Annual Report 2015

GROWING CASHFLOWS

TAG Immobilien AG

GROUP FINANCIALS

in TEUR	2015	2014	2013
A. Income statement key figures			
Rental income in total	259,284	257,373	250,991
a) Rental income from continuing operations	259,284	248,875	230,441
b) Rental income from discontinued operations	0	8,498	20,550
EBITDA in total (adjusted)	160,715	165,970	157,843
EBIT	271,099	230,078	132,839
EBT	175,084	121,191	34,529
Consolidated net profit	147,321	28,964	26,995
FFO I per share in EUR	0.62	0.58	0.47
FFO I in EUR m	76.3	74.5	61.7
FFO II in EUR m	96.4	114.8	61.4
AFFO in EUR m	36.2	42.9	41.7
B. Balance sheet key figures	**12/31/2015**	**12/31/2014**	**12/31/2013**
Total assets	3,794,199	3,734,246	3,813,052
Equity	1,120,552	1,005,053	1,127,366
Equity ratio in %	29.5	26.9	29.6
Real estate volume	3,577,899	3,371,269	3,606,799
LTV in %	60.7	62.2	62.1
LTV in % incl. outstanding convertible bonds	62.7	65.3	65.0
C. EPRA key figures	**12/31/2015**	**12/31/2014**	**12/31/2013**
EPRA EARNINGS per share in EUR	0.53	0.20	n. a.
EPRA NAV per share in EUR	10.64	10.10	n. a.
EPRA NNNAV per share in EUR	10.23	9.48	n. a.
EPRA Net Inicial Yields in %	7.1	7.0	n. a.
EPRA Vacancy Rate in %	7.4	8.4	n. a.
EPRA Cost Ratio (incl. vacancy costs) in %	38.0	35.7	n. a.
EPRA Cost Ratio (excl. vacancy costs) in %	33.9	31.4	n. a.
D. Employees	**12/31/2015**	**12/31/2014**	**12/31/2013**
Number of employees	781	655	617

E. Capital market data	
Market cap at 12/31/2015 in TEUR	1,570,858
Share capital in EUR	136,596,330.00
WKN/ISIN	00083035004
Number of shares at 12/31/2015 (issued)	136,596,330
Number of shares at 12/31/2015 (outstanding)	125,469,212
Free Float in % (remainder treasury shares)	92
Index	MDAX/EPRA

TABLE OF CONTENTS

GROWING CASHFLOWS

We create space for profitability

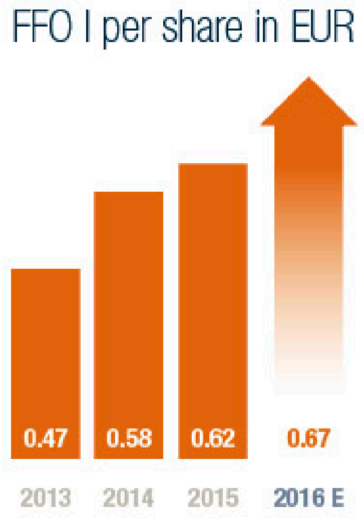
Preserving values. Developing values. Increasing values. TAG Immobilien AG is an MDAX-listed real estate company. Our focus is on the acquisition, development and management of residential properties, mainly in northern and eastern Germany, where we offer attractive homes at reasonable prices under our TAG Wohnen brand.

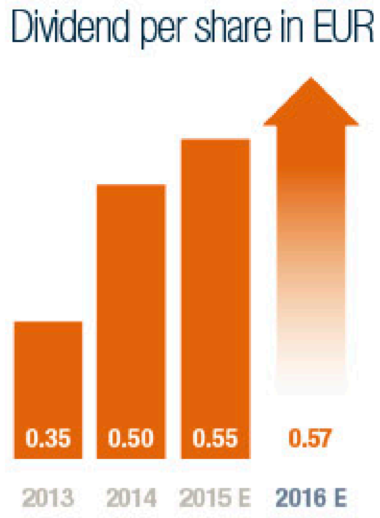
Our goal is clearly defined: to increase the company's value longterm. One of the ways we achieve this is by strategically expanding and increasing the value of our residential property portfolio. We also ensure a healthy return on inventories to continually offer investors an attractive asset class.

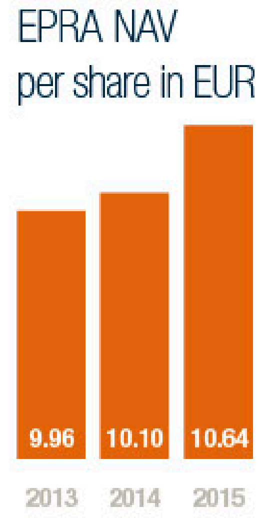
We manage nearly 80,000 residential units

Rental growth p.a. (l-f-l)
+3.3%
(incl. vacancy reduction)

Vacancy reduction p.a.
-1.5% POINTS







5 REASONS to INVEST in TAG

1. Share profitability
2. Clear capital discipline
3. Market leadership in northern and eastern Germany
4. Effective, lean organisation
5. Social responsibility as a competitive advantage

Riesa (Saxony)

FOREWORD

**Dear Shareholders,
Ladies and Gentlemen,**

Today we present our Annual Report 2015 to you together with our new slogan "Growing cashflows". The new claim describes our thinking and strategy. We generate growing cashflows from a high-yield portfolio that will benefit both our shareholders and our tenants. Thanks to this strategy, we now generate the highest dividend yield of any German residential property company, and in 2015 achieved a sharp increase in rental figures based on targeted investments in the modernisation of the TAG portfolio. In this way, we make affordable housing in attractive neighbourhoods available to broad sections of the population.

Our regional focus is on markets where we already manage portfolios – northern Germany, North Rhine-Westphalia and the states of former East Germany. Despite the highly competitive market environment, we continued to grow there in the past year, and signed purchase contracts for approximately 5,300 residential units. We maintained price discipline in all these acquisitions, as the average purchase price paid was based on 10 times the current annual net cold rent, corresponding to a gross return of 10%. The average existing vacancy rate of 12.1% in the acquired portfolios means we can realise additional value-add potential in the future.

We systematically continued with our capital recycling strategy in 2015, selectively and even opportunistically selling about 1,900 units in high-priced markets. In addition to a large residential property portfolio in Berlin, disposals included a mixed-use commercial property in Stuttgart – which also made strategic sense for us as we are now fully focusing on the residential property sector – as well as several smaller transactions in Berlin, Dresden, Leipzig, Erfurt, Frankfurt and Hamburg. On average, the purchase prices were 19.4 times the current annual net cold rent. We have already reinvested much of the net cash proceeds of EUR 116.5m generated by the sales into new acquisitions. The significant difference in the purchase and sale multipliers sustainably increases our FFO without significantly changing our portfolio structure.

However, beyond these buying and selling activities, our operational success in the existing portfolio, which has developed very gratifyingly, is especially noteworthy. For instance, we increased funds from operations from the rental business (FFO I) to EUR 76.3 m or EUR 0.62 per share in 2015 after EUR 74.5 m or EUR 0.58 per share in the previous year. Group-wide, the new rental business increased significantly, so that vacancy in the residential units – without the acquisitions of financial year 2015 – fell from 9.0% at the beginning of the year to 7.5% at year-end. In the Salzgitter region vacancy was reduced by 3.4 percentage points within 12 months, from 15.5% to 12.1%. The group's like-for-like rental growth was 1.6% p.a. or 3.3% p.a. including the effects of the vacancy reduction. Compared to last year (1.2% p.a. and 2.1% p.a.), this resulted in substantial increases here as well.

The group generated earnings before taxes (EBT) of EUR 175.1 m (previous year: EUR 83.1 m). This increase resulted partly from valuation gains on investment property totalling EUR 98.9 m (previous year EUR 46.8 m). The net financial result improved year-on-year to EUR -96.0 m (previous year: EUR -118.0 m). Consolidated net profit increased substantially in 2015 to EUR 147.3 m after EUR 29.0 m in the previous year.

The loan to value (LTV) ratio was reduced to 60.7%, or 62.7% including liabilities from convertible bonds, after 62.2% and 65.3% as of 31 December 2014. Despite the dividend payment made in 2015, net asset value (NAV) per share increased to EUR 10.64 at the end of 2015 compared to EUR 10.10 at the end of the previous year. After a dividend payment of EUR 0.50 in 2014 it is planned to increase the dividend per share to EUR 0.55 for the 2015 financial year. A further increase in the dividend to EUR 0.57 per share is planned for 2016.

These results of the 2015 financial year engendered a positive response on the capital market. TAG's share price increased from EUR 9.62 at the beginning of 2015 to EUR 11.50 as of 31 December 2015. Adding in the dividend paid in 2015, this translates to an overall performance of 25%. So the TAG share price outperformed both the EPRA index, which comprises all the major listed European real estate companies, which rose by 16%, and the MDAX, which rose by 22%.

Dr Harboe Vaagt, CLO **Claudia Hoyer, COO** **Martin Thiel, CFO**

In mid-March 2016 we took advantage of this positive development and placed 5 m of our treasury shares, which we had repurchased in the October 2014 share buyback at EUR 9.30 per share, with institutional investors at a price of EUR 11.65. Demand for this placement exceeded supply by several times. The gross issuing proceeds realised of EUR 58.3 m will now be available to us for further acquisitions in particular.

We sincerely thank you, our shareholders and the entire TAG team, for your support and confidence during the past financial year. Our job continues to be to steadily increase the attractiveness of our portfolio and our shares. We should be able to do this in future as well by acquiring new residential portfolios, selectively seizing sales opportunities, and through active asset management of our portfolio.

Yours sincerely,

Claudia Hoyer
COO

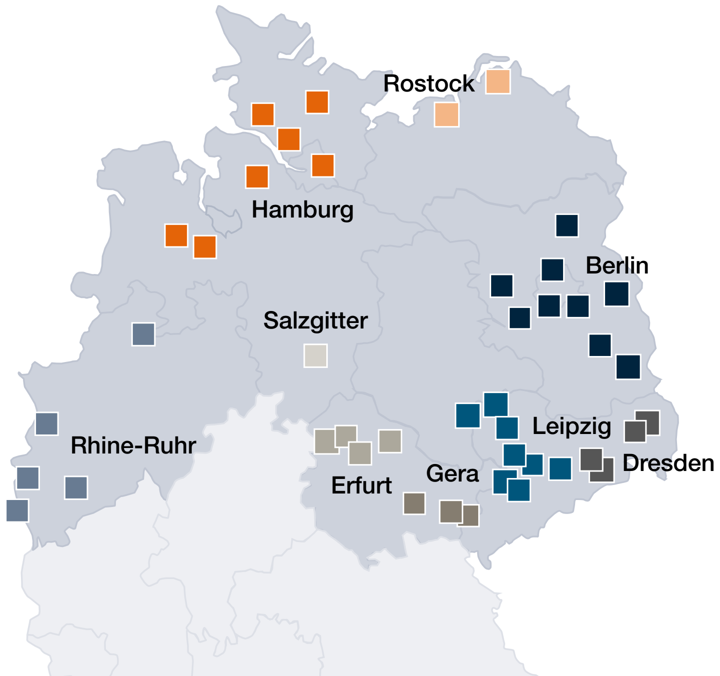
Martin Thiel
CFO

Dr Harboe Vaagt
CLO

THE TAG REAL ESTATE PORTFOLIO

At the end of 2015, the TAG portfolio comprised more than 78,000 units compared with approx. 72,500 at 31 December 2014. The carrying amount of all real estate owned by the Group was EUR 3.6 billion as at 31 December 2015, following EUR 3.4 billion at the end of the previous year.

Our principle: we focus on regions that show positive economic growth and development, promise stable rental incomes, and therefore have a high potential for value creation. When making purchasing decisions, the use of synergies is a priority for us. This means, for instance, that we can use existing TAG structures to manage the new residential real estate inventories. This commercial efficiency also ensures a sustainable increase in profitability.



Hamburg region (9.7%)
LIM: Hamburg

Rostock region (7.8%)
LIM: Mecklenburg-Vorpommern

Berlin region (13.9%)
LIM: Berlin/Brandenburg

Salzgitter region (11.7%)
LIM: Salzgitter

Dresden region (16.2%)
LIM: Dresden, Doebeln/Chemnitz

Leipzig region (10.4%)
LIM: Leipzig

Gera region (11.6%)
LIM: Gera

Erfurt region (11.2%)
LIM: Erfurt

Rhine-Ruhr region (7.5%)
LIM: Dusseldorf

% acc. IFRS carrying amount

"Where quality of life meets economic strength."

