benefit from.

d) Results of operations, financial position and net asset position

Results of operations

Revenues
During the financial year TAG was able to increase total revenues by 49 % from EUR 252.8 m in 2012 to EUR 375.8 m. This increase was driven in particular by revenues from the sale of real estate. Across the Group, rental revenues rose from EUR 192.5 m in 2012 to EUR 251 m in 2013. This reflects an increase of EUR 58.5 m or 30 % and is largely due to the first-time inclusion of TAG Wohnen from 1 January 2013. The deviation from the predicted rental income of around EUR 254 m largely resulted from residential portfolio sales made in early 2013 and the disposal of individual commercial properties. Revenues from sales increased significantly by EUR 69.4 m to EUR 122.3 m. Major sales in 2013 included the sale of Berlin real estate from Bau-Verein (Bärenpark) registered at the end of 2012, and from TAG Potsdam to Union Investment in early 2013 in the amount of EUR 87 m.

Rental revenues are divided between the residential segment with EUR 225.0 m (previous year: EUR 165.6 m), the commercial segment with EUR 26.3 m (previous year: EUR 28.4 m), and other activities with EUR 0.3 m (previous year: EUR 1.5 m).

Rental expenses
In relation to rental revenues, rental expenses increased under proportionally by just EUR 4.7 m or 10 % to EUR 51.9 m. This increase in efficiency is primarily the result of the integration of acquired property holdings into existing structures.

Other operating income and revaluations
The previous year's other operating income largely included non-recurring effects from the new acquisitions totalling EUR 148.2 m. As there were no comparable one-off effects in 2013, other operating income decreased from EUR 170.8 m to EUR 11.5 m. The revaluation of investment properties and initial consolidation of newly acquired properties led to an overall negative valuation result of EUR -15.9 m in 2013 (previous year: net valuation gain of EUR +29.4 m). This decline is due in particular to the adaptation of the evaluation methodology for part of the residential real estate portfolio, which led to a devaluation of EUR 51.8 m. Adjusted for this effect, the valuation result is on par with the previous year.

Other expenses
Due to the acquisitions, costs have also risen. At Group level, personnel expenses increased by 28 % to EUR 29.5 m in 2013, primarily due to the increase in the number of employees in the Group. Other operating expenses, at EUR 20.1 m, were on par with the previous year. The EUR 3.9 m increase in impairment losses on receivables and inventories to EUR 17.4 m primarily relates to an impairment charge on a purchase price receivable from the sale of Polares and impairment on property inventories.

Net interest income and earnings from associates
Net borrowing costs dropped to EUR -105.1 m (previous year: EUR -86.7 m), particularly as a result of higher borrowing requirements due to the initial consolidation of TAG Wohnen into TAG Group.

Earnings before taxes (EBT)

Earnings before taxes decreased markedly from EUR 202.6 m in 2012 to EUR 23.1 m in 2013, primarily due to EUR 148.2 m of initial consolidation effects in 2012.

Income taxes

We achieved a very positive overall result of EUR 3.9 m for taxes on income and earnings in 2013, while in 2012 the tax expense was still EUR 25.1 m.

Consolidated net income after minority interests

Consolidated net income after minority interests decreased to EUR 27.0 m (previous year: EUR 177.9 m).

Other key figures

The Group forecast FFO (funds from operations) totalling EUR 68 m for the financial year 2013 and TAG was able to achieve this objective with an FFO of EUR 68.1 m.

Net asset position

Total assets

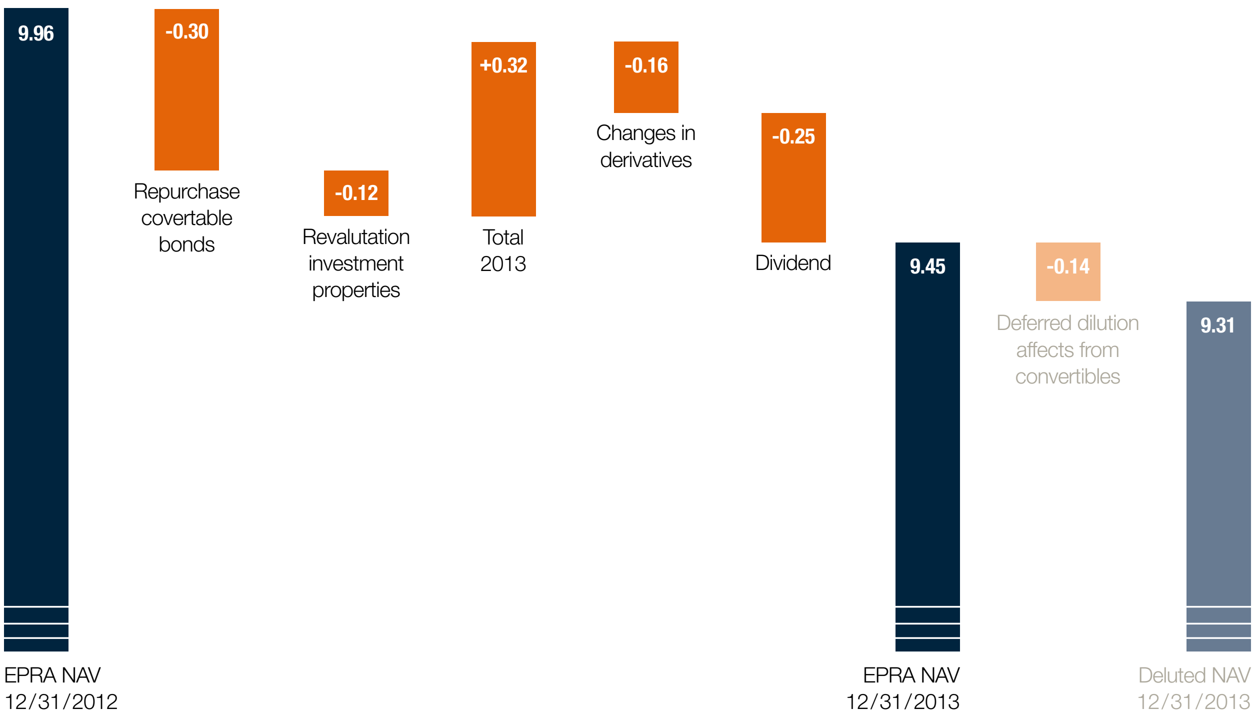
In the financial year 2013, total assets fell slightly from EUR 3,800 m as of 31 December 2012 to EUR 3,763 m as of 31 December 2013. This decrease is primarily due to the sales carried out in early 2013.

Net asset value (NAV)

Net Asset Value, the international benchmark for evaluating real estate companies, calculated in accordance with the EPRA, fell from EUR 9.96 per share as of 31 December 2012 to EUR 9.45 per share. When calculating NAV the equity before minority interests according to the balance sheet is used, adjusted for derivatives and the deferred taxes relating almost exclusively to real estate, divided by the number of shares at the reporting date. The reduction is partly due to the buyback of convertible bonds that was conducted, which contributed 30 cents to a reduction, and to the paid dividend of 25 cents.

NAV per share

in EUR / share



The diluted NAV, which takes into account the dilution effects from the conditional capital and the shares created from the exercise of conversion rights from the convertible bonds, fell from EUR 9.47 as of 31 December 2012 to EUR 9.31 as of 31 December 2013. The repurchase of the convertible bonds served to reduce this dilution effect of potential shares by 35 cents during 2013.

Capital spending

TAG again made successful acquisitions during the reporting year. The acquisitions of two portfolios in Chemnitz as well as Eastern Germany expanded the portfolio by around 3,200 units in 2013. These two portfolios augmented the Group's real estate by EUR 101 m. The acquisitions enlarged the Group's own residential real estate portfolio and strengthen its core business long-term.

Apart from this, in 2013 TAG invested EUR 45.7 m in the residential portfolio for routine maintenance and for modernisation and refurbishment. A total of EUR 26.4 m was spent on maintenance recorded as expenses, equivalent to EUR 6.39 per sqm. A total of EUR 19.3 m was spent on value-increasing investment, equivalent to EUR 4.67 per sqm.

Financial position

Equity

The equity ratio before non-controlling interests in fiscal 2013 was on par with the previous year at around 30 %. This equity ratio means that TAG Group is solidly funded. In the reporting year, the subscribed capital increased only slightly due to conversions of convertible bonds.

Funding

TAG's funding foots on four different mainstays. In addition to bank loans secured by land, the Company uses capital market-based financing with convertible bonds. In addition, TAG Group has credit lines available.

During the financial year, bank borrowings decreased slightly from EUR 2,216 m to EUR 2,127 m due to the ongoing repayment and reduced mortgage lending as part of the refinancing. Bank borrowings with a maturity of less than one year stood at EUR 180 m at the end of 2013 compared to EUR 411 m the previous year, as significant portions of the loans were successfully refinanced in 2013. TAG was able to achieve a reduction in interest rates with the refinancing measures taken in 2013. The average interest rate on bank borrowings amounted to around 3.7 % as of 31 December 2013, taking into account interest rate hedges (previous year 4.2 %).

Financial structure	12/31/2013	12/31/2012
Bank borrowings in EUR m	2,126.6	2,216.0
Average interest rate in %	3.70	4.23
Average maturity in years	9.4	9.2

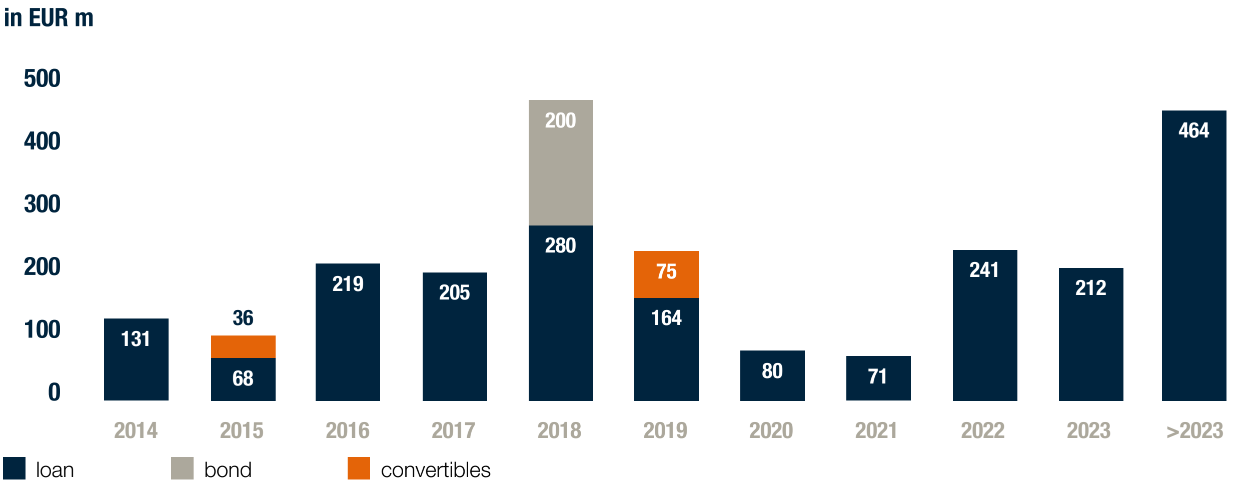
In 2010 and 2012 TAG issued convertible bonds to finance its continued growth. To diversify its loan capital, TAG issued a EUR 200 m unsecured corporate bond with a coupon of 5.13 % p.a. in 2013. The cash from the bond was used among other things to repurchase a total of EUR 107 m in convertible bonds. The repurchase resulted in a reduction of convertible bonds from EUR 175 m as of 31 December 2012 to EUR 106 m as of 31 December 2013. The coupons on all convertible bonds range from 5.5 % to 6.5 %.

Cash and cash equivalents were EUR 85 m as of 31 December 2013, compared to EUR 56 m as of 31 December 2012.

TAG assumes that all loans expiring in 2014 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.

Altogether TAG has credit lines of EUR 68 m available from various banks. As of 31 December 2013, EUR 46.5 m had been drawn down.

TAG loan maturities (nominal amounts)



LTV (loan to value)
The debt ratio of TAG Group, which is reflected in the LTV, increased slightly to 62.1 % as at 31 December 2013 (previous year: 58.9 %). This ratio is obtained by dividing the net liquidity position (financial debt less cash and cash equivalents) by real estate assets. The LTV II, which includes financial debt as well as the convertible bond, increased from 63.7 % to 65.0 % as at 31 December 2013.

FFO I and FFO II
FFO I, a measure of cashflows from operations, was within the forecast result in 2013 at EUR 68.1 m. In 2012, FFO I was just EUR 39.6 m. The increase is primarily due to the inclusion of further acquisitions in 2013 and the improvement in net rental income.

FFO II, which also includes cash inflow from sales, increased from EUR 69.5 m in 2012 to EUR 121 m in 2013. The increase is mainly due to the sale of residential property in Berlin in early 2013, which contributed approximately EUR 43 m to FFO II.

Overall assessment of the economic situation

The Group's results are positive due to the acquisitions in the real estate portfolio, the successful refinancing, and the reduction of vacancy. The expansion of the core business has created the necessary conditions for further improving the earnings situation going forward.

The equity ratio before non-controlling interests is on par with the previous year at around 30 %, which is still at a high level for the industry. TAG has sufficient liquidity and is solidly financed.

Proposed dividend per share

In view of these results, TAG is able to propose an increased dividend for 2013. In determining the amount of the dividend, the Management Board and Supervisory Board have been guided by the Group's FFO. The shareholders will be asked to approve a dividend of EUR 46.0 m or EUR 0.35 per.

e) Employees

At the end of the 2013 financial year, TAG employed a total of 519 people excluding trainees, caretakers and cleaning staff (previous year: 508 employees) A small part of the workforce is still employed by subsidiaries. As part of the integration of the newly acquired companies the majority of the workforce were already transferred to TAG Immobilien AG in 2013.