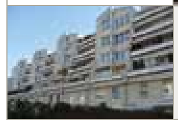
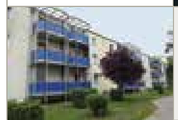
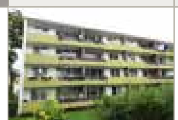
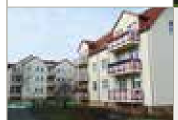

Luebeck (Schleswig-Holstein)

Portfolio as of 12/31/2015	as of 12/31/2015	as of 12/31/2014
Units	78,015	72,530
Rentable area in sqm	4,765,897	4,436,670
Real estate volume in TEUR	3,577,899	3,371,269
Actual net cold rent in EUR/sqm/month (total)	5.19	5.16
Actual net cold rent in EUR/sqm/month (residential units)	5.04	5.00
Annualised actual net cold rent in TEUR (total)	269,722	252,287
Vacancy in % (total)	8.2	9.0
Vacancy in % (residential units)	7.5	8.1

From Erfurt to Rostock, from Dusseldorf to Dresden, TAG's network of offices ensures nationwide, decentralised management of TAG residential properties. The TAG portfolio is spread over ten federal states in northern and eastern Germany. Our focus is the management of attractive yet affordable housing while paying great attention to meeting our social responsibility to our tenants. With over 60 tenants' offices in its property management network, TAG stands for a high quality of service and sustainable yield growth.

Acquisitions in 2015 – Expansion of the residential real estate portfolio

During the year, TAG expanded its residential portfolio by more than 5,300 units through various acquisitions.

Signing	Units	Vacancy in %	Purchase price in EUR m	Location	Closing
Saxony/ Saxony-Anhalt May 2015 	860	14.8	18.6	Leipzig, Dresden, Magdeburg, etc.	Aug. 2015
 **Brandenburg Jun. 2015**	134	1.3	8.8	Brandenburg	Aug. 2015
Ruegen Jul. 2014 	180	6.2	8.2	Ruegen	Aug. 2015
 **Brandenburg Nov. 2015**	1,776	18.6	41.5	Brandenburg	Dec. 2015
NRW/ Lower Saxony Nov. 2015 	1,304	11.3	36.75	Bochum, Eschweiler, Goslar, etc.	Dec. 2015
 **Saxony Dec. 2015**	972	3.8	39.5	Chemnitz, Riesa, etc.	Jan. 2016
Saxony-Anhalt Dec. 2015 	96	6.3	5.3	Bitterfeld	Dec. 2015

Given the higher vacancy rates in some portfolios, there are significant opportunities for value creation and development potential that can be realised through targeted asset management activities and investment in the years ahead. Often the condition of the property to be improved is due to insufficient third-party management that is not geared to the market requirements, and to frequent change of ownership. The purchase prices negotiated, at between 7.9 and 11.9 times the annual actual rent, promise attractive earnings and a further increase in the portfolio's operating cashflow.

In 2015, one focus of our acquisitions was again in the states of the former East Germany. The advantages of the eastern German property market lie in the positive economic fundamentals and the associated end of emigration. The population is actually increasing in some cities. This can be seen very clearly in university towns and cities with good educational and employment opportunities, such as Dresden, Leipzig, Magdeburg, Jena and Rostock. This trend in population development is having a favourable impact on the demand for living space as well. Demand is on a steady rise not only in the centres, but also in the immediate surrounding areas. The effect: drops in vacancy, rising rent levels and an increase in value for residential properties.

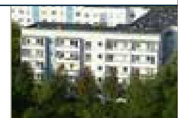
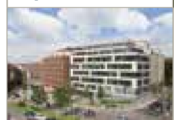
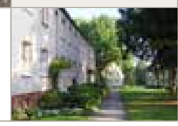
"A healthy economy enables the safe development of investments."

"Use capital where it makes the most sense economically."

Sales in 2015

Quality is more sustainable than quantity. In contrast to previous years, TAG no longer places a priority on growth in absolute terms. Success depends essentially not on size, but on our ability to create value and establish a leading market position in our regions while keeping profitability and capital efficiency at high levels.

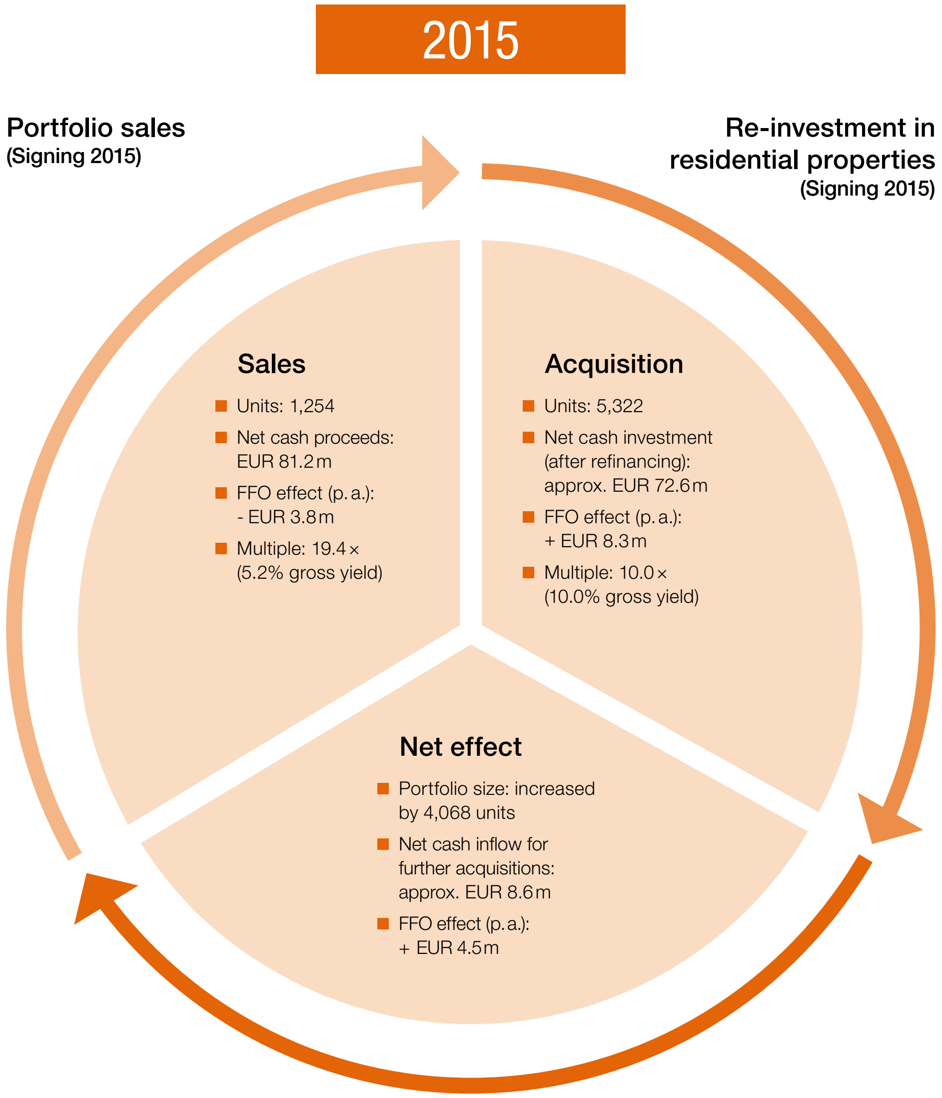
Although TAG sees itself primarily as a long-term investor, the selective sale of properties – be it to optimise the overall portfolio or exploit favourable market opportunities – is very much a component of our strategy. However, especially in the current market environment, strict capital discipline is increasingly important. Why? In some segments and regions, purchase prices have reached levels that no longer make long-term oriented management attractive in relation to the cost of equity. We are therefore taking advantage of sales opportunities at locations where purchase prices for residential property are growing much faster than rents – only after a detailed and competent review of each project, of course.

Signing	Units	Selling price in EUR m	Net cash proceeds in EUR m	Book profit (IFRS) in EUR m	Location
Berlin (Marzahn/ Hellersdorf) Apr. 2015 	972	59.8	34.6	10.7	Berlin (Marzahn/ Hellersdorf)
 **Stuttgart (Commercial) Oct. 2015**	182	87.5	40.3	7.3	Stuttgart
Hamburg (Wedel) Dec. 2015 	100	9.0	6.3	1.8	Wedel

In 2015, properties were sold in high-priced, highly sought-after markets. The purchase prices were significantly above the inventories' carrying amount, at factors of between 17 and 22 times the annual actual rent. The properties were actively managed and marketed in recent years so that the sales have realised the value increases achieved.

Capital recycling

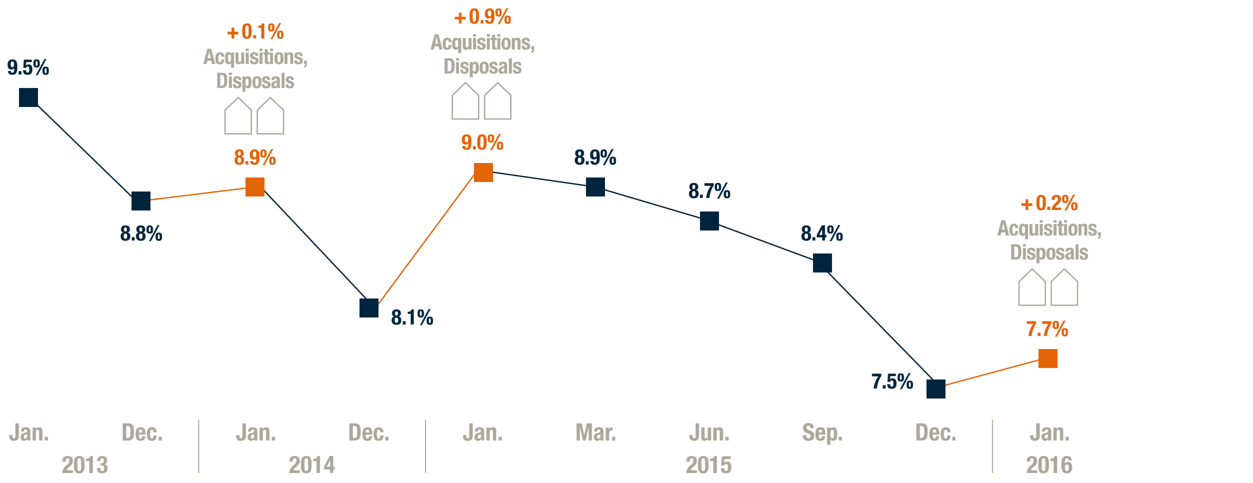
Preserving value, seizing opportunities. The equity released by the sales allows us to reinvest it in properties with a higher initial yield in TAG's core regions. This is the principle of capital recycling.



Brake (Lower Saxony)

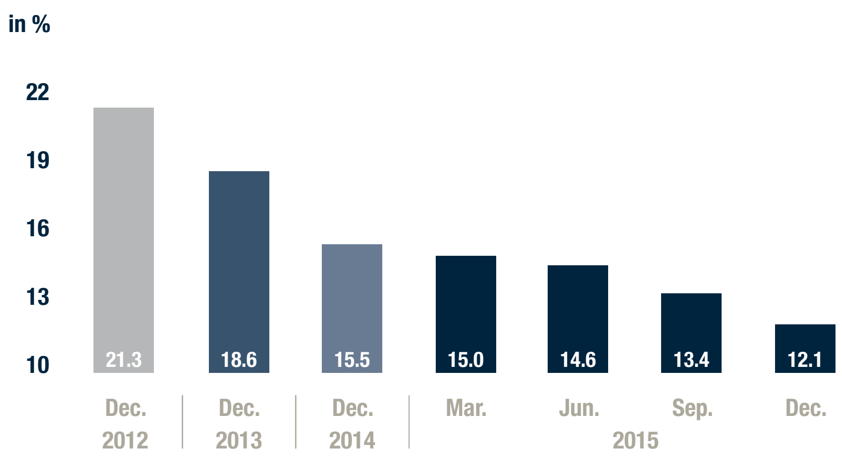
Great successes in vacancy reduction and positive rent development

At the end of 2015, TAG had made significant progress in reducing vacancy in its existing portfolio. Compared to the beginning of 2015, vacancy in the Group's residential units was down by 1.5 percentage points from 9.0% to 7.5% in December 2015. And so the successful vacancy reduction of previous years (by 0.8 percentage points in 2014 and 0.7 percentage points in 2013) has been significantly exceeded.



It is particularly gratifying that this positive development is evident across all of the regions managed by TAG. For example, during the same period, vacancy in the Erfurt region fell from 7.6% to 4.3%, and in the Salzgitter region from 15.5% to 12.1%.

Vacancy development in Salzgitter



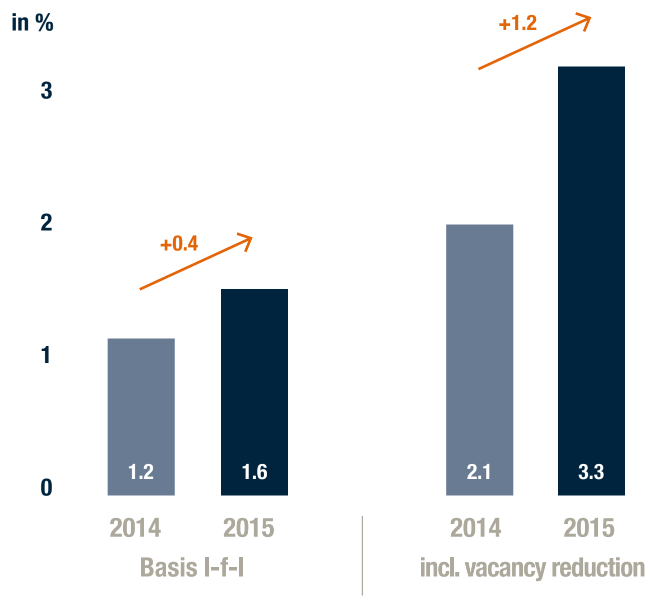
The vacancy reduction across all regions is a confirmation of our innovative rental concepts and TAG's sustainable management strategy.