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

Since the TAG Group's business success is influenced by the performance of each employee, further training and upskilling is a top priority. This is achieved by numerous training measures, which are becoming more and more important 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 junior staff. The TAG Group currently employs 44 apprentices. Six staff members are completing a dual degree program in Business Administration with a focus on the real estate Industry. TAG strives to offer these trained real estate professionals continued employment at its various sites once they graduate. The cooperation and sponsorship contract signed with the Technical University of Darmstadt also serves to advance the promotion of young talent that TAG supports.

In addition to the aforementioned employees, TAG employs an average of 100 caretakers (previous year: 60).

f) Other financial and non- financial performance indicators

In addition to the above-mentioned financial performance indicators of net asset value (NAV) and funds from operations (FFO), TAG monitors the vacancy rate and rental income in particular.

Vacancy, excluding properties held for sale, was reduced from 9.9% as of 31 December 2012 to 8.8% as of 31 December 2013. Rent per square metre also developed positively, increasing from EUR 4.97 in 2012 to EUR 5.04 by the end of 2013.

Portfolio residential*

Region	Units	Floor area m²	Vacancy %	Vacancy % excluding properties for sale	Net actual TEUR p.a.	Net actual EUR / sqm	Target rent TEUR p.a.	Book value TEUR	Return on target rent p.a. at IFRS book value %
Residential portfolio*	**69,806**	**4,255,869**	**9.48**	**8.81**	**233,124**	**5.04**	**253,219**	**3,137,923**	**8.1**
Thuringia / Saxony	31,850	1,920,496	10.0	8.47	101,278	4.88	109,911	1,357,658	8.1
Greater Berlin	13,545	825,666	4.70	4.45	47,794	5.06	49,738	664,059	7.5
Hamburg region	11,389	689,150	8.30	8.36	39,291	5.18	42,295	532,003	8.0
Salzgitter region	9,200	564,581	18.60	18.62	28,379	5.15	34,098	359,544	9.5
NRW	3,822	255,972	4.00	3.92	16,382	5.56	17,177	224,659	7.6

* as of 31 December 2013 according to balance sheet value

III. Material events occurring after the balance sheet date

At the end of 2013, TAG Immobilien AG acquired a residential portfolio of 2,860 units in eastern Germany at a price of EUR 70.5 m. The transfer of ownership of a large part of the inventory – approximately 2,500 units with a volume of around EUR 62 m – had already occurred as of 31 December 2013. The transfer of the remaining part of the portfolio is expected to occur in the first half of 2014.

At the beginning of February 2014, a residential real estate portfolio of 3,985 residential units was acquired for a purchase price of approximately EUR 120.5 m. The properties are located at various sites in former East Germany. The regional focus of this portfolio is Thuringia with about 3,000 units along the A4 autobahn and its university towns of Jena, Erfurt and Weimar; the other units are mainly located in Saxony and Saxony-Anhalt.

The EUR 200 m corporate bond issued in mid-2013 was increased by another EUR 110 m in February 2014 by means of a private placement. The increase was issued at 103% of the principal amount, which is about the current price of the bond. This results in an effective interest rate of approximately 4.38% on the added volume.

The Group's Chief Financial Officer, Mr George Griesemann, is stepping down from the Management Board with effect from 31 March 2014. By way of a Supervisory Board resolution of 26 February 2014, Mr Martin Thiel of Hamburg was appointed Chief Financial Officer of TAG Immobilien AG with effect from 1 April 2014.

IV. Forecast, opportunities and risk report

Forecast

Global economic development is likely to continue to vary widely by region in the next few years, and to be fraught with more or less uncertainty. In the developing and emerging countries, growth is expected to remain robust, albeit at a lower rate, and economic development in Europe will continue to be mixed. In European countries that are more affected by the euro and sovereign debt crisis, recessionary trends will prevail, and only few Western industrialised nations will benefit from marginal growth. The economic outlook for Germany is slightly positive. Specifically, in its annual forecast of January 2014, the German government expressed its expectation that exports will remain an important mainstay and a gross domestic product of about 0.5 % can be achieved in the current year. Likewise, according to Bundesbank forecasts for the next year, the German economy will be able to grow minimally overall, with economic growth of 1.8 % forecast. Despite the cautious estimates, Germany is likely to maintain its strong competitive position.

As TAG operates exclusively in Germany, and this location continues to provide a stable market for real estate and attractive real estate investment, the Company anticipates that in 2014 and the following year it can benefit from the slightly positive economic development. As part of its strategy, TAG will take advantage of future opportunities in the German real estate market to further expand its portfolio and create value.

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 the Salzgitter and North Rhine-Westphalia regions. These locations mostly characterised by a good infrastructure and concentrated economic and purchasing power, prompting TAG to expect – even despite the current economic difficulties – that rents in these regions, particularly in the residential real estate segment, will continue to increase over the next few years. The latest figures also indicate this.

This year, the focus in the residential real estate segment will again be on reducing vacancy, integrating the acquired companies/portfolios, and further optimising overhead fixed costs. Also, activities to strengthen tenant loyalty by continually improving services and customer proximity. TAG expects that a successful implementation of these activities, along with moderate strategic investments will have a positive effect on revenues and earnings, and offers potential for enhancing the value of its real estate. In addition, other opportunities in the residential real estate market will be seized to achieve further growth provided that they meet the defined acquisition criteria, such as increasing net asset value and generating positive cashflow. In its acquisitions, TAG concentrates on regions where it already has a presence, so that property and asset management for the newly acquired real estate can be efficiently handled by the closest TAG office using the existing infrastructure.

Since the expansion of the commercial real estate portfolio is no longer a focus of the Group strategy, TAG has decided to gradually scale back this portfolio. As it is, the current book value of the commercial real estate portfolio accounts for only around 10 % of the total real estate volume as at 31 December 2013.

Outlook and goals

With the acquisitions of 2012 and 2013 and the resultant expansion of the portfolio, and the integration of the acquired inventory and vacancy reduction to 8.8 %, TAG successfully continued to put its growth-oriented strategy into action.

Thanks to a strong operating performance, the successful integration of acquired properties, and reductions in administrative and financing costs, TAG forecasts total rental income of roughly EUR 277 m and FFO of approximately EUR 90 m for 2014. Future refinancing measures will serve to further lower interest rate levels across the Group.

This year's result demonstrates that TAG is well on its way towards generating sustained operating cashflow from its inventory. This is to be reflected in higher dividend payouts in future as well. TAG is planning to pay out about 75 % of FFO in dividends. The combination of rising rents, declining vacancy, falling interest rates and synergistic effects from the integration of acquisitions should continue to drive strong organic growth in TAG's FFO.

Risk and opportunities 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, an early risk detection system is used in accordance with Section 91 (2) of the German Stock Corporation Act. In order to identify risks, TAG monitors the overall economy, as well as developments in the financial services and real estate sectors. Internal processes are also monitored constantly. On account of the constantly changing conditions and requirements, risk identification is an ongoing task that 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 counter measures 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.

Supply chain 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 2013 and the outlook is reasonably favourable, opportunities for further growth in the German real estate market should arise for TAG in 2014. To prepare purchase decisions, trends in the relevant real estate markets are continuously monitored, the regional impact of structural economic and demographic trends is evaluated, and assets, locations and tenants are analysed in depth. 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 and for potential sales of inventories.

Rental risks
Substantial vacancy levels and loss of or reduction in rental income can lead to a loss of income and would cause additional costs that might not be transferable to tenants.

In the residential segment, a standard credit check is performed on potential new tenants. In addition, one of TAG's strategic goals is to reduce vacancies by means of active asset and property management, thereby lowering vacancy costs while harnessing available rental potential. TAG uses active portfolio management, extending through to effective tenant relationship management to ensure long-term leases. At the same time, receivables management secures ongoing payments received and can help to avert defaults with minimum delay. Although there are always individual risks of default, we consider it to be marginal in its entirety.

Beyond this, in managing its properties, TAG is subject to various contractual, governmental and statutory restrictions that curtail its scope for business decisions, e.g. in some cases there are restrictions in connection with the receipt of government funding, or agreements limiting the use of the real estate that need to be taken into consideration when leasing out the property.

Much of the revenue in the commercial real estate segment continues to be generated with Siemens AG in Berlin, Mannheim, Cologne and Munich. The rental contracts have varying expiry dates, and Siemens AG is considered to be an investment-grade premium tenant. If the rental contracts are not renewed or are terminated, this could have a negative impact on TAG Gewerbe's net assets and results of operations. TAG strives to avoid dependence on a small number of large tenants (clustering) and seeks long-term rental contracts with companies with strong credit worthiness and a steady and low-risk business model.

Portfolio appraisal risks

The market 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 appraisers. These appraisals depend on various factors, some of which are objective – such as the greater economy conditions, or prevailing interest rates – while others are exogenous factors such as rental levels and vacancies. The appraiser also takes into account discretionary, qualitative factors such as (micro-) location and the quality of the property, as well as the achievable rental income. This may result in changes in the fair values reported, resulting in high volatility for the Group net income. This does not have any direct impact on TAG's liquidity.

In 2013 the valuation of the property portfolio was adjusted, due to changes in the German Real Estate Transfer Act and the first-time application of IFRS 13. In this connection, a portion of the portfolio was identified in which all the transaction costs of a potential acquirer are deducted as part of the DCF model. This means that the entire portfolio of commercial and residential real estate in western Germany – with the exception of Lower Saxony and Berlin – is valued according to the "net" approach. This change to the appraisal method led to a value depreciation of approximately EUR 52 m in 2013. The remaining inventory of residential real estate in eastern Germany and Lower Saxony is subject to a mere 0.2 % deduction for transaction costs ("gross" approach). There is a risk that in future, other parts of the real estate portfolio will have to be valued using the net approach. A valuation of all TAG real estate assets using the net approach would lead to an additional devaluation of approximately EUR 159 m. An accordingly complete assessment using the gross approach would lead to an up valuation of around EUR 52 m.

Miscellaneous business risks

TAG makes extensive use of IT systems in its business operations. Any impairments to these IT systems can result in interruptions to its business operations. The company restricts risks regarding the availability, reliability and efficiency of its IT systems by using regularly updated firewall and antiviral programmes, ongoing monitoring of data transmission, the use of an independent network as well as frequent backups and reproducibility of data relevant to operations.

The TAG group depends on qualified specialists to achieve its strategic and operating goals. To prevent a possible shortage of qualified employees, TAG has provided apprenticeships for real estate management assistants for many years now, with the aim of offering apprentices permanent employment contracts once they have completed their training. Beyond this, staff training and skill-building at all levels of the Group ensure that professional expertise is secured and disseminated. The merger of the ERP systems into the single SAP Promos system may lead to significant restrictions and interruptions to business operations.

TAG currently still utilises a few external service providers to manage its real estate and therefore depends on the provision of external services. The plan is to gradually dissolve these contracts and handle the services internally.

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 counter-party risk and selecting investment-grade financial institutions.

Liquidity risks

Extensive liquidity planning instruments, both short- and medium-term, are used at the level of the individual operating subsidiary and the Group as a whole to ensure that current business transactions are based on forecast data. Extensive liquidity reports are regularly submitted to the Management Board.

Moreover, TAG is dependent on securing external capital at reasonable terms to fund its ongoing business and acquisitions. Any worsening of the crisis in the international financial markets could make it substantially more difficult for TAG to raise the necessary funds and could lead to liquidity problems. If this leads to problems in servicing ongoing loans, lenders could institute foreclosure proceedings, and such distress sales would lead to considerable financial disadvantages for TAG. TAG is making use of current market conditions to restructure key loan agreements long-term in order to mitigate this risk.

The Group has loans totalling around EUR 1,583 m (previous year: EUR 1,393 m), 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 become necessary. As of 31 December 2013, the financial covenants stipulated in loan contracts were complied with. Similarly, the convertible bonds issued are subject to certain terms and conditions that, 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 and the corporate bond – as well as 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" below – may be subject to a right of premature termination.

Interest risks

The Group's activities primarily expose it to risks arising from changes in interest rates. The Group 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-rate risks.

The Group's integrated interest and credit management works actively with Group planning. This makes it 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 euros. A small volume of business is denominated in Swiss francs. The risk is considered to be small.

Other risks

Legal risks
TAG is party to various legal proceedings whose outcome is as yet uncertain. They include disputes about construction defects, rental matters and administrative proceedings.

Legal risks exist in connection with the Company's former activities as a property developer, including liability under legacy claims, environmental contamination or hazards arising from construction materials, as well as warranty claims in connection with 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 some cases, the rescission of contracts entered into many years ago. These disputes are being contested against the backdrop of a pro-consumer/-buyer dispensation of justice. Appropriate provisions have been created to cover risks in connection with legal disputes, claims for damages, and warranty claims.

The Company is exposed to tax risks as external tax audits may result in mandatory payments of back taxes. In addition, the utilisation of tax loss carry-forwards could be jeopardised by past or future capital measures or share purchases. Moreover, certain requirements regarding the equity resources of subsidiaries must be complied with to ensure that interest expenses remain fully tax-deductible ("interest barrier").

In the past, the Company acquired fewer than 95 % of shares in various real estate companies. The remaining shares were acquired by companies, which for purposes of the Property Transfer Tax Act are not part of the TAG group. The minority interests in GIMAG AG, Switzerland – 94 % of which is owned by Colonia – are held by the Colonia Real Estate subgroup. In an ongoing external tax audit, the tax authorities have 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 16 m. We consider the probability of this risk to be minimal at the moment.