To further advance vacancy reduction, we are continuously working to improve our services and the quality of our residential properties and neighbourhoods. This includes optimising the cost of utilities, which have in some cases been significantly reduced for the benefit of tenants in recent years, thanks to our economies of scale and through targeted local measures. These measures to help improve the quality and attractiveness of a given location include regular new tenders and negotiations with energy providers and waste disposal companies. Further reducing utility costs strengthens the competitiveness of TAG's apartments.

"Where appreciation in value is at home."

Rent in the Group's residential units increased by 1.6% on a like-for-like basis (i.e. without the acquisitions and sales of the last twelve months) in 2015, up 0.4 percentage points on the previous year (1.2%). Including the effects of the vacancy reduction, the positive trend emerges even more clearly, with rents rising by 1.2 percentage points from 2.1% in the previous year to 3.3% at year-end 2015.

Rental growth in residential units



Increased investment in the portfolio

Total investment in the overall portfolio, i.e. the sum of ongoing maintenance, renovation and modernisation expenses, amounted to EUR 14.61 per sqm in 2015 compared to EUR 12.21 per sqm at 31 December 2014. Special measures implemented in the current financial year included senior-friendly living concepts that meet tenants' needs and requirements in Erfurt, Gera, Rostock and Salzgitter. They immediately led to successes in vacancy reduction.

Berlin

Positive results from the TAG tenant survey

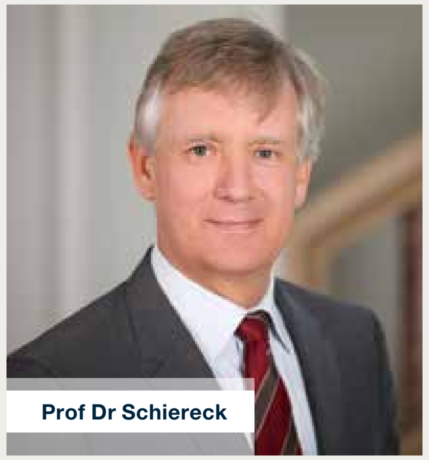
In the summer of 2015, all of TAG's tenants were asked to participate in a tenant satisfaction survey. Approx. 10,000 of them participated, representing more than 14% of tenant households. The survey was conducted and evaluated by the University of Darmstadt on behalf of TAG Immobilien.

The survey results show that we can count on strong backing from the ranks of our own tenants. Our chosen tenant services strategy of being available to tenants locally and not just communicate via an anonymous call centre is also paying off.

- More than three quarters of respondents are satisfied with the customer, caretaker and repair services, as well as with the efforts to produce good neighbourly relations. More than 70% of tenants would recommend TAG.
- TAG's customer service scored especially high among tenants for friendliness (87.5%), availability on the phone (81.8%), good service hours (80.3%), and reliability (76%).
- The tenants also confirm that the caretakers are doing a good job: 70% of respondents feel that their service has improved compared to last year. TAG currently employs more than 200 caretakers. 72% of TAG tenants are also happier than last year regarding the repair of everyday issues.

In the management of its inventories – besides ensuring a professional level of service for tenants – TAG also attaches great importance to neighbourly relations and encouraging interaction. For instance, at several sites, TAG partners with welfare organisations on matters like creating senior-friendly housing in urban districts, providing assistance and care services, and establishing intergenerational lounges as a viable network of neighbourhood assistance.

INTERVIEW



with Prof Dr Schiereck, TU Darmstadt

TAG: Professor Schiereck, you evaluated TAG Wohnen's first tenant survey. What was the participation rate?

The level of participation in the tenant survey didn't just surprise us, it completely blew us away. Usually, in comparable studies about 1–2% participate. With close to 10,000 responses here, it was almost one in seven, i.e. a response rate of over 14%.

TAG: So an acceptable figure! Does a good participation rate also indicate that tenants are satisfied?

That's not so easy to say. Of course the more people participate in a survey the more meaningful the database is. But it's also true that often, it's mainly the people who are especially unhappy that use and respond to surveys, as they want to vent their displeasure. Taking all of this into consideration, one has to conclude that the satisfaction levels shown here are extraordinarily high. About three-quarters of the respondents are mostly or very satisfied with their landlord.

TAG: Did tenants who have rented from TAG Wohnen for a long time tend to participate more in the survey, or was it mainly new tenants?

Because so many people participated, we have a very varied spectrum of respondents ranging from new move-ins to very loyal tenants. Some have lived in their homes since GDR times, which in itself suggests that these tenants have long been quite satisfied with their rental situation.

TAG: The key aspect of our business is customer service. How satisfied are our tenants with this?

Across all subcategories there is a very consistent picture here of the vast majority of tenants being satisfied or very satisfied with the customer service. In particular, the friendliness of customer service stands out. In addition, two out of three tenants in recent years registered a further improvement in customer service.

TAG: We feel it is important be on site locally with our own caretakers. Do our tenants feel the same?

The same applies to the caretaker service as with customer service. Overall, tenants are overwhelmingly satisfied or very satisfied with the caretaker services. One in five tenants does see a need for action when it comes to cleaning the common areas and grounds maintenance. By contrast, most tenants had very positive comments about their caretakers regarding the often critical topic of flat repairs.

TAG: What is especially important to TAG Wohnen tenants?

There are two very clear themes. First, having a tenant office on site is greatly appreciated. Second, all of the tenants want TAG to continue its sustained efforts to limit utility costs. In particular, they feel that waste disposal costs are high.

TAG: Do the results indicate that TAG Wohnen needs to take any action?

First of all, the results show that TAG has done a lot right in the past and most of the tenants have taken positive note of the improvements of recent years. But the good overall mood shouldn't lead to complacency here. In many cases, there was room for improvement regarding cleanliness in and around the buildings; that includes winter road clearing. And the current fall in energy prices should not obscure the fact that many tenants regard the level of utility costs as a real burden. A TAG landlord will be required to continue using all of his clout for the benefit of his tenants, because the high satisfaction level seen in the TAG tenant survey shouldn't just serve to validate past work, but also as an incentive for future work.

Opportunities and challenges in the german real estate market – wave of refugees in Germany

The heavy influx of refugees into Germany obviously entails great social challenges. But even without this additional immigration, there is a housing shortage in many regions today. The Pestel Institute of Hannover in Germany forecasts that more than 400,000 residential units p.a. will have to be built in the next five years due to growing numbers of immigrants. Until now, the Federal Institute for Building, Urban Affairs and Spatial Development (BBSR) had projected the need at an annual 242,000 residential units. This market development is helpful for all commercial and state-owned housing providers. For TAG as an owner of housing stock, it is clearly positive.

TAG has long been in discussions with local authorities to explore joint options for accommodating refugees in its housing stocks. The TAG portfolio is not only located in major metropolitan areas, but mainly in cities in the north and east of the country where housing is still available at reasonable prices. Here, the starting situation is very good because of the growing demand for housing – there is still a lot of potential. So the currently increasing number of refugees will have a positive impact on rental figures and therefore on rental income. In Salzgitter, Chemnitz and Bielefeld, for example, we have already signed leases with local authorities, especially for refugee families. However, solutions must focus on integrating people into existing structures – only in this way can sustainable coexistence between new and existing tenants be achieved.

HR REPORT (EMPLOYEES)

Proportion of women

At its meeting on 19 February 2015, the Management Board addressed the new legal regulation and the implementation of a women's quota at TAG Group. The Heads of Real Estate Management as well as the the heads of the admin departments such as HR, Controlling, Tax, Legal and Accounting were defined as the first tier of management below the Management Board, and the team and group leaders as a second management tier below that. At the meeting, the Management Board set the target proportion of women in these two tiers of management at 40%, although at the time of the resolution, the share of female employees already exceeded this ratio by around 10%. As a result, there was no longer a need to set a time limit for achieving the target ratio. In view of the current proportion of women, the Management Board does not consider it appropriate to make further changes to the detriment of the other sex, or make changes to the 'achievement deadlines'. The Management Board itself complies with its women's quota of 30% as determined by the Supervisory Board at its meeting on 24 March 2015, while at its meeting on 3 September 2015, the Supervisory Board decided on a ratio for itself of 0% given that its current members have already been elected for a longer term.

Overall, the proportion of women in the company is as follows:

Management tier	Total number	Target figure in %	Current proportion of women in %
Supervisory Board	6 members	0	0
Management Board	3 members	30	33
1st management tier	26 employees	40	53
2nd management tier	36 employees	40	52

TAG employees

TAG increased its number of employees to 855 at the end of the financial year 2015 – including the Group's own caretakers and handymen – from 655 employees at 31 December 2014. This increase is especially due to the establishment of an in-house handyman unit and the further expansion of in-house caretaker services. These increases in personnel speed up the implementation of maintenance and renovation measures, and improve the service for and personal contact with our tenants.

The TAG Group employs 38 apprentices (previous year: 45), and thereby emphasises the importance of training and professional development. Eight employees (previous year: six) in the company completed dual-degree training programs in business administration with a focus on the real estate industry. One employee were successfully able to complete their dual-degree training program in the post financial year. TAG offers all trainees a job once they complete their training in order to facilitate entry into working life and to generate benefits for themselves given the increasingly intense competition for qualified employees. The entire HR policy is geared toward sustained employee retention, an essential factor in the company's medium- and long-term development. TAG also supports its staff in achieving a better work-life balance. For instance, the Group has various part-time working models in place to achieve the greatest possible job flexibility.

The age structure across the Group as a whole is as follows:

Under 30	18%
From 30–39	25%
From 40–49	20%
From 50–59	24%
Over 60 years	12%

The workforce is represented by local works councils, which are each associated with the LIM units. The works councils have formed a General Works Council, which is responsible for Group-level issues. Two employee representatives sit on the TAG Supervisory Board.

TAG SHARES AND CAPITAL MARKET

The MDAX-listed TAG share price ended 2015 at EUR 11.50, reflecting a significant price increase of 20% compared to the beginning of the year when shares were trading at EUR 9.62. If one adds in the payment of a dividend of EUR 0.50 per share in 2015, this corresponds to a total return of 25%. The MDAX rose by 22% in 2015. The EPRA index, comprised of various real-estate companies listed on international portfolio exchanges, gained 16%.

At 31 December 2015, TAG's market capitalisation was EUR 1.571 billion. As before, most of TAG's shareholders are domestic and international investors who have a long-term investment strategy.

Totalling 136,596,330, the share capital and number of shares has increased by EUR 4,883,471, or the same number of no-par shares since year-end 2014, due to the exercise of conversion rights. Free float is 92% of the share capital, with the remaining 8% (11,127,118 shares) comprising TAG's own shares that were acquired at EUR 9.30 per share through the share buyback in October 2014. After deduction of treasury shares, 125,469,212 shares were in circulation as of the reporting date.

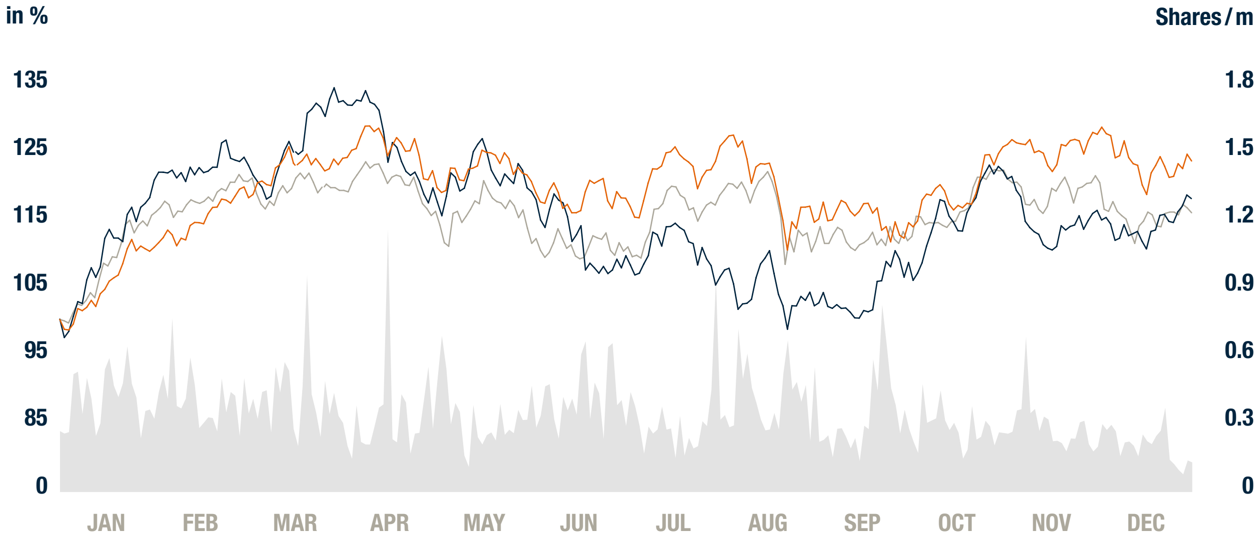
TAG stock parameters in 2015

Stock market ticker symbol	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	Oddo Seydler, Frankfurt/Main
Stock exchange	all German stock indices including Xetra

Opening price	01/02/2015	EUR 9.62
Closing price	12/30/2015	EUR 11.50
High	03/30/2015	EUR 13.05
Low	01/05/2015	EUR 9.56
EPRA NAV per share	12/31/2015	EUR 10.64
Diluted NAV per share	12/31/2015	EUR 10.45

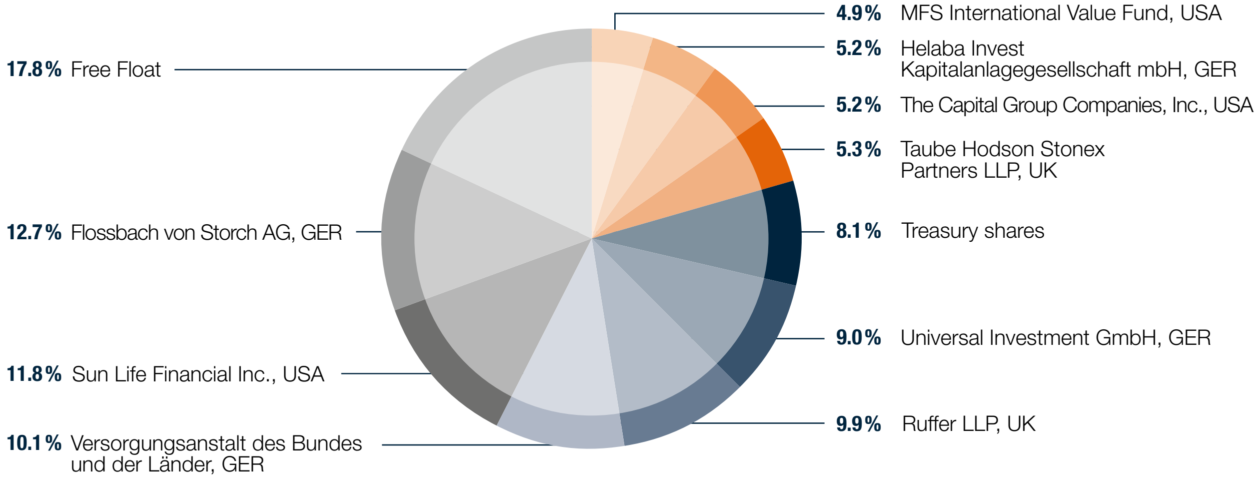
Hamburg

Share price in 2015



– TAG share
– MDAX
– EPRA/NAREIT Europe Index
Trade volume

Shareholder structure as of 31 December 2015



Capital market communications

In the past financial year, TAG regularly hosted conference calls for analysts and investors as a part of publishing its quarterly results. The Management Board also attended numerous capital market conferences at home and abroad where they presented the company to a wider audience. At the same time, TAG hosted a number of road shows to present itself to interested parties, potential investors and financial analysts. These activities helped achieve continuous, high-quality coverage of the stock. TAG held its first “Capital Markets Day” for investors and analysts in May 2015. This will now be hosted annually. In 2016, it will be held in Dresden.

Analyst recommendations

Institution	Analyst	Recommendation	Target price in EUR	Date
Nord/LB	Michael Seufert	Hold	11.00	17 March 2016
Berenberg	Kai Klose	Buy	14.00	14 March 2016
Merrill Lynch	Mike Bessell	Underperform	10.40	3 March 2016
Commerzbank	Thomas Rothaeusler	Hold	11.00	1 March 2016
HSBC	Thomas Martin	Buy	13.30	25 February 2016
MM Warburg	Moritz Rieser	Hold	10.50	25 February 2016
Baader Bank	André Remke	Hold	10.00	25 February 2016
Oddo Seydler	Manuel Martin	Buy	12.50	24 February 2016
Bankhaus Lampe	Georg Kanders	Buy	13.00	19 February 2016
Barclays	David Prescott	Underweight	9.80	20 January 2016
VictoriaPartners	Bernd Janssen	N/A	10.00–11.50	22 December 2015
S&P Capital IQ	William Howlett	Buy	13.00	6 November 2015
Kepler Cheuvreux	Thomas Neuhold	Buy	13.00	6 November 2015
Kempen&Co.	Bernd Stahli	Sell	9.00	5 November 2015
Morgan Stanley	Bianca Riemer	Underweight	7.70	26 August 2015
Citigroup	Aaron Guy	Neutral	12.20	21 July 2015
Median			**11.00**	

Dividend

TAG lets its shareholders participate in the company’s success by regularly paying an attractive dividend. The amount of the dividend is mainly based on the operating rental income, or funds from operations (FFO I). Most recently, at the Annual General Meeting in June 2015, a dividend of 50 cents per share was agreed for the 2014 financial year. For the 2015 financial year, the dividend is to be increased to 55 cents per share and a dividend payment of 57 cents per share is planned for the 2016 financial year.

Overview of TAG convertible bonds

In February 2014, the capital of a corporate bond issued in August 2013 (WKN A1TNFU) was increased by another EUR 110m to EUR 310m by way of a private placement. The bond, which matures in August 2018 and pays annual interest of 5.125%, had an original volume of EUR 200m.

The EUR 110m increase was issued at 103% of nominal value, and thus at about the price of the bond at the time. This part of the bond has an effective interest rate of 4.3% p.a.

In June 2014, TAG also issued a corporate bond (WKN A12T10) in the amount of EUR 125 m, again by way of a private placement with institutional investors. The bond matures in June 2020 and has a coupon rate of 3.75% p.a.

WKN A1TNFU	WKN A12T10
Volume: EUR 310 m	Volume: EUR 125 m
Division into shares: EUR 1,000.00 per share	Division into shares: EUR 1,000.00 per share
Nominal value per bond: EUR 1,000.00	Nominal value per bond: EUR 1,000.00
Maturity: 5 years until 08/07/2018	Maturity: 6 years until 06/25/2020
Interest rate (effective): 5.125% (200 m)/4.3% (110 m)	Interest rate: 3.75%
Issue price: at par (200 m)/to 103% (110 m)	Issue price: at par

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

TAG convertible bonds

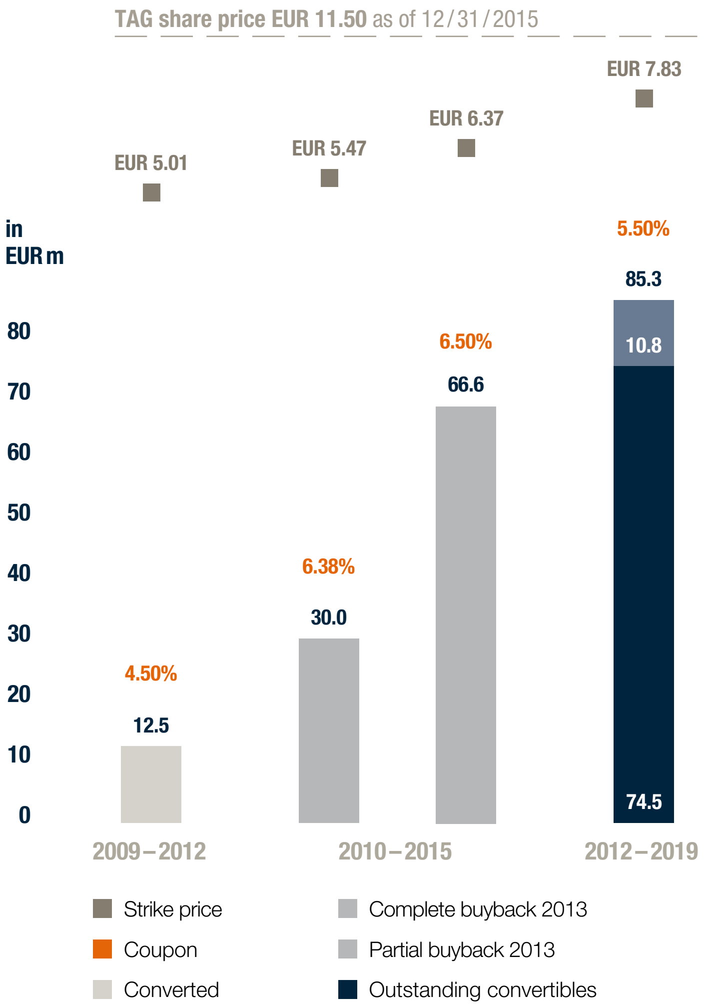
In July 2015, TAG announced the early termination of a convertible bond due in December 2015 with an original aggregate principal amount of EUR 66.6 m. After TAG had bought back parts of this convertible bond in financial year 2013, a number of conversions of the bond into shares took place in financial year 2015 so that the total outstanding nominal value was less than 20% of the original total nominal value. Bondholders had a final opportunity to exercise their conversion rights under the bond terms up until 10 August 2015 at a current conversion price of EUR 6.3717. Many bondholders exercised this right. Unconverted bonds were paid back prematurely on 24 August 2015 at the nominal value of EUR 7.40 per bond including accrued interest to 21 August 2015.

A convertible bond issue with accompanying conditions is currently still outstanding.

WKN A1PGZM3
Issued volume: EUR 85.3 m
Outstanding volume: EUR 74.5 m
Number of shares: 853
Nominal value per bond: EUR 100,000.00
Maturity: 06/28/2019
Interest rate: 5.5%
Conversion price: EUR 7.83


Grimma (Saxony)

Convertible bonds overview 2009–2019




Ruegen (Mecklenburg-Vorpommern)

EPRA REPORTING

Although TAG's internal management process is not currently based on EPRA figures, with the exception of EPRA NAV, we are publishing the figures below prepared in accordance with the standards of the EPRA (European Public Real Estate Association). The calculations are based on the EPRA Best Practice Recommendations in their current version (http://www.epra.com/regulation-and-reporting/bpr/).

EPRA Earnings

EPRA earnings are used to measure operating earnings from the letting of real estate. EPRA Earnings per share are calculated on the basis of the number of outstanding shares.

EUR/m	2015	2014
Consolidated net profit	147.3	29.0
Total net fair value gains and losses on investment properties	-98.9	-46.8
Deferred income taxes	28.5	23.2
Decreases (+)/increases (-) in the fair value of real estate held for investment	0.0	-2.1
Decreases (+)/increases (-) in the fair value of real estate held as inventories	0.2	1.3
Profits and losses from sales	-20.1	-40.3
Taxes on profit or loss from sales	1.1	0.3
Profits and losses from deconsolidation	0.0	-1.0
Impairments on receivables in connection with deconsolidation	0.0	41.4
Net changes in the fair value of derivative financial instruments	2.5	10.2
Fees payable for premature repayment of bank loans	5.2	10.7
EPRA Earnings	**65.8**	**25.9**
Potential effect from conversion	4.1	6.5
EPRA Earnings (fully diluted)	**69.9**	**32.4**
Weighted number of shares (outstanding)	123,118	128,846
Weighted number of shares (outstanding, fully diluted)	134,531	140,790
EPRA Earnings per share in EUR	**0.53**	**0.20**
EPRA Earnings per share, fully diluted in EUR	**0.52**	**0.23**

As is the case with funds from operations (FFO I), net gains and losses from changes in fair value and profits and losses from sales are eliminated from IFRS consolidated earnings. In contrast to the calculation of FFO I, not all deferred income taxes are eliminated from EPRA Earnings. This means, for example, that impairments on deferred income taxes recognised for unused tax losses are deducted in full from EPRA Earnings despite their non-cash nature, but are eliminated from FFO I. Non-recurring effects such as project costs, depreciation and amortisation are eliminated from FFO I but deducted from EPRA earnings.

EPRA NAV

EPRA NAV represents the company's net asset value after the recognition of real estate at its fair value. Certain items unlikely to be realised given the long-term nature of the holding are eliminated from EPRA NAV. EPRA NAV per share is calculated on the basis of the number of shares outstanding on the reporting date.

EUR/m	12/31/2015	12/31/2014
Consolidated equity (before non-controlling interests)	1,085.1	979.5
Deferred income taxes on investment properties and derivative financial instruments	245.1	211.3
Fair value of derivative financial instruments	5.4	7.4
EPRA NAV	**1,335.6**	**1,198.2**
Potential effect from conversion	74.5	106.8
EPRA NAV (fully diluted)	**1,410.1**	**1,305.0**
Number of shares (outstanding)	125,469	118,586
Number of shares (outstanding, fully diluted)	134,986	132,523
EPRA NAV per share in EUR	**10.64**	**10.10**
EPRA NAV per share, fully diluted in EUR	**10.45**	**9.85**

Grimma (Saxony)

EPRA NNNAV

EPRA NNNAV is based on EPRA NAV and additionally includes financial liabilities including derivative financial instruments and the related deferred income taxes at their fair value.