Opportunities for future development

TAG Immobilien AG further strengthened and extended its market position last year. The various growth processes provided employees and management with valuable experience, which will be put to good use in future acquisition strategies. As a result, in addition to the increase in the number of units, the real estate volume, the rental revenue and FFO have also risen. TAG was admitted to the MDAX in September 2012 and is an excellent position to successfully continue its business and growth strategy in 2014 as well.

Thanks to the Group's decentralised structure with headquarters in Hamburg and branches in Berlin, Düsseldorf, Döbeln, Leipzig, Erfurt, Salzgitter and Gera, TAG can identify market trends at an early stage and address them more quickly than 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 there is still growth potential to be harnessed. A good variety of apartment sizes and micro-locations within the regions, along with modern, efficient tenant relationship management, ensure a consistent generation of returns and cashflows from the portfolio. Moreover, the TAG group's core skill is active asset and property management, which in the past has been of considerable help in reducing vacancies, boosting rental income and lowering vacancy-related costs. In the years ahead, vacancy reduction and the harnessing of potential for raising rents within the portfolio will continue to form the basis for further organic value increases.

Apart from implementing its growth strategy and improving its capital market position, TAG also has a solid funding structure. As of 31 December 2013, average interest stood at 3.7 %, the average loan term was predominantely long term. The loan to value ratio, which indicates a company's level of debt, was 62 % and the equity ratio before minority interests was 30 %. TAG's business model – in particular its successful implementation of the growth strategy and active asset management, which is reflected in the continuous reduction of vacancy – is well established with the banks.

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

Overall assessment

In line with the stable performance during the reporting period, the overall risk situation has further improved compared with the previous year. Using the monitoring system described above and the available instruments, TAG Immobilien AG took the necessary measures to identify and address, at an early stage, risks that could threaten the existence of the company. At this time, the management is aware of no risks that could threaten the existence of the company. The company is convinced that it will continue to be able to make use of the opportunities and challenges arising in the future without exposing itself to undue risk.

V. Internal monitoring and risk management in connection with Group accounting

The structure of TAG's accounting-related internal monitoring system derives from the largely centralised organisation of its accounting system. A large portion of the Group's financial statements is prepared by its own employees at the Group headquarters in Hamburg. Even though some accounting activities are performed locally, e.g. 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 facilities management company, the accounting department bears the final responsibility.

All the figures in the financial statements of the individual companies and the subgroup are checked by Financial Controlling and reconciled with the budgets. The main findings 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 audit of annual accounts, the Group's accounting-related internal monitoring system, including the IT system, is included to the extent necessary for the purposes of the audit. The auditor reports 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 certified by independent auditors, to prepare the financial statements. In 2013, these were "RELion" and "DKB@win". External service providers support the preparation of the quarterly and annual financial statements. For instance, independent appraisers prepare reports on the fair value of the real estate. The fair value of interest swaps is also calculated with the assistance of external experts. Risks arising from interest swaps are monitored on an ongoing basis. The efficiency of interest swaps relative to the hedged loans is reviewed quarterly.

VI. Disclosures in accordance with Sections 289 (4) and 315 (4) of the German Commercial Code

TAG Immobilien AG is a capital market-oriented Company as defined in Section 264d of the German Commercial Code. Therefore, information on equity, the equity structure as well as on the voting rights are required in accordance with Section 315 (4) of the German Commercial Code. In the information provided in the following, the conditions that existed as of 31 December 2013 are assumed:

Composition of share capital

The Company's share capital stands at EUR 131,298,317.00 as of 31 December 2013, up from EUR 130,737,996.00 as of 31 December 2012. It is divided into 131,298,317 shares. The computed pro rata amount of share capital attributable to each share is EUR 1.00. All shares carry the same rights and each share entitles the owner to one vote; the dividend entitlement is determined by the number of shares held.

Limitation on voting rights and transfer of shares

Restrictions on voting rights may arise from the provisions of the Companies Act. For example, under certain circumstances shareholders are prohibited from voting in accordance with Section 136 (1) of the German Stock Corporation Act (AktG). In accordance with Section 71b of the AktG, the Company is not entitled to exercise any voting rights resulting from tis own shares. The Articles of Association do not provide for restrictions on voting rights. The Company's shareholders are not limited by the law or by the Articles of Association of the Company in terms of the acquisition or sale of shares. The Management Board is not aware of any contractual restrictions on voting rights or the transfer of shares

Direct or indirect voting rights exceeding 10 %

The Company is aware of four direct or indirect holdings of more than 10 % of its voting rights as of the end of 2013:

- Ruffer LLP, London, United Kingdom, had a holding of 15 % as of the reporting date.
- A second holding of 12 % is held by Flossbach von Storch Invest S.A., Luxemburg-Strassen, Luxemburg and Flossbach von Storch AG, Cologne, Germany
- Sun Life Financial Inc., Toronto, Canada, Sun Life Global Investments Inc., Toronto, Canada, Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc., Wellesley Hills, MA, USA, Sun Life Financial (U.S.) Holdings Inc., Wellesley Hills, MA, USA, Sun Life Financial (U.S. Investments LLC, Wellesley Hills, MA, USA and Sun Life of Canada (U.S.) Financial Services Holding, Inc., Boston, MA, USA and Massachusetts Financial Services Company, Boston, MA, USA indirectly own a 10 % stake in TAG.
- Versorgungsanstalt des Bundes und der Länder, Karlsruhe holds a 10 % stake in TAG.

The Company has not been notified of other direct or indirect interests in TAG's capital that reach or exceed 10 %, nor is it aware of any.

Shares with special rights conferring powers of control

There are no shares with special rights conferring powers of control.

Voting right controls on shares held by employees

Workers who own capital shares in TAG exercise their control rights like other shareholders in accordance with the statutory provisions and the Articles. There is no indirect control of voting rights.

Appointment and dismissal of members of the Management Board, amendments to the articles of association

The appointment and dismissal of members of the Management Board is carried out in accordance with Sections 84 and 85 of the German Stock Corporation Act and based on the Company's Articles of Association. Management Board members are appointed by the Supervisory Board for a maximum term of 5 years. A reappointment or extension of the term for a maximum of five years is permitted. The Supervisory Board may appoint a Chairman and a Deputy Chairman. The Management Board consists of at least 2 people. The Supervisory Board can revoke the appointment of Management Board members and the Chairman of the Management Board if there is good cause.

Amendments to the Articles of Association are based on Sections 179 and 133 of the German Stock Corporation Act and the provisions of the Articles of Association. Any amendment to the Articles of Association requires a shareholders' resolution. However, the Company's Supervisory Board is authorised in accordance with Section 11 of the Articles of Association to resolve amendments that only affect the Articles of Association. Section 20 of the Articles of Association provides that in accordance with Section 179 (2) sentence 2 of the German Stock Corporation Act – in the absence of mandatory legal provisions to the contrary – a shareholders' resolution is passed by a simple majority of the votes cast and of the share capital represented in the vote. In several cases, the law requires a larger majority, i. e. ¾ of the capital shares represented, to pass resolutions – e.g. for certain capital measures and the exclusion of subscription rights.

Authorisation of the Management Board to issue and repurchase shares

In a resolution passed at the Annual General Meeting on 14 June 2012, the **"Authorised Capital 2012/I"** was agreed and the Management Board, subject to the Supervisory Board's approval, was authorised 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 partially utilised this authorisation in 2012. After this utilisation, EUR 8,190,307.00 is still available as of 31 December 2013.

In a resolution passed at the annual general meeting held on 14 June 2013, additional authorised capital **"Authorised Capital 2013/I"** was agreed. The Management Board, subject to the Supervisory Board's approval, was authorised to increase the Company's share capital by a total amount of no more than EUR 20 m by issuing up to 20,000,000 no par value ordinary shares on a cash and/or non-cash basis, once or on repeated occasions, on or before 13 June 2018. The Management Board has not utilised this authorisation to date.

The Company has a variety of contingent capital underpinning the convertible bonds issued by the Company in recent years, and which have changed due to the exercise of conversion rights in financial year 2013:

- Contingent capital 2009/I, which dates back to the shareholders' resolution of 27 August 2009, is the basis of the EUR 12.5 m convertible bond issued by the Company in 2009 that expired in 2012, and a convertible bond of EUR 30 m issued in 2010 (WKN A1ELQF). The exercise of conversion rights from the EUR 30 m convertible bond increased the share capital by 532,958 par value shares. The remaining convertible bonds with a nominal value EUR 27,266,300.00 have been fully repurchased. Contingent capital 2009/I therefore decreased to EUR 5,561,738.00 in the year under review.
- Contingent capital 2010/I dating back to the shareholders' resolution of 25 June 2010 increased the share capital by a further 9.8 m shares. This conditional capital serves to underpin the EUR 66.6 m convertible bond (WKN A1E89W). The exercise of conversion rights has increased the share capital from this convertible bond by 27,363 shares. Contingent capital 2010/I therefore contracted to EUR 9,772,637.00 in the year under review.
- Contingent capital 2011/I dating back to the shareholders' resolution of 26 August 2011 increased the share capital by a further 15 m shares. It serves to underpin the EUR 85.3 m convertible bond (WKN A1PGZM). No conversion rights have been exercised to date.
- Contingent capital 2013/I dating back to the shareholders' resolution of 14 June 2013 increased the share capital by a further 13 m shares. This capital increase will only be carried out to the extent that the convertible and/or option bonds with a total nominal amount of up EUR 160 m are issued by 13 June 2018 and the bearers or creditors of such bonds are granted conversion or option rights to new shares in TAG based on the authorising resolution of 14 June 2013.

Material agreements of the Company that are subject to a change of control following a takeover bid

TAG has a line of credit totalling EUR 8 m that requires the bank's approval and may otherwise lead to the loans being terminated in the event of a change of shareholder. In addition, there are also numerous regulations regarding change-of-control provisions in the subsidiaries' loan agreements and in their general terms and conditions. Although these primarily apply only at the level of the subsidiaries and in the event of a change in their shareholders, the possibility of the lender invoking change-of-control rights in the event of a change in the indirect shareholder cannot be ruled out.

The outstanding convertible bonds of EUR 66.6 m (WKN A1E89W 12/2010) as well as the convertible bond of EUR 85.3 m (WKN A1PGZM) maturing in December 2015 and June 2019, respectively, 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. The corporate bond of EUR 200 m issued at the beginning of August 2013 also has special change-of-control provisions, which obligate the Company to buy back the bond at terms stated in more detail in the terms of the loan.

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 exercised, 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.

Company remuneration agreement with the members of the Management Board or employees in case of a takeover bid

In the event of any change in TAG's shareholder structure, the members of the Management Board have a special right of termination and, if they exercise this right, are entitled to claim a settlement the amount of which is based on the remaining period of time until the ordinary date of expiry of their service contract as of the date of termination. Reference should be made to the corporate governance report in the management report for more details.

There are no remuneration agreements with the members of the Management Board in case of a takeover bid.

VII. Corporate Governance Statement in accordance with § 289a HGB (German Commercial Code)

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

VIII. 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 the year 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, economic developments in Germany, and TAG's success and prospects. 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 long-term business performance is taken into consideration. Upon the ordinary termination of office on the part of any member of the Management Board, the member shall receive the outstanding part of the variable remuneration for which entitlement has accrued. The variable remuneration has been capped at TEUR 125 and TEUR 250, respectively, 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 an 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 equal to the annual gross salary on the date of exit from the Company, 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 that 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 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.