EUR/m	12/31/2015	12/31/2014
EPRA NAV	1,335.6	1,198.2
Fair value of derivative financial instruments	-5.4	-7.4
Deferred income taxes	1.7	2.4
Difference between the fair value and carrying amount of liabilities to banks and corporate bonds	-70.7	-102.6
Deferred income taxes on these	22.8	33.1
EPRA NNNAV	**1,284.1**	**1,123.7**
Potential conversion effect	74.5	106.8
Difference between the fair value and carrying amount of convertible bonds	-4.7	-6.8
Deferred income taxes	1.5	2.2
EPRA NNNAV (fully diluted)	**1,355.4**	**1,225.9**
Number of shares (outstanding)	125,469	118,586
Number of shares (outstanding, fully diluted)	134,986	132,523
EPRA NNNAV per share in EUR	**10.23**	**9.48**
EPRA NNNAV per share, fully diluted in EUR	**10.04**	**9.25**

As is the case with EPRA NAV, deferred income taxes are not deducted from the valuation of the investment properties to calculate EPRA NAV, as it is assumed that these deferred income taxes would not be utilised in a business model oriented to long-term portfolio management, meaning that their fair value stands at zero.

EPRA Net Initial Yield

EPRA Net Initial Yield is the ratio between the annualised annual net rental income less non-rechargeable property management costs and the fair value of the entire real estate holdings, including the transaction costs deducted from the valuation of the fair value of the real estate assets. As TAG is a lessor of residential real estate, EPRA Net Initial Yield also equals the "topped-up" EPRA Net Initial Yield, as rent-free periods play only a very minor role in this business model.

EUR/m	12/31/2015	12/31/2014
Annualised net annual rental income on the reporting date	269.7	252.3
Non-rechargeable ancillary expenses	-11.9	-11.6
Rental income after non-rechargeable ancillary expenses	**257.8**	**240.7**
Market value of total real estate assets	3,577.9	3,371.3
Transaction costs deducted (acquisition costs)	52.4	75.0
Market value of total real estate assets (gross)	**3,630.3**	**3,446.3**
EPRA Net Initial Yield (identical to topped-up Net Initial Yield) in %	**7.1**	**7.0**

EPRA Vacancy Rate

The EPRA Vacancy Rate is the ratio between the net rental income of the vacant units as of the reporting date and the current net rental income of the entire portfolio. Vacancies arising from protracted project development activities are excluded from the calculation of the EPRA Vacancy Rate.

EUR/m	12/31/2015	12/31/2014
Expected rental income in December	24.2	23.7
Rental income lost as a result of vacancies in December	1.8	2.0
EPRA Vacancy Rate in %	**7.4**	**8.4**

EPRA Cost Ratios

The EPRA Cost Ratios measure the ratio between rental and administration expenses (with and without vacancy costs allowing for any opposing operating income and eliminating non-recurring effects and project costs) and total rental income for the year in question. This is a key metric to enable meaningful valuation of the changes in a company's operating costs.

EUR/m	12/31/2015	12/31/2014
Rental costs	47.6	47.9
Net income from services	-0.6	-1.5
Other operating income (excluding net revaluation gains on real estate and gains from financial instruments)	-5.8	-7.8
Personnel costs	35.3	33.7
Other operating costs	22.4	22.9
Impairments of rental receivables	5.0	6.3
Non-recurring effects and project costs	-5.3	-9.7
EPRA Costs incl. vacancy costs	**98.6**	**91.8**
Vacancy costs	-10.6	-11.0
EPRA Costs excl. vacancy costs	**88.0**	**80.8**
Rental income	259.3	257.4
EPRA Cost Ratio incl. vacancy costs in %	**38.0**	**35.7**
EPRA Cost Ratio excl. vacancy costs in %	**33.9**	**31.4**

CORPORATE GOVERNANCE

Report on Corporate Governance at TAG in FY 2015

'Corporate Governance' comprises the principles of a company's management and generally 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 TAG Management and Supervisory Boards see it as a key prerequisite for sustainable business success because it strengthens the confidence that shareholders, employees, business partners and the public place in the company's leadership and management. Respect for the interests of shareholders and employees, transparency and responsibility when making business decisions, and an appropriate treatment of risks are therefore key elements of corporate governance at TAG, and form the basis for the actions of the Supervisory Board, Management Board and staff members of TAG Immobilien AG.

In accordance with Section 3.10 of the German Corporate Governance Code (the 'DCGK'), the Management Board and Supervisory Board issue the following report for TAG Immobilien AG, which also includes the Remuneration Report published on page 92 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/Investor Relations under 'Corporate Governance Statement'.

Compliance with the recommendations of the German Corporate Governance Code

In their implementation of Corporate Governance, the Management Board and Supervisory Board are guided by the DCGK (version dated: 5 May 2015). Section 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 DCGK, specifying the extent to which the recommendations of the Code were complied with in the past and will be in the future. In December 2015, the Declaration of Compliance for 2015 was adopted jointly by the Supervisory and Management Boards.

TAG only deviates from one point of the Code requirements, as it does not follow the recommendation of Clause 4.2.1 to appoint a Management Board spokesman or chairman. The statements in the Declaration of Conformance published below and in the Supervisory Board report for financial year 2015 justify this deviation:

Declaration of Conformance of the Management Board and Supervisory Board pursuant to Section 161 of the German Stock Corporations Act

The Management Board and Supervisory Board of TAG Immobilien AG ('the company' in the following) declare that they have been and are in compliance with the recommendations of the German Code of Corporate Governance (DCGK) in the version of 5 May 2015, with the following exceptions:

Given the reduction in the Management Board of the company to just three members with effect from 1 November 2014, the Management Board of the company has had no spokesman or Chairman since 1 November 2014. As a result, the recommendation in Section 4.2.1 Sentence 1 of the DCGK is not being followed in this regard. The Supervisory Board and Management Board are of the opinion that the tasks of the Management Board are allocated in a sufficiently detailed and appropriate way in the rules of procedure and the plan for the allocation of businesses, and that the full board can appropriately represent the company to the outside.

Hamburg, December 2015

Management Board and Supervisory Board
of TAG Immobilien AG

Diversity and the composition of the Supervisory Board

According to Section 5.4.1 of the GCGC, 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 its composition as follows:

- Each member of the Supervisory Board shall possess the knowledge, skills and professional experience required for the proper execution 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 positions 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 it is in a personal or business relationship with the Company, its boards, 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 term, 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.
- The Supervisory Board has set the age limit for the Management Board at 67.

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 other business activities pursued in the TAG Group. The current composition of the Supervisory Board fulfils these criteria, as is also indicated in the Supervisory Board report for financial year 2015.

Independent of the statutory requirement that came into force in 2015 to strengthen the proportion of women in leadership positions, care had already been taken to ensure an equitable representation of women in the entire Group in years past. The Supervisory Board set a quota of 30% for the Management Board, which has been fulfilled for many years. In the 2015 elections the female employee representative candidates for the Supervisory Board did not achieve the necessary majorities, and in previous years shareholders had only voted men onto the Supervisory Board, so the proportion of women on the Supervisory Board cannot be increased until the next election in 2018. Against this background, at its meeting on 3 September 2015, the Supervisory Board determined a gender quota of 0%. Overall, TAG is well positioned in terms of the proportion of women at management levels. In the second and third tiers of management, the percentage of women in the entire group is around 53% and 52% respectively. For further details, please refer to the Employees report on page 22 of the Annual Report.

Disclosure of conflicts of interest

Good corporate governance includes the disclosure and transparency of any business transactions that could create conflicts of interest.

Such provisions especially focus on internal business transactions between TAG and Colonia Real Estate AG. These transactions are part of the Dependent Company Report established by Colonia Real Estate AG and audited by the company auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, which describes the legal relationship between TAG and Colonia Real Estate AG in financial year 2015. Any legal transactions carried out within the Group involved due consideration in each case, and all legal transactions were made at market rates. There were no 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 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 2,000 shares by the Management Board member Martin Thiel, purchase of 7,500 shares by Management Board member Dr Harboe Vaagt. As of 31 December 2015, the members of the Supervisory Board collectively own around 0.07%, and members of the Management Board 0.02% of the share capital.

As of 31 December 2015, the following shares and convertible bonds were held by Board members:

Shareholders	Number of shares	Convertible bonds
Rolf Elgeti	90,000	–
Lothar Lanz	5,000	–
Dr Philipp K. Wagner	–	–
Dr Hans-Jürgen Ahlbrecht	2,000	–
Harald Kintzel	–	–
Marco Schellenberg	–	–
Dr Harboe Vaagt	10,085	–
Claudia Hoyer	6,000	–
Martin Thiel	5,000	–
Total	**118,085**	**0**

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 fixed compensation in the amount of EUR 20,000.00 for each full financial year of their membership on the Supervisory Board, plus 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 financial year. No variable remuneration based on the company's payout is granted. In the company's opinion, a purely function-related Supervisory Board remuneration does better justice to its monitoring tasks.

In addition, members of the Audit Committee receive separate compensation, which was adjusted based on a resolution by the Annual General Meeting of 19 June 2015. The Chair receives EUR 75,000.00, and each member receives EUR 5,000.00 each. The members of the HR Committee receive an attendance fee of EUR 500.00 per meeting.

The remuneration paid to the Supervisory Board in the year under review came to TEUR 321 plus value added tax.

Supervisory Board Member	in EUR
Rolf Elgeti	175,000.00
Lothar Lanz	72,500.00
Dr Philipp K. Wagner	20,000.00
Dr Hans-Jürgen Ahlbrecht	25,000.00
Harald Kintzel	13,333.00
Marco Schellenberg	13,333.00
Wencke Röckendorf	1,666.67

Management Board remuneration

The Management Board's remuneration is regularly subjected to deliberation, review and restructuring by the Supervisory Board.

TAG Immobilien AG's Management Board contracts contain fixed and variable components. The Management Board members' variable remuneration is based on the provisions of Section 87 paragraph 1 sentence 3 of the German Stock Corporations Act. It is tied to the achievement of the company's buisness goals and is primarily on financial years results and their development. Variable remuneration is paid in instalments so that when business performance is negative, either no claims exist, or existing remuneration claims can be cancelled. In this way, the variable remuneration and its level are also contingent on the sustainable and long-term development of the business.

For details, please refer to the explanatory notes in the detailed remuneration report for financial year 2015, which is included in the Management Report.

Compliance

'Compliance' refers to the observance of and compliance with the laws that apply to 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, as well as 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.

SUPERVISORY BOARD REPORT

Dear Shareholders,
Ladies and Gentlemen,

The Supervisory Board closely monitored the positive development of TAG Immobilien AG (TAG) in financial year 2015, and supports its strategic direction, which led to a further improvement of the key financials and – despite strict pricing discipline – a successful expansion of its property portfolio in the past year. Various acquisitions of high-yield residential real estate resulted in an expansion of the residential real estate portfolio to around 80,000 units currently, despite disposals of approx. 2,000 residential and commercial units. The share price, which rose to EUR 11.50 at 31 December 2015 and thus increased by 20% during the year, once again reflects the positive development and the capital market's confidence in TAG despite the current volatile equity markets. The Supervisory Board wishes to thank all shareholders and investors for their trust in TAG in financial year 2015.

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

In financial year 2015, the Supervisory Board fulfilled its duties required by law, the articles of association, the German Corporate Governance Code (DCGK) and the rules of procedure, with great diligence. It regularly advised the Management Board in the discharge of its duties and monitored its activities. It was also directly involved at an early stage in all decisions of fundamental importance for 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, and in particular on acquisitions made in 2015. As in previous years, the Management Board's reporting covered the financial position and profitability of the Group's companies, its business progress, the risk situation, and the implementation of risk management and compliance. The reports were made in writing and orally. The Management Board was in constant contact with the Supervisory Board Chairman to coordinate major business events. Significant events were immediately brought to its attention.

Composition and organisation of the Supervisory Board

The Supervisory Board's shareholder representatives were elected to the Supervisory Board at the Annual General Meetings of 14 June 2013 and 13 June 2014 and the Extraordinary General Meeting of 28 November 2014. The two employee representatives were elected by the workforce on 1 May 2015. The Chairman of the Supervisory Board is Mr. Rolf Elgeti. His is deputy Mr. Lothar Lanz. Only Mr Elgeti is a former member of the Management Board. The Supervisory Board believes that all members meet the criterion of independence as defined in paragraph 5.4.2 of the DCGK. The Supervisory Board members possess the knowledge, skills and professional experience required for the proper exercise of their duties. The respective areas of expertise of individual Supervisory Board members are mutually complementary, so that in its entirety and diversity the Supervisory Board is in a position to thoroughly fulfil its tasks. The Supervisory Board is of the opinion that the performance of its supervisory and advisory function is ensured in accordance with the articles of association, the DCGK and the rules of procedure.