Hamburg, 21 March 2014

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

Consolidated balance sheet

Assets in TEUR	Notes	12/31/2013	12/31/2012
Non-current assets			
Investment properties	(1)	3,544,075	3,455,667
Intangible assets	(2)	5,142	2,045
Property, plant and equipment	(3)	13,028	10,664
Investments in associates	(4)	119	68
Other financial assets	(5)	18,178	25,514
Deferred taxes	(6)	613	1,502
		3,581,155	**3,495,460**
Current assets			
Land with unfinished and finished buildings	(7)	46,874	89,642
Other inventories	(7)	618	568
Trade receivables	(8)	16,221	20,133
Income tax receivables	(8)	3,293	3,037
Derivative financial instruments	(8)	8,884	8,850
Other current assets	(8)	14,984	14,888
Cash and cash equivalents	(9)	85,326	55,753
		176,200	**192,871**
Non-current assets available-for-sale	(10)	**5,969**	**111,631**
		3,763,324	**3,799,962**

Equity and liabilities in TEUR	Notes	12/31/2013	12/31/2012
Equity			
Subscribed capital	(11)	131,298	130,738
Share premium	(12)	705,898	739,971
Other reserves	(13)	-10,930	-20,210
Unappropriated surplus	(14)	281,040	285,678
Attributable to the equity-holders of the parent company		1,107,306	1,136,177
Attributable to non-controlling interests	(15)	20,060	20,279
		1,127,366	**1,156,456**
Non-current liabilities			
Bank borrowings	(16)	1,947,049	1,804,786
Liabilities from corporate bonds	(18)	197,006	0
Liabilities from convertible bonds	(18)	106,125	173,105
Derivative financial instruments	(18)	13,519	23,796
Retirement benefit provisions	(17)	5,618	5,126
Other non-current liabilities	(18)	293	3,643
Deferred taxes	(6)	120,710	123,359
		2,390,320	**2,133,815**
Current liabilities			
Other provisions	(19)	24,214	33,544
Income tax liabilities	(20)	9,423	8,951
Bank borrowings	(16)	179,534	411,261
Trade payables	(21)	11,385	13,784
Derivative financial instruments	(22)	9,166	29,368
Liabilities from corporate bonds	(18)	4,100	0
Liabilities from convertible bonds	(18)	190	1,532
Other current liabilities	(22)	7,626	9,695
		245,638	**508,135**
Liabilities in connection with the non-current assets available for sale		**0**	**1,556**
		3,763,324	**3,799,962**

Consolidated income statement

in TEUR	Notes	01/01–12/31/2013	(adjusted) 01/01–12/31/2012
Total revenues	(24)	**375,822**	**252,833**
Rental revenues	(24)	250,991	192,462
Rental expenses	(27)	-51,901	-47,215
Net rental income		199,090	145,247
Revenues from the sale of inventory real estate	(24)	9,586	14,427
Expenses on the sale of inventory real estate	(27)	-9,312	-13,959
Net revenues from sale of inventory real estate		274	468
Revenues from the sale of investment properties	(24)	112,698	38,487
Expenses on the sale of investment properties	(27)	-113,144	-39,131
Net revenues from sale of investment properties		-446	-644
Revenues from property management	(24)	2,547	7,457
Expenses for the provision of property management	(27)	-223	-4,318
Net income from the provisions of property management		2,324	3,139
Other operating income	(25)	11,480	169,968
Fair-value remeasurement of investment properties		-26,951	19,213
Net fair value gains and losses from measurement of newly acquired investment properties		11,074	10,152
Total net gains from the remeasurement of investment properties	(26)	-15,876	29,365
Gross profit		**196,846**	**347,543**
Personnel expenses	(28)	-29,502	-23,110
Depreciation/amortisation	(29)	-2,246	-1,726
Impairment losses on receivables and inventories	(30)	-17,361	-13,506
Other operating expenses	(31)	-20,108	-20,076
EBIT		**127,629**	**289,125**
Net profit from investments	(32)	714	262
Share of profit from associates	(33)	50	7
Impairment of financial assets	(34)	-238	-92
Loss absorption	(35)	-8	-13
Interest income	(36)	10,483	10,917
Borrowing costs	(36)	-115,546	-97,655
EBT		**23,084**	**202,551**
Income taxes	(37)	3,890	-25,057
Other taxes	(38)	21	428
Consolidated net profit		**26,995**	**177,922**
of which attributable to non-controlling interests	(15)	-1,052	-1,154
of which attributable to the Parent Company's shareholders		28,047	179,076
Earnings per share (EUR)			
Basic loss per share	(39)	0.21	1.88
Diluted loss per share	(39)	0.21	1.60

Consolidated statement of comprehensive income

in TEUR	Notes	01/01–12/31/2013	01/01–12/31/2012
Net loss as shown in the income statement		**26,995**	**177,922**
Unrealised gains and losses from hedge accounting	(13)	13,207	-4,724
Deferred taxes on unrealised gains and losses	(6)	-3,378	934
Other comprehensive income after taxes		9,829	-3,790
Total comprehensive income		**36,824**	**174,132**
of which attributable to non-controlling interests	(15)	-510	-929
of which attributable to the Parent Company's shareholders		37,334	175,061

Consolidated cashflow statement

in TEUR	Notes	01/01–12/31/2013	01/01–12/31/2012
Consolidated net profit/loss		26,995	177,922
Net interest income through profit and loss		105,063	86,738
Current income taxes through profit and loss		1,128	941
Depreciation/amortisation	(29)	2,484	1,818
Share of profits/losses of associates and other financial assets	(32)	-649	2
Gains from the remeasurement from investment properties	(26)	15,876	-29,365
Losses from deconsolidation		-708	-5,374
Gains from business combinations	(25)	0	-148,169
Gains/losses from the disposal of investment properties	(1)	446	644
Gains/losses from disposal of property, plant and equipment	(1)	-5	-781
Impairments on receivables and inventories	(30)	17,361	13,506
Changes in deferred income taxes	(6)	-1,760	21,161
Changes in provisions	(17, 19)	-8,366	-3,094
Interest received		1,760	8,032
Interest paid		-99,422	-89,135
Income taxes paid		-837	-3,601
Income taxes received		176	1,885
Changes in receivables and other assets	(7, 8, 9, 10)	15,266	-63,066
Changes in payables and other liabilities	(18, 20, 22, 23)	480	47,432
Cashflow from operating activities		**75,288**	**17,496**

in TEUR	Notes	01 / 01 – 12 / 31 / 2013	01 / 01 – 12 / 31 / 2012
Payments received from the disposal of investment properties	(1)	112,698	38,487
Payments made for investments in investment properties	(1)	-88,492	-12,320
Payments received from sale of property, plant and equipment	(1)	8	1,532
Payments received from investment property		291	0
Payments made for investments in intangible assets and property, plant and equipment	(2, 3)	-7,716	-3,169
Payments received from other financial assets		1,144	0
Payments made for investments in associates and other financial assets	(4, 5)	4,443	-188
Payments made for the acquisition of consolidated companies less cash and cash equivalents		0	-372,479
Payments made for investments in associates and other financial assets		0	-12
Payments made for the acquisition of real estate companies (including transaction costs)		0	-5,273
Cashflow from investing activities	(11, 12)	**22,376**	**-353,422**
Payments received from cash equity issues	(18)	0	397,082
Cost of issuing equity in connection with capital increase		-351	-11,602
Payments received from the issue of convertible bonds		0	85,300
Costs in connection with the issue of convertible bonds		0	-1,419
Payments for repurchase of convertible bonds	(16)	-107,143	0
Dividends	(16)	-32,684	-19,114
Payments received from the issuance of corporate bonds	(18)	200,000	0
Costs associated with the issuance of corporate bonds		-3,247	0
Payments received from bank borrowings		625,701	3,536
Payments made for repaying bank borrowings	(9)	-732,395	-99,808
Payments made for increasing shares without a change of status	(9)	-256	-8,001
Cashflow from financing activities		**-50,375**	**345,974**
Net change in cash and cash equivalents		47,289	10,048
Cash and cash equivalents at the beginning of the period		31,712	21,599
Currency translation		7	65
Cash and cash equivalents at the end of the period		**79,008**	**31,712**

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 01/01/2013		**130,738**	**739,971**	**527**	**-20,833**	**96**	**285,678**	**1,136,177**	**20,279**	**1,156,456**
Consolidated net profit		0	0	0	0	0	28,047	28,047	-1,052	26,995
Other comprehensive income		0	0	0	9,287	0	0	9,287	542	9,829
Total comprehensive income		0	0	0	9,287	0	28,047	37,334	-510	36,824
Increase in shares without change of status	(12, 15)	0	-116	0	0	0	0	-116	291	175
Repurchase of convertible bonds		0	-36,110	0	0	0	0	-36,110	0	-36,110
Conversion of bonds	(11, 18)	560	2,390	0	0	0	0	2,950	0	2,950
Cost of issuing equity (after income taxes)	(12)	0	-237	0	0	0	0	-237	0	-237
Dividend		0	0	0	0	0	-32,685	-32,685	0	-32,685
Currency translation	(13)	0	0	0	0	-7	0	-7	0	-7
Amount on 12/31/2013		**131,298**	**705,898**	**527**	**-11,546**	**89**	**281,040**	**1,107,306**	**20,060**	**1,127,366**
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		0	0	0	-4,015	0	0	-4,015	225	-3,790
Consolidated net profit		0	0	0	-4,015	0	179,076	175,061	-929	174,132
Acquisition of TAG Potsdam		0	0	0	0	0	0	0	1,447	1,447
Increases in shares without any change of status		1,810	17,667	0	0	0	0	19,477	-27,478	-8,001
Issue of convertible bond		0	4,595	0	0	0	0	4,595	0	4,595
Equity issue through conversion		2,500	10,026	0	0	0	0	12,526	0	12,526
Capital increase against contribution in kind		859	6,091	0	0	0	0	6,950	0	6,950
Cash equity issue		50,664	346,418	0	0	0	0	397,082	0	397,082
Cost of issuing equity (after income taxes)		0	-7,857	0	0	0	0	-7,857	0	-7,857
Dividend		0	0	0	0	0	-19,114	-19,114	0	-19,114
Currency translation		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**

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	Total residential	Total commercial	Other acitivites	Consolidation	TAG Group
Rental income	38,549	46,307	16,315	27,701	96,206	225,078	26,330	275	-692	250,991
Previous year	29,028	40,857	16,568	26,971	50,133	163,557	24,438	1,451	-984	192,462
■ of which external rental income	38,549	46,239	16,315	27,701	96,108	224,912	25,833	246	0	250,991
Previous year	29,028	40,801	16,568	26,971	50,032	163,400	27,785	1,277	0	192,462
■ of which internal rental income	0	68	0	0	98	166	497	29	-692	0
Previous year	0	56	0	0	101	157	653	174	-984	0
Rental expenses										-51,901
Previous year										-47,215
Asset sales										-172
Previous year										-176
Net income from services										2,324
Previous year										3,139
Remeasurement										-26,951
Previous year										19,213
Investment properties										11,074
Previous year										10,152
Non-allocated other operating income										11,480
Previous year										169,968
■ of which consolidation gains										0
Previous year										148,169
Gross profit										196,846
Previous year										347,543
Miscellaneous nonallocated expenses										-173,762
Previous year										-144,992
EBT										23,084
Previous year										202,551
Segment assets	532,639	665,542	224,734	359,544	1,381,925	3,164,384	442,415	0	0	3,606,799
Previous year	545,649	745,447	243,830	353,417	1,309,074	3,197,417	461,519	5,931	0	3,664,867
Non-allocated assets										156,525
Previous year										135,095
Total assets										3,763,324
Previous year										3,799,962

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

Significant accounting policies

Basis of preparation

The consolidated financial statements of TAG Immobilien AG, Hamburg, (hereinafter referred to as "TAG" or the "Company") as of 31 December 2013 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 applied for the first time for the IFRS consolidated financial statements prepared for the previous year:

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 (R)	Employee benefits The standard provides guidance on accounting for employee benefits. The main changes in the revised standard particularly concern the recognition of pension obligations following the abolition of the corridor method, changes in interest on plan assets and the new definition of the components of pension expense.
IFRS 13	Calculation of fair value The standard defines the "fair value" concept and provides a uniform framework for measuring it in cases in which it is stipulated in other IFRSs. In addition, it provides guidance on the corresponding disclosure requirements for the notes. The application of the standard resulted in changes in the measurement of investment properties as well as additional disclosure requirements in the notes to the consolidated financial statements.
Amendments to IAS 12	Income taxes Treatment of temporary tax differences arising from the application of the fair value model in accordance with IAS 40.
Amendments to IFRS 7	Financial instruments: disclosures Additional disclosures on the notes on offset and offsettable financial instruments
Diverse	IFRS 2009-2011 improvement project (to be applied in accounting periods commencing on or after 1 January 2013)

Reference should be made to the disclosure in the notes on investment properties for details of the effects of the first-time application of IFRS 13. Otherwise, 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 27	Separate 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)
IAS 36	Impairment of assets (revised, to be applied in accounting periods commencing on or after 1 January 2014)
IFRS 9	Financial instruments (revised, to be applied in accounting periods commencing on or after 1 January 2018, EU endorsement still pending)
IFRS 10	Corresponding figures (to be applied in accounting periods commencing on or after 1 January 2014)
IFRS 11	Corresponding figures(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 14	Regulatory deferral accounts (to be applied in accounting periods commencing on or after 1 January 2016)
IFRIC 21	Levies (to be applied in accounting periods commencing on or after 1 January 2014, EU endorsement still pending)
Diverse	IFRS 2012 improvement project (mostly to be applied in accounting periods commencing on or after 1 January 2014, EU endorsement still pending)
Diverse	IFRS 2013 improvement project (mostly to be applied in accounting periods commencing on or after 1 January 2014, 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, Germany. 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 21 March 2014 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 TAG obtains control. They are deconsolidated from the date on which the possibility of exerting control ceases. 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 plus non-controlling interests over the net assets of the subsidiary acquired is recognised directly in the income statement. The cost of business combinations is recorded in profit and loss.

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

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. Accordingly, the acquisition of property companies does not give rise to any differences.

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 consolidated.

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 percentages 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 Wohnen & Service GmbH (formerly: 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., Luxemburg, (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 %)

- Wasserkraftanlage Gückelsberg OHG, Leipzig (99 %)
- TAG Beteiligungs- und Immobilienverwaltungs GmbH, Hamburg (formerly: Kraftverkehr Tegernsee-Immobilien GmbH, Tegernsee) (100 %, previous year: 98 %)
- TAG NRW-Wohnimmobilien und Beteiligungs GmbH, 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 %)
- TAG Stadthaus Am Anger GmbH, Hamburg (100 %)
- Fürstenberg'sche Häuser GmbH, Hamburg (100 %)
- Bau-Verein zu Hamburg Immobilien GmbH, Hamburg (100 %)
- Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg (100 %)
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg (100 %)
- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg (100 %)
- Bau-Verein zu Hamburg „Junges Wohnen“ GmbH, Hamburg (100 %)
- Bau-Verein zu Hamburg Wohnungsgesellschaft mbH, Hamburg (100 %)
- BV Hamburger Wohnimmobilien GmbH, Hamburg (100 %)
- BV Steckelhörn GmbH & Co. KG, Hamburg (100 %)
- BV Steckelhörn Verwaltungs GmbH, Hamburg (100 %)
- G+R City Immobilien GmbH, Berlin (100 %)
- URANIA Grundstücksgesellschaft mbH, Hamburg (100 %)
- VFHG Verwaltungs GmbH, Berlin (100 %)
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin (100 %)
- Wohnanlage Ottobrunn GmbH, Hamburg (100 %)
- Colonia Real Estate AG, Hamburg (79 %)
- Colonia Wohnen GmbH, Hamburg (79 %)
- Colonia Portfolio Ost GmbH, Hamburg (79 %)
- Colonia Portfolio Berlin GmbH, Hamburg (79 %)
- Colonia Wohnen Siebte GmbH, Hamburg (79 %)
- Colonia Immobilien Verwaltung GmbH, Hamburg (79 %)
- Colonia Portfolio Hamburg GmbH & Co. KG, Hamburg (79 %)
- Colonia Portfolio Bremen GmbH & Co. KG, Hamburg (79 %)
- Grasmus Holding B.V., Maastricht/Niederlande (80 %, previous year: 79 %)
- Emersion Grundstückverwaltungs-Gesellschaft mbH, Hamburg (80 %, previous year: 78 %)
- Domus Grundstückverwaltungs-Gesellschaft mbH, Hamburg (80 %, previous year: 78 %)
- Gimag Immobilien AG, Zug/Switzerland (74 %)
- Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg (98 %)
- TAG Potsdam Immobilien GmbH, Berlin (100 %), hereinafter referred to as: TAG Potsdam
- TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Berlin (95 %)
- TAG Wohnungsgesellschaft Süd-West mbH, Berlin (95 %)
- TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin (100 %)

- TAG Wohnungsgesellschaft Sachsen-Anhalt mbH, Halle (100 %)
- TAG Wohnungsgesellschaft Sachsen mbH, Döbeln (100 %)
- TAG Wohnungsgesellschaft Thüringen mbH, Gera (94 %)
- TAG Wohnungsgesellschaft Gera-Bieblach Ost mbH, Gera (94 %)
- TAG Wohnungsgesellschaft Gera-Debschwitz mbH, Gera (94 %)
- TAG Wohnungsgesellschaft Altenburg mbH, Gera (94 %)
- TAG Immobilien Wohn-Invest GmbH, Berlin (100 %)
- TAG Immobilien Service GmbH, Berlin (100 %)
- TAG Infrastruktur GmbH, Berlin (100 %)
- TAG Wohnen GmbH, Berlin (100 %)
- TAG TSA Wohnimmobilien GmbH, Hamburg (100 %)

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 i.L., Leipzig, was liquidated in the year under review and deleted from the commercial register.

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

- GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, Hamburg (49.99 %)
- Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH, Hamburg (49.99 %)

The following combined financial information on these associates is available as of 31 December 2013:

Associates	Assets TEUR	Liabilities TEUR	Revenue TEUR	Profit / loss TEUR
GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG	5,794 (previous year: 5,666)	5,647 (previous year: 5,619)	399 (previous year: 406)	100 (previous year: 11)
Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH	34 (previous year: 33)	– –	– –	1 (previous year: 4)

In the year under review, the following companies which had not been consolidated due to their subordinate importance were merged with their respective parent companies with retro-active effect from 1 January 2013:

	Share held %	Equity in accordance with German GAAP 12 / 31 / 2012 TEUR
Victus I. Beteiligungs GmbH, Berlin	99.97	20
Victus II. Beteiligungs GmbH, Berlin	99.97	18
TAG Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha dritte mbH, Schwerin	99.97	23
TAG Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha fünfzehnte mbH, Schwerin	99.97	22
TAG Wohnungsgesellschaft Mecklenburg-Vorpommern Alpha sechzehnte mbH, Schwerin	99.97	23
TAG Wohnungsgesellschaft Sachsen-Anhalt Alpha zweite mbH, Schwerin	99.97	23
Victus VII. Beteiligungs GmbH, Gera	93.98	24
Victus VIII. Beteiligungs GmbH, Gera	93.98	23
Victus V. Beteiligungs GmbH, Döbeln	99.97	22
Victus VI. Beteiligungs GmbH, Döbeln	99.97	18
TAG Wohnungsgesellschaft Thüringen Beteiligung mbH, Gera	93.98	35
Habitat Gamma Beteiligungs GmbH & Co. KG, Berlin	99.97	2
Habitat Delta Beteiligungs GmbH & Co. KG, Berlin	99.97	2

In addition, the following, previously unconsolidated companies were merged with their respective parent companies with effect from 31 December 2013:

	Share held %	Equity in accordance with German GAAP 12/31/2012 TEUR
TAG Wohnungsverwaltungsgesellschaft Nord-West mbH, Berlin	99.97	25
Wohnungsgesellschaft Werderau mbH, Berlin	99.97	25

In addition, TAG Bärenparksiedlung GmbH & Co. KG, Berlin, was deconsolidated following the sale of this company.

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 held %	Profit/loss 2013 TEUR*	Equity in accordance with German GAAP 12/31/2013 TEUR*
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	100.00	16	513
Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	100.00	-2	53
TAG Beteiligungsverwaltungs GmbH, Hamburg	49.60	4	29
Vivere Beteiligungs GmbH, Berlin	99.97	2	28
Park- und Gewerbe Bestensee GmbH, Bestensee	94.80	0	26

* Disclosures in accordance with the German Commercial Code

Disclosures on the shares held in fully consolidated companies as well as associates and other investments accounted for at equity 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.

Acquisition of portfolios

Effective 31 December 2013, TAG Immobilien AG acquired a portfolio of around 2,866 residential units and 57 commercial units for a price of EUR 70.5 m. The real estate is spread over various locations in the eastern German states such as Rostock, Dresden and Berlin, where TAG already has operations. The largest single locations are Cottbus with 416 units and Chemnitz with 660 units. TAG also has a strong local infrastructure at these two sites. The floor area available for letting measures around 170,000 sqm, current rental income p.a. stands at some EUR 8.6 m and the portfolio is spread over twelve locations.

It has largely been renovated and exhibits further interesting potential for development in view of a vacancy rate of 12.6% and the fact that it has been carved out of complicated ownership structures. Looking ahead over the next few years, TAG plans to invest around EUR 3 m in the as yet unrenovated part of the portfolio and to raise the annual rental income substantially to over EUR 9 m p.a. 2,450 units were transferred from the portfolio, which was acquired in an asset deal, effective 31 December 2013.

Sales of companies

Effective 28 February 2013, all the shares in Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee ("TBB") were sold, upon which the company was deconsolidated.

Tegernsee-Bahn Betriebsgesellschaft mbH had been reclassified as assets and liabilities held for sale effective 31 December 2012.

The gain is calculated as follows:

	TEUR
Non-current assets	5,108
Inventories, receivables and other assets	219
Deferred tax assets	4
Cash and cash equivalents	457
Assets held for sale	**5,788**
Tax and other provisions	166
Trade payables and other liabilities	144
Deferred income tax liabilities	1,286
Liabilities held for sale	**1,596**
Total assets and liabilities transferred	**4,192**
Purchase price	4,900
Deconsolidation gain	**708**

In this connection, the remaining land and buildings in Tegernsee not used by TBB were sold for TEUR 7,100 in an asset deal.

Sale of commercial real estate

In September 2013, TAG sold an office building in Munich with a total floor area of around 23,000 sqm. Over the last few years, it had been prepared for its new use and is now to be developed accordingly. Completion is planned for the end of 2014.

In December, TAG sold a large office building in Munich with a total floor area of around 20,000 sqm together with a further two items from its commercial portfolio.

Located in St.-Martin-Straße in Munich-Giesing, the office building is fully leased until mid-2017. In the long term, the building is to be converted for a different use. The buyer is a Munich-based project development company, which will be developing the property accordingly. As development is to be completed over a multi-year period, execution of the contract hinges on the success of the conversion plans and is not expected before 2015.

In addition, TAG sold a former monastery complex in Oldenburg and a property in Cologne. The purchase prices were slightly above the respective carrying amounts.

Business combination without change of status

In the period from January to December 2013, further shares in Colonia Real Estate AG were acquired for TEUR 186 (less than 1 %). These transactions were recorded within equity as a business combination with no change of status.

Recognition and measurement principles

Principles

These financial statements are based on the going-concern principle. Amounts are for the most part measured at amortised 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 separately 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. 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. This also includes any ensuing extension or conversion costs that contribute to an increase in the fair value of the property.

An additional assumption in the measurement of investment properties is that they are put to the best possible use. Allowance is made for any planned changes in utilisation provided that these are technically feasible, permitted under law and financially viable.

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 real estate portfolio is always measured annually effective 30 September. In the event of any material changes in the input factors as of the measurement date, corresponding adjustments are made. The fair values of investment properties are calculated on the basis of external valuation reports using acknowledged valuation methods. The independent valuers whose services are retained are suitably qualified and experienced in the valuation of real estate. The valuation reports are based on:

- information provided by the Company on such matters as current rentals, maintenance and administration costs or current vacancy rates,
- assumptions by the valuer based on market data and assessed in the light of his professional skills, e.g. future market rentals, typical maintenance and administration costs, structural vacancy rates and discount or capitalisation rates.

The information with which the valuer is furnished and the underlying assumptions as well as the results of the valuation are analysed by Central Real Estate Controlling and the Chief Financial Officer.

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. There are no intangible assets with indefinite lives.

Impairments of intangible assets are recorded in the income statement within amortisation and depreciation expense.

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 3 to 13 years in the case of 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 cashflow method. Impairment losses on property, plant and equipment are recorded in the income statement within amortisation and depreciation expense.

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
- 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 trade 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 impaired if there is substantial objective evidence that the Group will not be able to recover them. This is chiefly determined by reference to the age structure of the assets.

Available-for-sale financial assets chiefly comprise investments in associates which are 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 separate 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 of assets measured at fair value are reversed if the reasons for such impairment no longer apply. As is the case with the preceding 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 are recognised 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. 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 2013.

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 as of the date of acquisition.

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 separately 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 paidin capital.

The components of a hybrid instrument issued by the Group (convertible bond) are recorded separately 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 comparable 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 and Bau-Verein. 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.

Interest income is recognised on a time-proportionate basis on the basis of the outstanding amount owing and the effective interest rate over the remaining time to maturity.

Dividend income is recognised when the right to receive payment is established.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognised as income of the period in which they become receivable.

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

The Group makes estimates and assumptions concerning the future. The resultant accounting estimates may deviate from the ensuing actual results. Estimates and assumptions entailing a significant risk in the form of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed below. 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 cashflow 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 values of these properties as of the reporting date stood at EUR 3,544.1 m (previous year EUR 3,455.7 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 46.9 m (previous year EUR 89.6 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 18.2 m as of the reporting date (previous year EUR 25.5 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 24.2 m as of the reporting date (previous year EUR 33.5 m).

Changes compared with the previous year

The insurance indemnity and other cost reimbursements of TEUR 789 reported within other operating income in the year under review were netted with rental expenses in accordance with their causation in the year under review. The figures for the previous year have been restated accordingly.

Notes on the balance sheet

1. Investment properties

In 2013, fair value remeasurement gains of TEUR 101,484 (previous year TEUR 105,870) and fair value remeasurement losses of TEUR 117,360 (previous year TEUR 86,657) were recognised. Net fair value remeasurement losses of TEUR 15,876 were recorded on investment properties (previous year net gains of TEUR 19,213).

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

Investment properties	**residential real estate***	**commercial real estate***
	TEUR	**TEUR**
Amount on 01/01/2012	**1,536,875**	**352,985**
Addition as a result of business combinations	1,518,113	0
Additions as a result of acquisition	95,709	0
Subsequent costs	10,613	1,706
Transfers from assets held for sale	0	4,300
Transfers from inventories	31,143	4,000
Transfers from property, plant and equipment	2,916	0
Reclassified as assets held for sale	-113,071	-4,655
Sale of Tegernsee-Bahn Betriebsgesellschaft mbH	-4,180	0
Net gains/losses in fair value	29,339	-10,126
Amount on 12/31/2012	**3,107,457**	**348,210**
Additions as a result of acquisition	65,744	0
Subsequent costs	22,009	739
Transfers from inventories	31,408	0
Transfers from property, plant and equipment	-2,117	0
Transfers from assets held for sale	-3,200	-2,050
Sale	-2,049	-6,200
Net gains/losses in fair value	-9,946	-5,930
Amount on 12/31/2013	**3,209,306**	**334,769**

* The allocation in this table is based on the measurement techniques used and therefore differs from the segment report. As this allocation is derived from corporate structures, individual commercial real estate assets are included within residential real estate

In the year under review, investment properties with a carrying amount of TEUR 3,544,075 (previous year TEUR 3,455,667) were secured by real-property liens or the assignment of rental income.

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

Investment properties	2013 TEUR	2012 TEUR
Rental income	246,418	182,970
Operating expenses (maintenance, facility management, land taxes ect.)	-50,577	-45,358
Total	**195,841**	**137,612**

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

The fair value of investment properties is measured using the discounted cashflow method in the case of residential real estate and individual items of commercial real estate and the capitalised earnings value method in the case of most of the commercial real estate.

Residential real estate

The fair value of the residential real estate of EUR 3,209.3 m (previous year EUR 3,107.5 m) is calculated using the discounted cashflow method in line with the International Valuation Standards. For this purpose, the expected future cashflow surpluses for each period are discounted using a market-oriented discount rate for the property in question as of the measurement date. Whereas the cash inflows are normally comprised of net rentals, the cash outflows (gross) chiefly include the management costs borne by the owner.

The underlying detailed planning period is generally ten years. A potential discounted terminal value for the property in question is forecast for the end of this 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.