In order to efficiently perform its duties, the Supervisory Board has formed committees. 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 Management Board's proposal for the appropriation of net income. The Committee discusses with the Management 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 the required independent status. The members of the Audit Committee possess accounting and auditing expertise. Mr. Lanz, the Chairman of the Audit Committee, meets the requirements of Section 100 paragraph 5 of the German Stock Corporations Act.

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

The Audit Committee consisted of the following members during the reporting year:

	Supervisory Board	Audit Committee	Personnel Committee
Rolf Elgeti	Chairman	Member	Chairman
Lothar Lanz	Deputy Chairman	Chairman	Member
Dr Philipp K. Wagner	Member	Member	–
Dr Hans-Jürgen Ahlbrecht	Member	–	Member
Harald Kintzel	Member	–	–
Marco Schellenberg	Member	–	–

Supervisory Board Meetings

At a total of four 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. All members of the Supervisory Board attended all of the meetings and participated in all resolutions.

At the meeting to approve the year-end financial statements on **24 March 2015,** the Supervisory Board worked in detail with the annual financial statements and the results of the review by the auditor, whose representatives personally attended the meeting to report on the outcome of the audit, and extensively discuss the financial statements with the Board. Furthermore, the resolution items for the agenda of the AGM on 19 June 2015 were adopted at this meeting. As part of a re-examination of the rules for determining the variable Management Board compensation, it was clarified that the dividend payment should no longer be a separate criterion for determining variable remuneration, but should be considered in the context of TAG's share performance and NAV. Also, the increase in EBT should no longer be assessed on an absolute basis, but be based on individual shares. Furthermore, the sale of 972 residential units in the Marzahn district of Berlin was approved for a purchase price of EUR 59.8m. Finally, a progress report was presented to provide the Supervisory Board with a detailed update on the introduction of a Group-wide ERP software programme, the key elements of which were all completed at the turn of the year 2014/2015.

The agenda for the meeting on **18 June 2015** – besides preparations for the Annual General Meeting on 19 June 2015 and discussions about current acquisitions and sales activities – also included the approval of the sale of a residential complex in Erfurt for EUR 12.8m. At the meeting, the Supervisory Board also approved the new allocation of duties for the Management Board.

2015 Supervisory Board meeting paticipation	24 Mar. 18 Jun. 03 Sep. 11 Dec.
Rolf Elgeti	×
Lothar Lanz	×
Dr Philipp K. Wagner	×
Dr Hans-Jürgen Ahlbrecht	×
Harald Kintzel*	×
Marco Schellenberg*	×

* On the Board since 1 May 2015

At the meeting on **3 September 2015,** the Supervisory Board discussed the TAG 3.0 project, which the Management Board had initiated to improve efficiency and service quality. At this meeting, the Supervisory Board also discussed the sale of a mixed-use commercial property in Stuttgart, determined the conditions of sale, and agreed to the sale of 166 units in the Frankfurt area, which had been acquired as part of an acquisition of some 2,000 units that came into effect at the end of January 2015. At this meeting, the Supervisory Board set the maximum length of Board membership at 15 years, and given that the Supervisory Board elections had just been held in 2014 and 2015, decided to set the minimum proportion of female members at 0%. Since there are no new elections to the Supervisory Board pending in the near future, the objective of the law on equal participation of women and men in leadership positions cannot be implemented anytime soon. At Management Board level, a gender quota of 30% had already previously been established, which has been fulfilled for many years.

At the meeting on **11 December 2015,** the Management Board presented the budget for 2016 and the medium-term planning for 2017 and 2018 to the Supervisory Board, which the Supervisory Board took note of and approved. The Supervisory Board also dealt with the acquisition of a residential property portfolio in Saxony, which was signed at a purchase price of EUR 39.5m in December 2015 as part of a share deal. The Supervisory Board was informed about the results of the tenant survey and at this meeting, together with the Management Board, adopted the Declaration of Conformance for 2015. The efficiency audit in accordance with the German Corporate Governance Code had already been carried out in preparation for this meeting, and the results were discussed at the meeting.

Beyond these Supervisory Board meetings, other resolutions were passed by conference call. In particular, on 3 February 2015, the Supervisory Board approved the partial utilisation of up to 2m of its own shares in exchange for Colonia shares, thereby increasing TAG's stake in Colonia Real Estate AG. On 6 October 2015, the Supervisory approved acquisition projects in the city of Brandenburg, North Rhine-Westphalia and Lower Saxony to acquire around 1,800 units at a purchase price of EUR 41.5 m, and 1,300 units at a purchase price of EUR 36.75m.

Meetings of the Audit Committee

During the reporting year, the Audit Committee held three meetings in which it dealt with relevant items of the Supervisory Board's work. At times, representatives of the auditor attended all the meetings, and in this context, reported on the voluntarily commissioned audit review of the interim financial statements of 30 June 2015. The focus of the deliberations in 2015 was the audit of the internal monitoring system, the IT systems audit, and the valuation of the property portfolio. The Audit Committee recommended that the Supervisory Board propose KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2015 financial year at the AGM on 19 June 2015. In addition, the Chairman of the Audit Committee also consulted directly with the auditors and was informed in detail about the process and focus of the audit.

2015 Auditors

The Supervisory Board engaged the auditor KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, which had been chosen by the shareholders at the Annual General Meeting on 19 June 2015, to audit the annual financial statements of TAG Immobilien AG for 2015, in accordance with the recommendations of the German Corporate Governance Code.

As stipulated by Article 7.2.1 of the German Corporate Governance Code, the auditors submitted their declaration of independence, 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 met.

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the TAG Immobilien AG annual financial statements and consolidated financial statements for the first time for financial year 2012. Since then, the key audit partner has been Mr Niels Madsen WP/StB, who together with Mr. Ulf-Torben Krüger WP/StB, signed the audit certificate for the 2015 annual financial statements and the consolidated financial statements.

Approval of annual financial statements and consolidated financial statements

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and the management report, as well as the consolidated financial statements, including the Group management report for financial year 2015, prepared in accordance with the International Financial Reporting Standards (IFRS). An unqualified audit certificate was issued.

The company's financial statements and audit reports were circulated to all members of the Supervisory Board in a timely manner, and discussed in detail at the meeting on 22 March 2016 after the Audit Committee had already dealt with the results in detail and discussed them with the auditors prior to this meeting, and during the audit process. The auditors attended the 22 March 2016 meeting, during which they elaborated on their report and were available to answer any questions. The auditor also confirmed that the early detection system for risks installed by the Management Board is suitable for detecting any developments liable to jeopardise the Company's going-concern status in a timely manner.

The Supervisory Board accepted the auditors' results, and on the basis of its own review of the parent company and the consolidated financial statements together with the respective management reports, raised no objections. The Supervisory Board endorsed the Management Board's proposal for the appropriation of net profit to pay a dividend of EUR 0.55 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 management's compliance with the principles of good corporate governance. Because of the dual Board responsibilities of the Management Board members of TAG Immobilien AG at Colonia Real Estate AG, special attention was paid to the risk of conflicts of interest. No such conflicts of interest arose in 2015.

Rolf Elgeti

The company is not currently fulfilling the German Corporate Governance Code's recommendation to appoint a spokesman or chairman of the Management Board. The Supervisory Board is of the opinion that the tasks of the Management Board, which has been reduced in size since 1 November 2014, are allocated in a sufficiently detailed and appropriate way in the Rules of Procedure and distribution of business plan, and that TAG is appropriately represented to the outside. For these reasons, it has no plans to appoint a speaker or chairman in the future, either.

The company's Declaration of Conformance was updated in 2015 at the December meeting. Apart from the exception stated above, the company follows all of the recommendations of the German Corporate Governance Code. Please also refer to the Corporate Governance Report for financial year 2015.

Personnel update

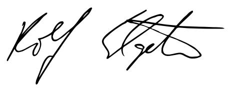
On 1 May 2015, Messrs. Harald Kintzel (an in-house lawyer at the Legal department in Berlin) and Marco Schellenberg (who works in the Letting department in Gera) were elected to the Supervisory Board by TAG employees for a period of five years. They replace employee representatives Ms Andrea Mäckler and Ms Wencke Röckendorf, whose mandates ended on 31 December 2014 and 31 January 2015 respectively.

At the meeting of 3 September 2015, as proposed by the HR Committee, Dr Harboe Vaagt's appointment to the Management Board and corresponding Management Board contract expiring on March 31 2016 were extended by another five years with effect from 1 April 2016.

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

Hamburg, March 2016

The Supervisory Board



Rolf Elgeti
Chairman

Elmshorn (Schleswig-Holstein)

SUSTAINABILITY REPORT 2015

TABLE OF CONTENTS

Keeping an eye on emerging trends

This TAG Immobilien AG Sustainability Report is based on the recommendations of the GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. (Federation of German Housing and Real Estate Business) and is a response to the German Sustainability Code.

In this report, we elaborate on our activities for promoting economic, environmental and social sustainability, in the areas of strategy, process management, environment and society.

STRATEGY

Tasks and Objectives

Our job is to secure profitable growth by prudently managing our portfolio and continually increasing the value of our properties. In the pursuit of sustainable business growth, this involves not only sound products, satisfied customers and a professional market presence, but also ecological and civic responsibility. We are prepared for changing tenant structures and the fact that demographic and social change increasingly obliges landlords to take action. That is why we are careful to keep rental prices affordable when making renovations, and to promote stable neighbourhood development by counteracting any trends toward migration and segregation.

We are prepared for trends in the housing market

In 2013 the Federal Institute for Population Research reported an increase in per capita living space requirements to 45sqm. By 2030, a current forecast indicates this will increase to 54sqm in western Germany and 55sqm in the former East Germany. These trends result from the increase in one- and two-person households, senior households and people's rising standards and requirements. The socio-demographic development also calls for long-term concepts that provide appropriate housing to various target groups and guarantee attractive neighbourhood development.

In many places our portfolio contains prefabricated buildings that were initially designed to provide minimum per capita living space with minimal amenities. And yet this form of construction allows for a variety of layout solutions and easy adaptation of the amenities for varying requirements. And so we are developing a wide range of accommodations, depending on location, to effectively counteract the risk of vacancy.

A colourful mix for the future

At university and college locations, we have used suitable properties to develop student housing offerings that are let via our 'TAG studihome' sub-brand.

In neighbourhoods where the infrastructure allows for childcare, education and leisure activities, we develop layout solutions for families. In Chemnitz, for example, 120-sqm 5- and 6-bedroom flats were created by merging far less popular 60sqm 3-bedroom flats. Another practice is to redivide them into 2- and 4-bedroom flats and has led to better rental success.


New floor plan solutions, Chemnitz

A survey we conducted with the TU Darmstadt in 2015 indicated the specific expectations that German seniors have regarding housing and services. For example, half of them complain about a lack of lifts, and only 5% currently live in households equipped for people with disabilities. Half of them indicated that their landlords aren't committed to neighbourhood assistance, and would like to see more leisure activities. Providing senior-friendly offerings is therefore another focus of our work at many locations. However, complete senior-friendly conversions must fit well conceptually within our overall local portfolio and remain affordable when measured against the average local rent.

In 2015, we focused on senior-friendly conversions with integrated care concepts. In Erfurt, for example, we created serviced housing with 72 senior-friendly flats and a care and service concept that is ensured by a local care provider. A concierge service in the lobby provides a sense of security, while common areas provide space for meeting neighbours and leisure activities. In addition, two nursing flats are available for day care. With this project, we respond to people's wish for independent living with flexible service offerings.

In Döbeln too, the service offering was expanded in cooperation with the Workers' Welfare Federal Association (AWO) following the extensive renovation of a senior-friendly building. Other senior-friendly properties were created in Schwerin, Bestensee and Salzgitter.

Senior-appropriate exterior elevator, Schwerin

Barrier-free living, Salzgitter

To minimise age-related tenant turnover, we also want to make it possible for existing tenants to continue living comfortably in their own homes into old age. In Gera and Bestensee, we have established a housing consultation service for seniors with a particular focus on bathroom adaptations. Tenants can find information onsite in specially equipped bathroom showrooms where we showcase such things as higher toilet seats, disabled-access showers or handgrips to improve individual safety in the bathroom and flat. Trained staff and partners advise tenants on conversions and financing options, and accompany the completion of the work.

Expectations regarding amenities in the flats have also increased – which is why we are adding balconies to selected buildings, e.g. in Bestensee, Selbelang and Pessin, and optimising standard floor plans as part of renovation work, to create flat layouts for more individual requirements. For example, in Wittenberg and Cottbus, flats with open kitchens, utility rooms or more spacious bathrooms were created.


Modern facade renovation, Wittenberg

Furnished accommodations are also in increasing demand and therefore now offered in many places. Our 'Wohnen nach Maß' ('Made-to-measure living') concept, which allows new tenants to have their flat individually fitted-out, is still being very well received.