The following table sets out the material assumptions underlying this valuation method:

	2013		2012	
Net actual rent (in TEUR)*	19,777		n/a**	
Actual vacancy*	9.1 %		n/a**	
	Average	Range	Average	Range
Net rental income at market rental	89.4 %	0 %–173 %	n/a**	n/a**
Increase in market rental p. a.	0.6 %	0 %–1.5 %	n/a**	n/a**
Maintenance costs EUR/sqm	8.1	2–16	8.1	0–16
Managementcosts as a % of gross annual income	5.9 %	0 %–96 %	6.0 %	0 %–75 %
Structural vacancy	5.5 %	0 %–15 %	n/a**	n/a**
discount interest rate	6.2 %	4 %–11 %	6.1 %	3 %–11 %
capitalization rate	5.5 %	3 %–10 %	5.4 %	2 %–10 %

* Month December
** The disclosure of comparative figures has been admissibly dispensed with in connection with the first-time application of IFRS 13

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 net present value is calculated by deducting the costs arising in an orderly transaction.

The amount of a potential buyer's deductible transaction costs depends on the market of relevance for the asset in question. In the case of real estate portfolios, it is necessary to draw a distinction between asset sales involving the direct sale of investment properties and share deals, which entail the sale of shares in companies holding real estate portfolios. Whereas asset deals are regularly subject to realty transfer tax as well as broker and notary fees, share deals can be structured in such a way as to avoid realty transfer tax and broker fees.

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

The assumptions underlying the measurement of the fair value of the residential real estate were made by the independent valuer on the basis of his professional experience and are subject to uncertainty. If the discount and capitalisation rate were 0.5 % higher, the fair value would decline by EUR 269.6 m; if the discount and capitalisation rate were 0.5 % lower, the fair value would increase by EUR 304.9 m. Changes in future net rental income exert a corresponding influence depending on rental income, vacancies and administration and maintenance costs. If the market for asset deals was deemed to be the main market for all German states, the fair value of the residential real estate would be roughly EUR 159 m lower. If no main market were identifiable for all the German states, meaning that the market for share deals would be deemed to be the most appropriate market for measuring fair value, the fair value of the residential real estate would rise by around EUR 52 m.

Commercial real estate

The fair value of the commercial real estate of EUR 334.8 m (previous year EUR 348.2 m) is measured using the capitalised earnings value method in accordance with the Real Estate Value Calculation Ordinance. The fair value measured is equivalent to a net present value. The following table sets out the material assumptions underlying the capitalised earnings value method:

	2013	2012
Actual Vacancy*	9.8 %	n/a**

* Month December
** The disclosure of comparative figures has been admissibly dispensed with in connection with the first-time application of IFRS 13

	Average	Range	Average	Range
Maintenance costs EUR/sqm	6.3	3–13	6.2	4–10
Managementcosts as a % of gross annual income	1.8 %	0 %–5 %	2.1 %	0 %–6 %
Usefull lives	42	16–65	40	16–66
Return in property	6.2 %	5 %–9 %	6.0 %	4 %–9 %

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.

Assuming the best possible use of an asset previously utilised as commercial real estate, conversion into residential real estate increases the fair value by EUR 12.8 m. The project is permissible following an amendment to the corresponding construction plan and is currently in the preparation phase.

2. Intangible assets

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

Intangible assets Historical cost	Goodwill TEUR	Order backlog TEUR	Others TEUR	Total TEUR
Amount on 01/01/2012	**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**
Additions	0	0	4,161	4,161
Amount on 12/31/2013	**0**	**0**	**6,676**	**6,676**
Accumulated depreciation	**Goodwill TEUR**	**Order backlog TEUR**	**Others TEUR**	**Total TEUR**
Amount on 01/01/2012	**0**	**305**	**490**	**795**
Additions	0	183	571	754
Disposals	0	-488	-591	-1,079
Amount on 12/31/2012	**0**	**0**	**470**	**470**
Additions	0	0	1,064	1,064
Disposals	0	0	0	0
Amount on 12/31/2013	**0**	**0**	**1,534**	**1,534**
Carrying amount on 12/31/2012	**0**	**0**	**2,045**	**2,045**
Carrying amount on 12/31/2013	**0**	**0**	**5,142**	**5,142**

The goodwill, order books and various brand rights reported in 2011 related to Polares' service business and were therefore disposed of upon the sale of that company effective 30 September 2012.

The other intangible assets include the costs of a Group-wide ERP system of TEUR 3,415 (previous year TEUR 155).

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 01/01/2012	**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**
Additions	2,126	0	1,428	3,554
Disposals	0	0	-28	-28
Amount on 12/31/2013	**10,761**	**0**	**5,669**	**16,430**

Property, plant and equipment **Accumulated depreciation**	**Real estate TEUR**	**Technical equipment TEUR**	**Operating and office equipment TEUR**	**Total TEUR**
Amount on 01/01/2012	**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**
Additions	174	0	997	1,171
Disposals	0	0	-9	-9
Amount on 12/31/2013	**880**	**0**	**2,522**	**3,402**
Carrying amount on 12/31/2012	**7,929**	**0**	**2,735**	**10,664**
Carrying amount on 12/31/2013	**9,881**	**0**	**3,147**	**13,028**

Within property, plant and equipment, land with a carrying amount of TEUR 9,881 (previous year TEUR 7,929) 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 / 2012	**61**
Share of profit / losses of associates	7
Amount on 12 / 31 / 2012	**68**
Share of profit / losses of associates	51
Amount on 12 / 31 / 2013	**119**

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 / 2012	**12,286**
Additions	13,399
Additions from business combinations	408
Disposals	-351
Amount on 12 / 31 / 2012	**25,742**
Additions	154
Disposals	-946
Amount on 12 / 31 / 2013	**24,950**

Accumulated depreciation	TEUR
Amount on 01 / 01 / 2012	**136**
Additions	92
Amount on 12 / 31 / 2012	**228**
Additions	6,918
Disposals	-374
Amount on 12 / 31 / 2013	**6,772**
Carrying amount on 12 / 31 / 2012	**25,514**
BCarrying amount on 12 / 31 / 2013	**18,178**

The additions in 2012 include a non-current receivable of TEUR 11,963, which was discounted to its present value, arising from the sale of Polares. Of this, an amount of TEUR 240 was settled in 2012 and of TEUR 90 in 2013. An impairment of TEUR 6,680 was recognised in 2013 and reported in the income statement under impairments on inventories and receivables.

Further additions to and disposals of historical costs and cumulative depreciation relate to the investment held within the Colonia subgroup.

6. Deferred income tax assets/liabilities

The presentation has been adjusted following the implementation of uniform Group-wide tax reporting software. To facilitate comparisons, the figures for the previous year are presented in both forms.

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

Deferred income taxes	2013 TEUR	2012 adjusted TEUR	2012 TEUR
Unused tax losses (incl. interest brought forward)	70,722	65,080	65,080
Investment properties	-192,216	-197,156	-197,898
Intangible assets	329	513	0
Property, plant and equipment	-2,754	-1,783	0
Other financial assets	-795	-2,934	1,147
Land with unfinished and finished buildings	0	0	-1,140
Gains/losses from remeasurement of liabilities (deferred income tax assets)	0	0	7,825
Gains/losses from remeasurement of liabilities (deferred income tax liabilities)	0	0	-2,835
Liabilities	-4,239	1,861	0
benefit provisions	7,318	6,592	0
Liabilities from convertible bonds	-4,381	-3,925	-3,925
Derivative financial instruments	5,919	9,895	9,889
Total deferred income tax assets	84,288	83,941	83,941
Total deferred income tax liabilities	-204,385	-205,798	-205,798
Offset	83,675 -83,675	82,439 -82,439	82,439 -82,439
Deferred income taxes recorded on the face of the balance sheet	613 -120,710	1,502 -123,359	1,502 -123,359

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	2013 TEUR	2012 TEUR
Amount on 01 / 01	**89,642**	**37,413**
Additions from business combinations	0	105,374
Addittions	173	2,580
Reversal of impairments	0	1,011
Impairments	-3,585	-8,509
Disposals	-7,948	-13,084
Reclassification as investment properties	-31,408	-35,143
Amount on 12 / 31	**46,874**	**89,642**
Of which secured by land charges and the assignment of rental income	**46,874**	**89,642**

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	2013 TEUR	2012 TEUR
Heating supplies	404	354
Others	214	214
Total	**618**	**568**

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

Trade receivables break down as follows:

Trade receivables	2013 TEUR	2012 TEUR
Rental receivables	12,568	12,544
Receivables from the sale of properties	1,259	3,622
Others	2,394	3,967
Total	**16,221**	**20,133**

The income tax reimbursement claims of TEUR 3,293 (previous year TEUR 3,037) chiefly relate to TAG Potsdam (TEUR 1,285) and TAG Wohnen (TEUR 1,344) 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	2013 TEUR	2012 TEUR
Rechargable pension obligations	3,831	3,423
Prepaid expenses	375	625
Creditors with a debit balance	1,767	752
Reveivables from investments	294	276
Receivables from affiliated companies	730	0
Deposit	111	517
Current loans to third parties	1,309	2,733
Others	6,567	6,561
Total	**14,984**	**14,888**

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

Impairments	TEUR
Amount on 01/01/2012	**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**
Utilised	-4,817
Reversed	-2,045
Additions	7,349
Amount on 12/31/2013	**16,808**

In the year under review, impairments (individual adjustments and bad debts) of TEUR 7,027 (previous year TEUR 4,997) 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 632 (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	TEUR
Amount on 01/01/2012	**38,366**
Reclassification of investment properties as assets held for sale	117,726
Sale of Tegernsee-Bahn Betriebsgesellschaft mbH	5,932
Transfer of assets held for sale to investment properties	-4,300
Disposals	-46,093
Amount on 12/31/2012	**111,631**
Reclassification of investment properties as assets held for sale	5,250
Sale of Tegernsee-Bahn Betriebsgesellschaft mbH	-5,932
Devaluations	-96
Disposals	-104,884
Amount on 12/31/2013	**5,969**

The assets held for sale as of the reporting date comprise in full investment properties of TEUR 5,969 (previous year TEUR 109,879) and, in the previous year, other assets in Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee, valued at TEUR 1,751.

Of the investment properties, residential real estate accounts for TEUR 3,264 (previous year TEUR 106,976) and commercial real estate for TEUR 2,705 (previous year TEUR 4,655) in the segment report.

11. Subscribed capital

TAG's fully paid up share capital amounted to EUR 131,298,317.00 as of 31 December 2013 (previous year EUR 130,737,996.00) and was divided into 131,298,317 (previous year 130,737,996) no-par-value shares with equal voting rights. They are bearer shares.

In the year under review, the Company's subscribed capital was increased by a total of EUR 560,321 through the conversion of convertible bonds.

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. Authorised capital 2012/I of around EUR 8,190,307.00 is thus still available as of 31 December 2013.

Authorised Capital 2013/I

In a resolution passed at the annual general meeting held on 14 June 2013, 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 20 m by issuing up to 20,000,000 no-par-value ordinary shares on a cash and/or non-cash basis once or on re-peated occasions on or before 13 June 2018. The Management Board did not make use of this authorisation in 2013. Accordingly, authorised capital 2013/I is still valued at EUR 20,000,000.00 as of 31 December 2013.

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. 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 8.6 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 3,038,262 shares. Accordingly, contingent capital 2009/I dropped to EUR 5,561,738.00 as of the end of the year.

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 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 amount 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 upon the exercise of the conversion rights. This means that the authorisation has been utilised in full. Conversion rights for 27,363 shares were exercised under this convertible bond in 2013. Accordingly, contingent capital 2009 / I dropped to EUR 9,772,637.00 as of the end of the year.

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 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 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 of excluding the shareholders' preemptive subscription rights upon this convertible bond being issued in accordance with the shareholders' resolution. Finally, in a resolution 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.

Contingent capital 2013 / I

At the annual general meeting held on 14 June 2013, 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 160 m on or before 13 June 2018 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 13 m in accordance with the terms and conditions determined. The Company had not utilised this authorisation as of the end of the year.

Profit-participation rights

In a resolution passed by the shareholders at the annual general meeting on 14 June 2012, the Management Board was authorised subject to the Supervisory Board's approval to issue once or repeatedly profit-participation rights free of any conversion or option rights with respect to the Company's shares on or before 13 June 2017. The total nominal amount of the profit-participation rights which may be granted in accordance with this authorisation may not exceed an amount of EUR 100 m. The Company had not utilised this authorisation as of 31 December 2013.

12. Share premium

The share premium primarily contains the premium on the equity issues executed in former years as well as 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.

The share premium was reduced by TEUR 36,110 in the year under review due to the buy-back of the convertible bonds issued. At the same time, it increased by TEUR 2,390 as a result of the conversion of bonds. Equity issue costs of TEUR 351 (previous year TEUR 11,602) net of the related income tax benefits of TEUR 114 (previous year TEUR 3,745) were reported within the share premium.

13. Other reserves

Other reserves break down as follows:

Other reserves	2013 TEUR	2012 TEUR
Legal reserve	46	46
Miscellaneous retained earnings	481	481
Retained earnings	527	527
Hedge accounting reserve	-11,546	-20,833
Currency translation reserve	89	96
Total	**-10,930**	**-20,210**

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	2013 TEUR	2012 TEUR
Amount on 01/01	**-20,833**	**-16,817**
Unrealised gains and losses	8,332	4,060
Recorded in profit and loss	4,333	-9,010
Deferred tax effect	-3,378	934
Amount on 12/31	**-11,546**	**-20,833**

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 0.35 per share for 2013 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 EUR 2,125 m (previous year EUR 2,216 m). For the most part, collateral takes the form of real property liens, the assignment of rental income and pledges on investments in affiliated companies. The banks may only liquidate this collateral in the event of a material breach of the loan contract (e.g. failure to comply with financial covenants).

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	TEUR
Opening amount on 01/01/2012	**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**
Utilised	-688
Reversed	-2
Disposal fair value of plan	1,001
Added (interest costs, included in personnel costs)	181
Amount on 12/31/2013	**5,618**

In the year under review, the TAG Potsdam subgroup transferred the active plan assets of TEUR 1,001 to the seller of the share in TAG Potsdam as this company is legally entitled to hold these claims. On the other hand, TAG Potsdam continues to recognise the provisions in full.

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

	2013	2012
Interest rate	3.50 %	3.80 %
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 411 (previous year TEUR 439) 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:

	2013 TEUR	2012 TEUR
Amount on 01/01	**5,126**	**1,760**
Additions from first-time consolidation	0	3,517
Staff costs	179	317
Pension payments	-688	-439
Disposal fair value of plan	1,001	0
Deconsolidation	0	-29
Amount on 12/31	**5,618**	**5,126**

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 1,760 in 2011, TEUR 1,801 in 2010 and TEUR 1,880 in 2009.

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

This item breaks down as follows:

	2013 TEUR	2012 TEUR
Non-current liabilities from corporate bonds	197,006	0
Non-current liabilities from convertible bonds	106,125	173,105
Derivative financial instruments (non-current part)	13,519	23,796
Other non-current liabilities	293	3,643
Total	**316,943**	**200,544**

Non-current liabilities under convertible bonds including issuing costs and called bonds break down as follows:

Non-current Liabilities from corporate bonds	2013 TEUR	2012 TEUR
TAG Immobilien AG convertible bonds EUR 30 m	0	28,678
convertible bonds EUR 66.6 m	34,102	63,850
convertible bonds EUR 85.3 m	68,908	77,734
Total TAG AG	103,010	170,262
Colonia Real Estate AG convertible bonds EUR 11.4 m	3,115	2,843
Total	**106,125**	**173,105**

On 13 May 2010, TAG issued 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 had a coupon of 6.375% p.a. and expired on 13 May 2015. The initial conversion price for the Company's bearer shares was EUR 5.47. In October 2013, the convertible bond was prematurely called in effective 2 December 2013 for a current conversion price of EUR 5.0263. As of 31 December 2013, 27,337 bonds had been converted into shares. In 2013, TAG AG bought back convertible bonds with a nominal amount of TEUR 27,266.

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 2013, 25,771 bonds had been converted into shares. In 2013, TAG AG bought back convertible bonds with a nominal amount of TEUR 31,344.

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 8.5132 following the dividend payment distributed in July 2013. In 2013, TAG AG bought back convertible bonds with a nominal amount of TEUR 10,800.

In May 2010, Colonia issued a convertible bond in a total nominal amount of EUR 11.4 m with a coupon of 5.875%. The initial conversion price stands at EUR 6.01 per Colonia 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.

In August 2013, TAG AG issued a corporate bond of EUR 200 m in a denomination of EUR 1,000.00 per bond and with a coupon of 5,125 % for a period of five years.

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 01/01/2013	Utilised	Reversed	Added	Amount 12/31/2013
Subsequent purchase price payments	3,500	1,971	1,529	0	0
Outstanding services in connection with properties sold	1,405	489	450	90	556
Outstanding construction costs	1,179	606	130	620	1,063
Repairs	1,128	101	169	63	921
Outstanding invoices	18,156	16,873	1,370	13,102	13,015
Legal, consulting and auditing costs	1,894	1,090	302	786	1,288
Bonuses	2,710	1,535	146	1,735	2,764
Transfer tax	0	0	0	2,487	2,487
Others	3,572	2,175	796	1,519	2,120
Gesamt	**33,544**	**24,840**	**4,892**	**20,402**	**24,214**

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.

The provisions for realty transfer tax were recognised in connection with the assets acquired in December 2013.

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

Tax liabilities chiefly comprise income tax expenses for prior years.

21. Trade payables

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

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

This item breaks down as follows:

	2013 TEUR	2012 TEUR
Negative fair value interest rate swaps (current part)	9,166	29,368
Current liabilities from corporate bonds	4,100	0
Current liabilities from convertable bonds	190	1,532
Value added tax	207	412
Prepayments received	239	423
Deferred income	444	652
Others	6,736	8,209
Total	**21,083**	**40,595**

23. Liabilities held for sale

Liabilities held for sale as of 31 December 2012 related 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	2013 TEUR	2012 TEUR
Rental income on investment properties	246,418	182,970
Other rental income	4,573	9,492
Total	**250,991**	**192,462**

25. Other operating income

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

Other operating income	2013 TEUR	2012 TEUR
Income from the reversal of provisions	4,892	6,356
Other off-period income	1,475	1,641
Deconsolidation of TBB (Previous year: Polares)	708	5,374
Gains from business combinations	0	148,169
Others	4,405	8,428
Total	**11,480**	**169,968**

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. Reference should be made to Note 1 for further details of the Group's investment properties.

27. Expenses from the rental and sale of real estateand 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	2013 TEUR	2012 TEUR
Wages, salaris and bonuses	24,591	18,857
Social security	4,415	3,849
Post-retirement benefit costs	496	404
Total	**29,502**	**23,110**

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 previous year.

In the year under review, no personnel costs arose in connection with the provision of services. 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	2013 TEUR	2012 TEUR
Depreciation of property, plant and equipment	1,183	972
Amortisation of intangible assets	1,063	754
Total	**2,246**	**1,726**

30. Impairments of receivables and inventories

This item breaks down as follows:

Impairments	2013 TEUR	2012 TEUR
Impairments on receivables	13,708	4,997
Impairments on inventories	3,654	8,509
Total	**17,362**	**13,506**

Impairments of receivables relate to other financial assets of TEUR 6,680 (previous year TEUR 0).

31. Other operating expenses

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

Other operating expenses	2013 TEUR	2012 TEUR
Legal, consulting and auditing costs	6,168	5,428
IT costs	2,372	1,383
Cost of premises	2,220	2,269
Travel expenses (including motor vehicles)	1,545	1,625
Other off-period expenses	1,102	903
Loan arrangement fees	1,097	903
Telephone costs, postage	929	707
Ancillary personnel costs	890	841
Trailing costs from the sale of real estate	507	1,083
Supervisory Board costs	471	599
Investor Relations	337	358
Cost of annual general meeting and publication	292	325
Project start-up costs	129	1,156
Others	2,049	2,497
Total	**20,108**	**20,076**

In the year under review, other operating expenses included payments under operating leases of TEUR 3,171 (previous year TEUR 2,922) 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 698 (previous year TEUR 262) chiefly in the form of the dividends received from the Colonia subgroup.

33. Share of profit of associates

The share of profit of associates includes the share in the profit or loss of the companies concerned.

34. Impairments of financial assets

This item comprises the impairments of TEUR 238 (previous year TEUR 92) of investments recognised by Colonia.

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	2013 TEUR	2012 TEUR
Interest income	10,483	10,917
Borrowing Costs	-115,546	-97,655
Total	**-105,063**	**-86,738**

Interest income comprises income from financial assets of TEUR 3,647 (previous year TEUR 9,308) and from interest rate derivatives of TEUR 6,836 (previous year TEUR 1,609).

Interest expense comprises expense on financial liabilities of TEUR 95,067 (previous year TEUR 80,371) and from interest rate derivatives of TEUR 20,479 (previous year TEUR 17,284).

37. Income taxes

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

Income taxes	2013 TEUR	2012 TEUR
Current tax expense	-1,128	-941
Deferred income taxes	5,018	-24,116
Total	**3,890**	**-25,057**

Deferred taxes relate to the following items:

Actual tax expense includes tax expense of TEUR 655 (previous year tax reimbursements of TEUR 2,320) for prior years. Deferred income tax assets of TEUR 3,137 relate to prior periods (previous year deferred income tax liabilities of TEUR 917). An amount of TEUR 624 of the deferred income tax liabilities results from changes in temporary differences. The change in deferred income taxes recognised on unused tax losses stands at TEUR 5,642 (previous year TEUR 31,755).

Expected and actual net tax expense is reconciled as follows:

Actual net tax expense	2013 TEUR	2012 TEUR
Earnings before income taxes (EBT after other taxes)	23,105	202,980
Expected net tax expense (32,275 %)	-7,457	-65,512
Reconciled with tax effects from:		
Income and expenses from earlier years	2,482	1,403
Impairments of deferred taxes and utilisation of previously unrealised unused tax losses/interest brought forward	4,736	-10,595
Tax-free returns and non-deductible expenses	-9,617	-585
Effects from trade tax exemption	10,247	3,205
Net gains/losses from consolidation	3,088	47,058
Differences in tax rates over the previous year	450	0
Others	-39	-31
Actual net tax expense	**3,890**	**-25,057**

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	2013 %	2012 %
Corporate tax	15.000	15.000
Solidarity surcharge	0.825	0.825
Trade tax	16.450	16.450
Total	**32.275**	**32.275**

The calculated Group tax rate for the year stands at -16.8 % (previous year 12.3 %). Deferred income taxes of TEUR -3,252 (previous year TEUR 2,488) were recognised within other comprehensive income in the year under review.

Excluded from deferred income tax assets are unused corporate tax losses of around EUR 85 m (previous year EUR 71 m) and unused trade tax losses of EUR 106 m (previous year EUR 105 m) as well as interest carried forward of EUR 41 m (previous year EUR 50 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 EUR 17 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	**2013**	**2012**
Consolidated net profit (in TEUR)		
Consolidated net profit after non-controling interests	28,047	179,076
Interest expense on convertible bonds	15,001	10,568
Consolidated net profit after non-controlling interests (diluted)	43,047	189,644
Number of shares (in thousands)		
Weighted number of shares outstanding	130,812	95,128
Effect of conversion of convertible bonds	21,379	23,052
Weighted number of shares (diluted)	152,191	118,180
Earnings per share (in EUR)		
Basic	0.21	1.88
Diluted*	0.21	1.60

* As the convertible bonds for 2013 shown in the reconciliation statement reduce the dilution effects, these effects have not been included in the calculation of diluted earnings per share

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	2013 TEUR	2012 TEUR
Cash and cash equivalence as reported in the balance sheet	85,326	55,753
Bank overdraft and bank balances subject to drawing restrictions	-6,318	-24,041
Total	**79,008**	**31,712**

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

Cashflows	2013 TEUR	2012 TEUR
Dividends received	714	271

In addition to the investments included in the cashflow from investing activities in the cashflow statement, an investment of EUR 8.1 m was executed in the previous year but is not included in the cashflow statement due to the related issue of new shares.

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 separate table in front of the notes to the consolidated financial statements.

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 7.9 m (previous year EUR 9.2 m).

The other activities column primarily comprises income from the lease of the railway infrastructure in Tegernseer Tal up until February 2013. 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 counter-party 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 parameter 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 parameters and financial covenants.

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

	2013 TEUR	2012 TEUR
Equity (before non-controlling interests)	1,107,306	1,136,177
Total equity and liabilities	3,763,324	3,799,962
Equity ratio in %	**29**	**30**

Fair value of assets and liabilities

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

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

If input factors for different hierarchical levels are applied, the fair value is calculated on the basis of the lower hierarchical level. There were no transfers between the individual hierarchical levels in 2013.

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

	Fair value hierarchy	2013 TEUR	2012 TEUR
ASSETS			
Investment properties	Level 3	3,544,075	3,455,667
Derivatives without hedge accounting	Level 2	8,794	8,848
Derivatives with hedge accounting	Level 2	97	2
LIABILITIES			
Derivatives without hedge accounting	Level 2	1,063	13,349
Derivatives with hedge accounting	Level 2	21,623	38,641

Reference should be made to the section on investment properties for details of the methodology and main parameters for measuring the value of real estate assets.

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

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

31 December 2013	Carrying amount TEUR	IAS 39 category*	Fair value TEUR	Fair value hierarchy
ASSETS				
Other financial assets				
Investments	5,734	AfS		
Other financial assets	12,444	LaR	12,444	Level 2
Trade receivables	16,221	LaR	16,221	Level 2
Other current assets	14,498	LaR	14,498	Level 2
Cash and cash equivalents	85,326	LaR	85,326	Level 2
LIABILITIES				
Debts to credit institutions	2,126,583	AmC	2,068,515	Level 2
Liabilities from convertible bonds	106,315	AmC	115,014	Level 2
Liabilities from corporate bonds	201,106	AmC	206,000	Level 2
Other non-current liabilities	293	AmC	293	Level 2
Trade payables	11,385	AmC	11,385	Level 2
Other current liabilities	11,726	AmC	11,726	Level 2

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

31 December 2012	Carrying amount TEUR	IAS 39 category*	Fair value TEUR	Fair value hierarchy
ASSETS				
Other financial assets	25,514			
Investments	6,359	AfS	n/a	
Other financial assets	19,155	LaR	19,155	Level 2
Trade receivables	20,133	LaR	20,133	Level 2
Other current assets	13,746	LaR	13,746	Level 2
Cash and cash equivalents	55,573	LaR	55,573	Level 2
LIABILITIES				
Debts to credit institutions	2,216,047	AmC	2,291,155	Level 2
Liabilities from convertible bonds	174,637	AmC	189,129	Level 2
Other non-current liabilities	3,643	AmC	3,643	Level 2
Trade payables	13,784	AmC	13,784	Level 2
Other current liabilities	8,620	AmC	8,620	Level 2

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

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

The fair value of the other financial assets corresponds to the present value of the expected cashflows in the light of their duration and risk-adjusted market interest rates. Non-current bank borrowings and other non-current liabilities are measured accordingly.