We do not invest in new buildings, but revitalize properties with sustainable concepts that serve the development of the regional market in the long term. For instance, in 2015, we continued to invest in the reconstruction and modernisation of the Munte-Riegel buildings in the Fredenberg district of Salzgitter, to gradually return them to full occupancy. The block of flats at Friedensstraße 3 in Bestensee stood empty for years and its demolition was even considered.


Modernisation, Salzgitter


New housing concepts, Bestensee (before)


New housing concepts, Bestensee (after)

However, we have managed, together with a regional care provider, to develop a housing strategy for seniors that is now being implemented. By the summer of 2016, the first tenants will be able to move into their new flats with balconies, walk-in showers, lifts on all floors and space for accessible parking.

A good home starts right outside the door

The quality of life in a residential environment determines the stability of the tenant base and hence the portfolio's long-term value over time. That is why we seek out interaction and collaboration with local protagonists. In addition to urban planners, policymakers and other market participants, social services increasingly allow us to make important additions to our services. We partner with clubs and social work associations with children and families, and work with them to be able to offer services to our older tenants.

For example, in 2015 we worked with the local authorities in Hermsdorf on a green space concept that we will largely be realising.

In the Fredenberg district of Salzgitter, we have set a signal for the residential district's future by installing a parcours leisure facility that is open to all residents interested in sports. Here, we have created a remarkable attraction that fulfils the need for social activity and health-promotion.

TAG employees

Ongoing dialogue

To adapt to trends early on, we systematically involve our stakeholders in our sustainability processes. We regularly collaborate with TU Darmstadt, commissioning surveys and trend research. A comprehensive survey of TAG tenants was carried out in 2015. It certified that we have significantly improved our services over the past two years. On the other hand, we also received feedback about tenants' expectations of us as a landlord, e.g. that we should pursue efforts to reduce utility costs.

Customer Service

Our employees are also important dialogue partners for the strategic development of TAG. As our interface to the customer, they have a direct line to our tenants and can feel out the trends in the regional markets. Employees contribute their suggestions and observations in our TAG Ideas Workshop, and thus sustainably influence the company's course. This not only enhances the performance of the Group, but also contributes to a sense of identification with the company.

TAG trainees

Well-positioned internally for the future

The principles that govern our sustainable strategy on the outside also determine our actions in-house: committed and satisfied employees who are prepared for the future in terms of capability represent important success potential. Besides, TAG can hold its own as an attractive employer in the general battle for the best people in the labour market. And so in the interests of sustainable business development, we are working on creating the best possible workplace culture and attractive prospects for our employees.

In 2015, we carried out an employee survey for the first time. 95% of the participants were satisfied in the categories of friendliness/helpfulness and respect/trust in their work with colleagues. We also received numerous indications of where we have potential for increasing innovation and efficiency.

In November 2015, we organised a big health day for our employees to provide valuable support for health-conscious living. One new offering that encourages exercise and is also eco-friendly is the company bicycles we have purchased at some locations. To promote a healthy work-life balance, we offer flexible working time models, various part-time options, parental leave for mothers and fathers, as well as home office work in individual cases.

Team spirit and opportunities for dialogue boost motivation. Our TAG relay race held every September contributes to this as does the big Christmas party, which is held at a different team location every year.

We also ensure that our company and its employees have a successful future with training and development. In 2015, TAG hired 38 trainees and eight bachelor of arts students; 143 letting agents, customer advisors and team leaders accepted the offer of communications seminars; and 234 employees participated in Excel training. The in-house employee training by specialist employees is part of our regular business operations and is mainly held to optimise technical and organisational processes.

PROCESS MANAGEMENT

Achieving sustainability by optimising processes

The Management Board has the overall responsibility for sustainable business management. It delegates individual tasks to departmental heads and the heads of property management, depending on the responsibilities. The Supervisory Board monitors the Management Board with respect to management and ensures the implementation of a sustainable business strategy.

One important part of our sustainability strategy is the efficient handling of valuable resources, like working hours and funds. To optimise processes, we are successively developing process manuals in which we record and digitally illustrate operational business processes, such as letting or purchases and sales. In this way, all process participants are involved in the scheduling and process chain. Digital documentation and status updates ensure the quality of workflows, save time, and avoid media disruptions. This not only promotes the quality of service to tenants, but also has beneficial environmental effects, as we use less paper and avoid unnecessary mail-outs. In 2015, the handyman businesses that handle maintenance and repair of our vacant residential units were also integrated into the digital job flow.

Being affiliated with one central print service provider for printing reminders and centralised purchasing for small items conserves energy, material and personnel resources.

A particular focus in 2015 was the optimisation of all handyman processes. First, about 450 framework agreements were signed with regional companies covering both minor repairs and the reconditioning of empty flats. The purchase of building materials is now centralised as well – but via suppliers from the regions, which meant we were able to reduce storage times and transport volume. Second, TAG set up its own pool of handymen with its TAG Handwerkerservice GmbH subsidiary, and hired well-qualified trades and craftspeople in the fields of electrical installations, painting, tiling, heating and plumbing. This makes us independent of the availability of regional companies and allows us to counter any renovation bottlenecks. With our motivated and well-qualified employees, we ensure a continuous supply of craft expertise and have the optimisation of processes in our own hands. With this in mind, for example, in 2015 we bought a spray device that reduces the time it takes to paint walls by about 50%.

TAG caretaker

ENVIRONMENT

Protecting our environment is a common cause

Our latest tenant survey confirms that 83% of our tenants consider the reduction of utility costs to be an important task for their landlord.

One area where we can reduce utility costs together with tenants is waste disposal. To this end, we have sought competent partners at many places to support us and our tenants in waste management, install waste locks or even undertake comprehensive consultation and control. In Gera, Kassel, Salzgitter, Erfurt and Moers we work successfully with Musterknaben e. G., which even manages a small consulting and training office in Gera on matters of waste disposal. At this location there has clearly been measurable success in reducing residual waste: 420 residual waste pickups were saved in 2015, which now pays off for the tenants in lower overhead costs.

The Eastern Thüringen Waste Management Association honoured TAG's professional commitment with its quality certificate for exemplary waste management. In an explanatory memorandum it states: 'In the association's catchment area, the housing company actively manages the waste collection sites of its own housing portfolio (including container optimisation), ensures orderliness and cleanliness, and advises tenants in various ways on waste prevention and separation'.

We also keep an eye on energy costs and eco-friendly energy sources. Especially during renovations, insulation is planned for the façade, roof and basement, along with glazed windows; and heating systems are reconditioned, as was the case at Am Katzenberg 1 in Erfurt, where a heating station was also installed.

Energy-saving complete renovation, Erfurt (before)

Energy-saving complete renovation, Erfurt (after)

Am Ringsee, before

Am Ringsee, after

Environmental protection is also a focus of our in-house processes. A business contract with Deutsche Bahn has led to more and more employees switching to public transport – especially for long distances. Our company bicycles reduce the use of cars for short trips while promoting exercise. And while company cars are indispensable, we look for energy-saving engine technology when purchasing.

The accelerated digitisation of our administrative processes in 2015, as well as our increasing use of our intranet for documentation and communication, saves environmental resources and eliminates unnecessary postal and transport routes.

SOCIETY

The core values of our actions

Compliance and compliance management are essential prerequisites for a successful and sustainable business. Beyond the business principles, we have clear guidelines for IT, donations, travel and other expenses, mobile phones, use of company and fleet cars, and rules of procedure for internal auditing. Compliance with rules, appreciation and transparency form the basis for talented and motivated employees, who in turn secure our market objectives.

Our corporate culture is based on honest, open and trusting cooperation and promotes innovative, team-oriented cooperation. The company's management sees itself as a model for courageous and prudent action and motivating communication. All employees are required to act in a respectful, responsible, focused and solicitous way when dealing with each other, as well as with tenants and partners.

For a good climate

A good neighbourhood, cultural diversity, and services for people in need ensure the quality of life in our neighbourhoods over the long term. That is why we invest ideas, personnel and financial and material assistance into sustainable neighbourhood development.

This starts with quite traditional measures such as organising tenant parties or participating in neighbourhood festivals, and continues with the sponsorship of cultural facilities, sports clubs and facilities for children, which also ensures attractive recreational opportunities for our tenants.

The TU Darmstadt survey on the housing needs of senior citizens also showed that their expectations of more leisure and advisory services are increasingly directed at landlords. Various offerings for senior citizens have long been part of our service, but since 2015, we have fine-tuned and enriched the concepts with competent partners at many locations. For instance, there are now activity lounges that are open to younger generations as well in Salzgitter, Eisenach, Erfurt, Gera and Döbeln. These offerings have been so well received by the residents that in Salzgitter, the lounge had to be expanded again by 60 sqm last year. While it was initially mostly seniors who met here for cooking, crafts and sports, now children come to find a substitute grandmother there who reads to them or helps with homework, and refugees have a place where they are welcome and are integrated into the neighbourhood.

In Gera too, the lounges have been well received for years. There are already 4 activity lounges in our residential buildings, and another is a renovated and expanded meeting place that is actively used by all generations.

In Döbeln, the ‘L(i)ebenswert Wohnen’ (Li/o/veable living) cross-generational lounge continues to be very popular. Children get help with school and other leisure activities, and young and old enjoy afternoons of crafts and games.

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We usually make the premises available and help finance our partners’ staff to ensure that the lounges are staffed and our tenants are given competent advice. For example, we work with Johanniter Unfallhilfe, Caritas, Volkssolidarität, AWO and the Arbeitersamariterbund (Workers’ Samaritan Association – ASB).

ASB Arbeiter-Samariter-Bund
AWO
caritas
DIE JOHANNITER Aus Liebe zum Leben
VOLKSSOLIDARITÄT

Perspectives for children

Single parents, families with many children, and families with an immigrant background in particular need extra support. For these people, we have enlisted the support of the Jugend mit Perspektive e.V. (Jumpers) social children’s and youth project in two residential areas in Salzgitter and in Gera. Together, we established two unusual children and youth centres in 2015. Its extensive offering of leisure activities and assistance is available to the children every afternoon during the week.

‘Jumpers’ – Children’s perspectives, Gera

‘Jumpers’, Gera

While in Salzgitter residential space was repurposed, in Gera we transformed vacant commercial premises into spaces for putting on plays, doing homework, cooking, research, playing, and even a small music studio. The lounges have already become a second home for many children and also attract volunteers from the surrounding area. Our on-site employees are proud to open up new vistas for children with this project, as well as provide positive impetus for the future of the neighbourhoods.

Another example of the close links between social engagement and business interests is the development of our family neighbourhood in Chemnitz. Before we began to merge smaller flats into large family flats here, we discussed cooperation options with kindergartens, youth and sports clubs, as well as the neighbourhood management, in order to create an attractive environment for families longterm. In this neighbourhood, many collaborations are planned for the future, and we are successively working on a family-friendly transformation of the surrounding area.

OUTLOOK

We continue to see ourselves as responsible for promoting structures and services that ensure a high quality of work in our company and a high quality of life for our tenants. This is our most important basis for growing as a company and sustainably increasing the value of our properties.

GROUP MANAGEMENT REPORT 2015

I. Foundations of the Group

Overview and corporate strategies

TAG Immobilien AG ('TAG' in the following) is a Hamburg-based property company focused on the German residential real estate sector. The Group's properties are located in various regions of northern and eastern Germany and North Rhine-Westphalia. Overall, as of 31 December 2015 TAG managed around 78,000 residential units compared to approx. 72,500 at the end of 2014. TAG shares are listed on the MDAX of the Frankfurt Stock Exchange; TAG's market capitalisation as of 31 December 2015 was EUR 1.6 billion compared with EUR 1.3 billion at 31 December 2014.

TAG's business model is the long-term letting of flats. All functions essential to property management are carried out by its own employees. In many inventories, the company also delivers caretaker services and – increasingly since 2015 – repair and handyman services. It specialises in inexpensive housing, addressing the needs of broad sections of the population.

TAG not only invests in and near big cities, but deliberately in medium and smaller towns as well, to take advantage of the potential for growth and profit there. Newly acquired portfolios regularly have higher vacancy rates, which are then reduced following the acquisition through targeted investments and proven asset management concepts. Investments are made exclusively in regions already managed by TAG in order to use existing administrative structures. In addition, the local knowledge of the market is essential in the acquisition of new portfolios.

In addition to long-term property management, sales opportunities are selectively used in high-priced markets in order to reinvest the realised capital appreciation and liquidity in new portfolios with higher yields. With this strategy of 'capital recycling' TAG is also responding to the now intense competition for German residential properties. After years of strong growth, the Group is now focused again on return based on the individual share, which sales activities also contribute to. Absolute orders of magnitude of growth are no longer at the forefront of the corporate strategy. The aim instead is to offer tenants affordable housing through sustained and active portfolio management and investors growing cashflows through attractive dividends.