Trade receivables, other current assets and cash and cash equivalents have short settlement periods. Accordingly, their carrying amount as of the balance sheet date comes close to their fair value. This also applies to current bank borrowings, trade payables, 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 cashflow method. The discount rate is based on an appropriate market interest rate.

Net profit / loss from financial instruments

The net profit / loss from financial instruments breaks down by IAS 39 category as follows:

31 December 2013	IAS 39 category*	Interest TEUR	Impairments TEUR	Miscellaneous TEUR
Loans and receivables	LaR	2,808	-13,708	–
Investments	AfS	–	-238	764
Financial liabilities	AmC	-94,590	–	–
Derivative financial instruments with no hedging relationship	HfT	-12,668	–	–
31 December 2012				
Loans and receivables	LaR	1,409	-2,389	–
Investments	AfS	–	-92	270
Financial liabilities	AmC	-77,920	–	–
Derivative financial instruments with no hedging relationship	HfT	-19,735	–	–

* AfS: Available-for-Sale Financial Assets; LaR: Loans and Receivables; AmC: Amortised Cost; HfT: Held for Trading

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 as well as caps, albeit only in a small volume, 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 2013, Group companies had interest derivatives (mainly payer swaps) of a nominal EUR 375.8 m (previous year EUR 687.8 m). These interest-rate swaps break down as follows:

Interest rate hedges (in TEUR)	Nominal volume 2013 TEUR	Nominal volume 2012 TEUR	Market value 2013 TEUR	Market value 2012 TEUR
Interest rate swaps	344,669	641,565	-22,595	-53,156
▪ of which due for settlement in less than 1 year	32,366	304,872	-905	-19,416
▪ of which due for settlement in 1–5 years	306,178	327,291	-21,724	-33,212
▪ of which due for settlement in more than 5 years	6,125	9,402	34	-528
Caps	31,135	46,259	267	227
▪ of which due for settlement in less than 1 year	–	14,490	–	370
▪ of which due for settlement in 1–5 years	20,846	21,144	8	24
▪ of which due for settlement in more than 5 years	10,289	10,625	259	-167
Total	**375,804**	**687,824**	**-22,328**	**-52,929**

Derivative financial instruments with a nominal value of EUR 56.1 m (previous year EUR 136.3 m) and a fair value of EUR -0.8 m (previous year EUR -14.3 m) are not included in a hedge relationship. In addition, derivative financial assets include an option of EUR 8.5 m (previous year EUR 8.6 m). 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.

	2013 TEUR	2012 TEUR
Change in market value in the event of a 0.5 pp increase in interest levels	4,319	7,025
Change in market value in the event of a 0.5 pp decrease in interest levels	-4,368	-7,097

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	2013 TEUR	2012 TEUR
Net borrowing costs for the current year	-105,063	-86,738
Average interest rate on non-current loans in %	3.2	3.6
Average interest rate on current loans in %	3.1	1.4
Change in net interest expense in the event of a 0.5% increase in interest levels	-2,665	-3,894
Change in net interest expense in the event of a 0.5% decrease in interest levels	2,665	3,894

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 counter-party 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 counter-party'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 number of guarantees of TEUR 1,268 (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.

Master netting agreements resulting in contingent offsetting rights have been entered into with all issuing banks to hedge the risk of default on derivative financial instruments. The criteria for offsetting on the face of the balance sheet are not satisfied. Accordingly, the following financial assets and liabilities may be mutually offset for economic purposes:

	Offset of the face of the balance sheet			Not offset of the face of the balance sheet		
in TEUR	Carrying amount gross	Offset amount	Carrying amount net	Financial instruments	Collateral	Total value net
31 December 2013						
Financial assets						
Derivatives	364	0	364	-364	0	0
Financial liabilities						
Derivatives	22,692	0	22,692	-364	0	22,328
31 December 2012						
Financial assets						
Derivatives	2	0	2	-2	0	0
Financial liabilities						
Derivatives	40,150	0	40,150	-2	0	40,148

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 cash-flows of financial liabilities as of the earliest day on which the Group is under any settlement obligation.

Residual maturity of financial liabilities	2013 TEUR	2012 TEUR
Due for settlement in less than 1 year	179,534	411,261
1 to 5 years	772,339	831,165
More than 5 years	1,174,710	973,621
Total	**2,216,583**	**2,216,047**

In addition, there are estimated future payment outflows from interest on financial liabilities due for settlement in less than one year of around EUR 71 m (previous year around EUR 93 m), in more than one but less than five years of around EUR 197 m (previous year around EUR 230 m) and in more than five years of around EUR 353 m (previous year around EUR 446 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	2013 TEUR	2012 TEUR
Due for settlement in less than 1 year	126,165	97,742
1 to 5 years	3,000	3,000
More than 5 years	14,547	24,216
Total	**143,712**	**124,958**

The Group is able to utilise overdraft facilities. The total amount not utilised as of the balance sheet date stands at TEUR 21,798 (previous year TEUR 45,330). 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, the convertible bonds issued in August 2012 of EUR 85.3 m and the corporate bond of EUR 200 m issued at the beginning of August 2013 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 1,583 m (previous year: EUR 1,393 m) have been raised within the Group for which financial covenants specifying certain capital service ratios and equity / debt ratios and maintenance obligations have been agreed. If any of these covenants are breached, premature loan repayments may be necessary. In 2013, these covenants were breached in four cases as coverage quotas were not observed. With respect to these contracts for an amount of around EUR 184 m, use was made of the agreed contractual rectification mechanism and additional collateral of a total of TEUR 632 (as of 31 December 2013) deposited with the bank concerned.

Collateral

The Group holds collateral in the form of financial assets (on-demand accounts and savings accounts) from tenants valued at around EUR 32.8 m (previous year EUR 28.1 m). The relevant contracts provide for collateral equalling three monthly rental instalments to be provided.

Other disclosures

Contingent liabilities and other financial obligations

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

Other financial obligations	2013 TEUR	2012 TEUR
Rentals for business premises	3,433	8,287
Others (e. g. manager contracts, leases, rental guarantees)	11,687	11,831
Total	**15,120**	**20,118**

One part of the other financial obligations of TEUR 6,271 (previous year TEUR 8,094) is due for settlement in less than one year, a further part of TEUR 8,778 (previous year TEUR 11,741) between one and less than five years and a further part of TEUR 72 (previous year TEUR 283) in more than five years. Office expenditure dropped chiefly as a result of the pooling of the Potsdam and Berlin offices in Berlin.

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 66 m (previous year EUR 76 m). Of this, an amount of EUR 12 m (previous year EUR 17 m) is due for settlement in less than one year, EUR 26 m (previous year EUR 29 m) between one and five years and EUR 27 m (previous year EUR 30 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

- NOERR 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 304 in the year under review (previous year TEUR 1,132) for the provision of legal advice. Net outstanding invoices were valued at TEUR 5 as of 31 December 2013 (previous year TEUR 365).
- As of the reporting date of the previous year, there were ongoing receivables of TEUR 30,130 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. In the year under review, these receivables as well as further amounts totalling TEUR 46,633 were transferred to the share premium.

Fees payable to statutory auditors

The fees of TEUR 885 (previous year TEUR 1,441) paid to the independent auditors KPMG for the entire Group include fees for the audit of the financial statements of TEUR 695 (previous year TEUR 656), fees for other attestation activities of TEUR 68 (previous year TEUR 412), fees for other tax consulting activities of TEUR 119 (previous year TEUR 373) and fees for other services of TEUR 4 (previous year TEUR 0), plus value added tax in all cases. The other attestation activities were performed in connection with the issue of bonds (previous year equity issues and audit reviews of interim financial statements). In the previous year, insurance premiums of TEUR 357 had additionally been recharged.

Headcount

The Group had a total headcount of 519 as of 31 December 2013 (previous year 508). The annual average stood at 448 (previous year 451). In addition, a further average of 100 (previous year 60) people were employed as janitors.

Supervisory Board

Members of the Supervisory Board and offices held by them in other supervisory boards or comparable domestic and international corporate governance bodies in fiscal 2013:

- Dr. Lutz R. Ristow, businessman, Hamburg (Chairman)
  - Colonia Real Estate AG, Hamburg (Chairman of the Supervisory Board)
  - LURIS AG, Hamburg (Chairman of the Supervisory Board)
- Prof. Dr. Ronald Frohne, attorney and public auditor, New York, USA (Deputy Chairman)
  - Würzburger Versicherungs-AG, Würzburg
  - TELLUX-Beteiligungsgesellschaft mbH, Munich
  - AGICOA, Geneva, Switzerland
  - CAB, Copenhagen, Denmark
- Lothar Lanz, business man, Berlin (from 14 June 2013)
  - ESMT European School of Management and Technology, Berlin
  - Axel Springer Digital Classifieds GmbH, Berlin
  - Axel Springer International Finance B.V., Netherlands
  - Ringier Axel Springer Management AG, Switzerland
  - Ringier Axel Springer Media AG, Switzerland
  - Dogan TV Holding A.S., Turkey
- Dr. Philipp K. Wagner, attorney, Berlin (from 14 June 2013)
  - Estavis AG, Berlin (until 10 January 2014)
- Bettina Stark, business woman, Berlin (until 14 June 2013)
  - SKG Bank AG, Saarbrücken (from 1 January 2013)
- Andrés Cramer, businessman, Hamburg (until 14 June 2013)
- Andrea Mäckler, 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 288 (previous year TEUR 285), excluding value added tax.

Management Board

The members of the Management Board and the offices which they hold in other supervisory boards or comparable domestic and non-domestic supervisory bodies in 2013 are set out below:

- Rolf Elgeti, Chairman of the Management Board, Potsdam
  - Estavis AG, Berlin (until 10 January 2014)
  - Sirius Real Estate Limited, Guernsey, UK
- Georg Griesemann, Chief Financial Officer, Hamburg
- Dr. Harboe Vaagt, member of the Management Board responsible for legal and organisation matters, Halstenbek
  - Colonia Real Estate AG (from 15 April 2014)
- Claudia Hoyer, Chief Real Estate Officer, Berlin

Remuneration paid to the Management Board in 2013 came to TEUR 2,346 (previous year TEUR 2,521) and breaks down as follows:

	Fixed remuneration*	Variable remuneration
Rolf Elgeti	TEUR 608 Previous year: TEUR 563	TEUR 500 Previous year: TEUR 734
Georg Griesemann	TEUR 249 Previous year: TEUR 145	TEUR 125 Previous year: TEUR 73
Claudia Hoyer	TEUR 247 Previous year: TEUR 123	TEUR 125 Previous year: TEUR 63
Hans-Ulrich Sutter	TEUR 0 Previous year: TEUR 373	TEUR 0 Previous year: TEUR 250
Dr. Harboe Vaagt	TEUR 367 Previous year: TEUR 307	TEUR 125 Previous year: TEUR 125

* including taxable benefits

The variable remuneration paid to Mr. Rolf Elgeti for 2012 included a special bonus of TEUR 234.

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 2013:

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

- TAG Beteiligungs- und Immobilienverwaltungs GmbH, Hamburg (formerly Kraftverkehr Tegernsee-Immobilien GmbH, Tegernsee)

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 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

At the end of 2013, TAG Immobilien AG acquired a portfolio of 2,860 residential units in eastern Germany at a price of EUR 70.5 m. The transfer of rights and obligations was executed effective 31 December 2013 for most of the portfolio (roughly EUR 62 m, approximately 2,500 units). The transfer of the remaining part of the portfolio is expected in the first half of 2014.

At the beginning of February 2014, TAG Immobilien AG acquired a portfolio of around 3,985 residential units for a price of around EUR 120.5 m. The real estate is spread over various locations in the eastern German states, particularly Thuringia, where around 3,000 units are located along the A4 motorway and in the university cities of Jena, Erfurt and Weimar; further units are also located in Saxony and Saxony-Anhalt.

The corporate bond issued in mid-2013 for EUR 200 m was increased by a further EUR 110 m in a private placement in February 2014. The additional amount was issued at 103 % of the nominal amount and, thus, roughly, at the current price of the bond. This translates into an effective coupon of around 4.38 % on the additional part.

The Chief Financial Officer Georg Griesemann stepped down from the Management Board effective 31 March 2014. In a resolution passed by the Supervisory Board on 26 February 2014, Martin Thiel, Hamburg, was appointed Chief Financial Officer of TAG Immobilien AG effective 1 April 2014.

Hamburg, 21 March 2014

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

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, 21 March 2014

Rolf Elgeti
CEO

Georg Griesemann
CFO

Claudia Hoyer
COO

Dr. Harboe Vaagt
CLO

Auditor's report

We have audited the consolidated financial statements prepared by the TAG Immobilien AG, Hamburg comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated cashflow statement, consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the combined management report and group management report (group management report), for the financial year from January 1 to December 31, 2013. 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 Section 315a (1) HGB ("Handelsgesetzbuch": "German Commercial Code") are the responsibility of the parent company's executive board. 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 Section 317 HGB 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 the entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the executive board, as well as evaluating the overall presentation of the consolidated financial statements and the 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 Section 315a (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, 27 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Madsen
German Public Auditor

Drotleff
German Public Auditor

TAG financial calendar

16 April 2014	Publication of the consolidated financial statements/Annual Report 2013
08 May 2014	Publication of the Interim Report Q1 2013
13 June 2014	Annual General Meeting 2014 in Hamburg
07 August 2014	Publication of the Interim Report Q2
06 November 2014	Publication of the Interim Report Q3

Physikerviertel, Schwerin

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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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