The significant transactions of financial year 2015 include the:

- acquisition of various residential portfolios in northern and eastern Germany and North Rhine-Westphalia with a total of 5,300 units
- sale of approx. 1,900 residential and commercial units, mainly in Berlin and Stuttgart
- early repayment of bank loans with a total volume of EUR 46.5m
- early termination of a convertible bond with a remaining principal balance of EUR 31.6m
- purchase of 3.6m additional shares in the Colonia Real Estate AG subsidiary in exchange for 2m of TAG's own shares and an increase in the stake in this subsidiary from 79% to 87%

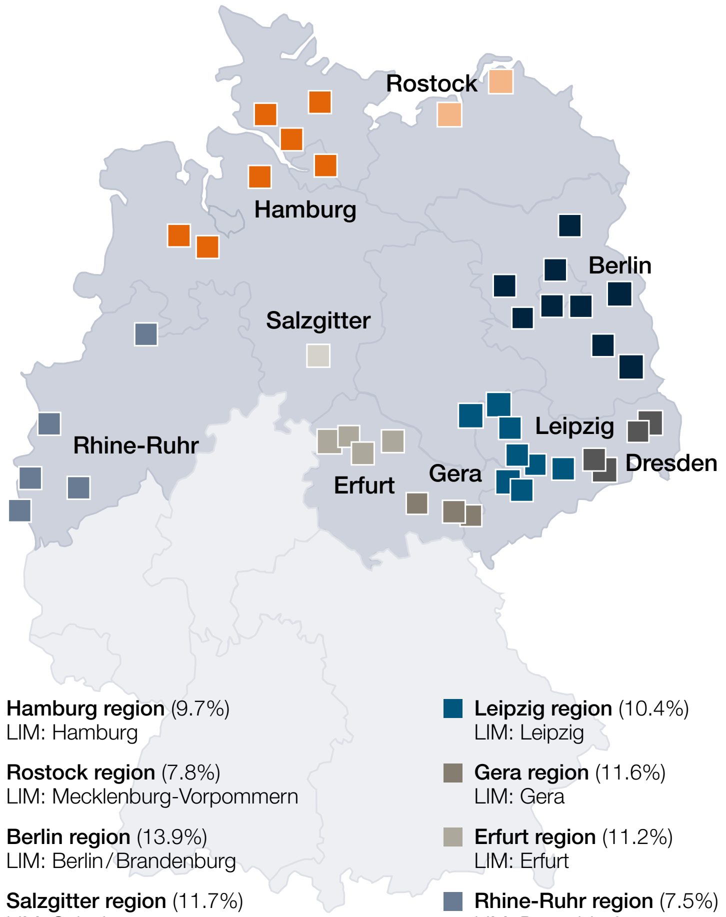
The carrying amount of all real estate held by TAG Immobilien totalled EUR 3.6 billion at 31 December 2015 vs. EUR 3.4 billion at 31 December 2014. Total rental income amounted to EUR 259.3m vs. EUR 257.4m in the previous year (including the commercial real estate business, which was sold in 2014).

Funds from operations (FFO) – as a key indicator for measuring operating profitability – totalled EUR 76.3m (previous year: EUR 74.5m) excluding the results from sales (FFO I), or EUR 0.62 (previous year: EUR 0.58) per share. The net asset value (NAV) per share at year-end, after payment of a dividend in 2015 of EUR 0.50 per share (previous year: EUR 0.35), was EUR 10.64 (previous year: EUR 10.10, or EUR 9.89 taking into account the adjustment of shares of non-controlling interests described in the Notes).

The loan to value (LTV) ratio was 60.7% at 31 December 2015, excluding convertible bonds (previous year: 62.2%), or 62.7% (previous year: 65.3%) including these liabilities.

Portfolio

As of 31 December 2015, the TAG portfolio comprised approx. 78,000 units. The geographical distribution of the portfolio is shown in the table below. The individual regions correspond to the segments in the segment reporting:



- **Hamburg region** (9.7%)
  LIM: Hamburg
- **Rostock region** (7.8%)
  LIM: Mecklenburg-Vorpommern
- **Berlin region** (13.9%)
  LIM: Berlin/Brandenburg
- **Salzgitter region** (11.7%)
  LIM: Salzgitter
- **Dresden region** (16.2%)
  LIM: Dresden, Doebeln/Chemnitz
- **Leipzig region** (10.4%)
  LIM: Leipzig
- **Gera region** (11.6%)
  LIM: Gera
- **Erfurt region** (11.2%)
  LIM: Erfurt
- **Rhine-Ruhr region** (7.5%)
  LIM: Dusseldorf

% acc. IFRS carrying amount

Our focus is on attractive, high-yield residential real estate in selected locations that show positive economic growth or development data, can be expected to yield stable rental income, and have value creation potential. In addition, purchasing decisions depend on synergies and whether the new residential real estate inventories can be managed by existing structures/TAG's current offices, for maximum cost-effectiveness.

The key indicators for the individual regions (segments) are shown in the following table:

Region	Units	Floor area sqm	IFRS book value 12/31/2015 TEUR	In-place yield %	Vacancy 2015 %	Vacancy 2014 incl. Acquisitions %	Vacancy 2014 %	Net in-place rent EUR/sqm	Re-letting rent EUR/sqm	L-f-l rental growth EUR/sqm (y-o-y) %	L-f-l rental growth total** (y-o-y) %	Maintenance EUR/sqm	Capex EUR/sqm
Berlin	8,529	498,769	446,639	6.6	5.1	5.3	4.4	5.19	5.58	2.6	3.5	4.94	7.78
Dresden	11,152	676,477	515,831	7.3	9.8	10.3	9.2	5.12	5.20	2.2	2.7	4.84	9.31
Erfurt	7,737	429,636	360,242	6.8	4.3	7.6	8.0	5.03	5.62	2.3	5.8	3.06	14.34
Gera	9,635	561,944	372,593	7.5	11.1	12.1	10.7	4.68	5.04	1.5	2.6	4.64	9.71
Hamburg	6,133	372,133	309,969	7.1	5.5	7.2	7.2	5.24	5.69	0.3	1.7	7.36	5.21
Leipzig	7,874	464,706	333,574	7.7	5.6	6.8	6.7	4.89	5.14	1.0	2.1	4.30	4.55
Rhine-Ruhr	3,744	242,019	241,786	6.5	2.2	2.6	2.6	5.49	5.51	0.7	1.2	9.34	4.68
Rostock	5,295	313,943	250,956	7.4	5.2	7.3	7.3	5.19	5.29	2.5	4.8	5.70	14.21
Salzgitter	9,175	563,074	375,247	7.7	12.1	15.5	15.5	4.90	5.09	1.1	5.3	9.17	13.13
Residential units	**69,274**	**4,122,700**	**3,206,837**	**7.2**	**7.5**	**9.0**	**8.1**	**5.04**	**5.32**	**1.6**	**3.3**	**5.73**	**9.42**
Acquisitions (Transfer of benefits and obligations 2015)	7,185	437,329	279,845	8.2	10.6		12.4	4.86				9.27	5.62
Commercial units (within residential portfolio)	1,298	168,709			17.7		17.3	7.36					
Total residential portfolio	**77,757**	**4,728,738**	**3,486,682**	**7.6**	**8.1**		**8.9**	**5.10**				**5.60**	**8.98**
Others*	258	37,159	91,217	4.4	12.3		17.2	11.98				8.68	8.37
Grand total	**78,015**	**4,765,897**	**3,577,899**	**7.5**	**8.2**		**9.0**	**5.19**				**5.64**	**8.97**

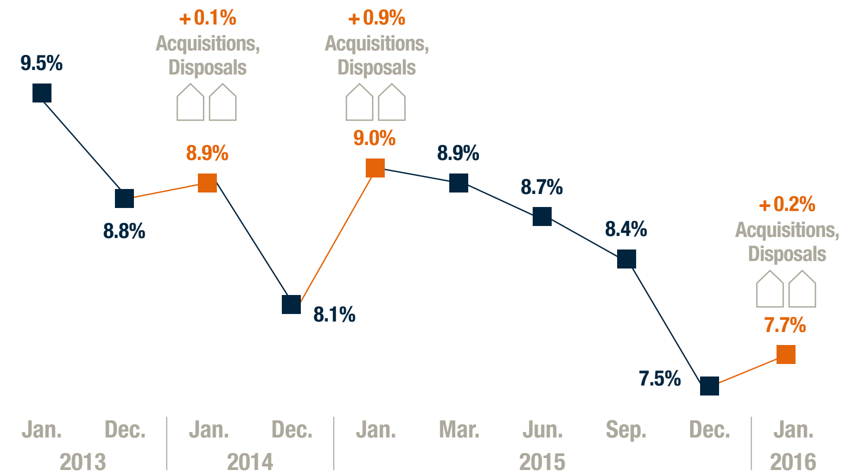
* Includes six commercial properties and three serviced apartments

**Incl. effects from changes in vacancy

The operating business performed very positively in line with expectations. We were able to significantly improve our key indicators by increasing average rent and – especially clearly – by further reducing vacancy.

Across all residential units, vacancy – including acquisitions during the year – fell from 9.0% at the beginning of the financial year to just 7.5% in December 2015. This vacancy reduction of 1.5 percentage points surpasses the success of previous years (2014: 0.8 percentage points and 2013: 0.7 percentage points) and also our forecast made in the the previous year's Group Management Report, which assumed vacancy reduction in the order of the financial year 2014. It is particularly pleasing that this positive development is indicated in all of the regions TAG manages. Vacancy reduction in the Erfurt region was exemplary in 2015; vacancy fell from 7.6% to 4.3%, and in the Salzgitter region from 15.5% to 12.1%. In the Rhine-Ruhr region, vacancy was 2.2% compared to 2.6% at the beginning of the year.

The table below once again shows the vacancy development in the portfolio's residential units in detail for the financial years 2013 to 2015 and illustrates the impact of acquisitions, which generally have higher vacancy rates, on the development of the vacancy rate:



Average rent in the portfolio's residential units increased from EUR 5.00 per sqm to EUR 5.04 per sqm in 2015. This is slightly lower than the forecast made in the the previous year's Group Management Report, which assumed an average rental increase per sqm of between EUR 0.05 and EUR 0.10, but assumed no disposals in financial year 2015. Rental growth, excluding acquisitions and sales during the financial year (like-for-like rental growth), amounted to 1.6% (previous year: 1.2%). Also taking into account the effects of vacancy reduction in these units, at 31 December 2015 overall rental growth was 3.3% p. a. following 2.1% at year-end 2014. New lettings averaged EUR 5.32 per sqm in December 2015, which was also an increase over the previous year (EUR 5.23 per sqm).

Total investments (ongoing maintenance recognised in profit and loss and capitalised renovation and modernisation) in the residential units in 2015 amounted to EUR 15.15 per sqm following EUR 13.37 per sqm in financial year 2014 and to EUR 14.61 per sqm in the entire portfolio (previous year: EUR 12.21 per sqm). The increased investment was largely in refurbishment and modernisation measures for vacancy reduction.

Group structure and organisation

TAG Immobilien AG heads an integrated real estate group. It performs the functions of a management holding company and in this capacity performs Group-wide tasks for the entire group of companies. Central departments such as Finance, Accounting, Tax, Controlling, Human Resources, IT, Procurement and Law are located directly at TAG Immobilien AG. The TAG Group consists of additional subgroups, operating subsidiaries and property companies, which each own real estate inventories and are included in TAG's consolidated statements.

At 31 December 2015, as in the previous year, the Group consisted of around 70 fully-consolidated companies. A complete overview of all of the companies in the Group is shown in the Notes to the consolidated financial statements.

The organisational structure of TAG's operative business is one of flat hierarchies and short decision-making paths. This organisation centres on the 'LIM' structure (Leiter/in Immobilienmanagement – Head of Real Estate Management). Each LIM is assigned a regionally delimited property portfolio, which is managed in a decentralised and largely autonomous way within the approved budget. LIMs operate as asset managers of their respective residential portfolios and are charged with managing their inventories with a view to condition, vacancy, modernisation measures and tenant satisfaction. Besides optimising returns, their main task is to ensure smooth rental management, which in turn is handled by the customer service managers who report to each LIM.

This decentralised organisational structure ensures that LIMs are directly involved in the portfolios they supervise. They are responsible for budgets and cost compliance, as well as planning and carrying out measures to develop the portfolios. TAG has an LIM in each region who manages the entire portfolio there. The LIMs report directly to the Management Board (specifically the COO). 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 reviews products and services across the Group.

To monitor and steer its business activities, TAG uses a management system that is constantly being updated. Key indicators that are regularly determined and reported to the Management Board include the development of rental income and vacancy, and the current rent per sqm. Other key operating indicators include expenditures on maintenance and modernisation. For purposes of Group controlling, the development of the NAV, FFO and LTV in particular is regularly planned and reviewed.

The Group's current liquidity situation and short- and long-term liquidity planning are compiled monthly and updated continuously. These measures safeguard the Group's financial stability. A regular determination of ongoing performance at the individual company and at the Group level is part of this monitoring process, which is handled directly by the responsible Management Board member (CFO).

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

- COO: Real Estate Management, Acquisitions and Sales, Shared Service Centre, Facility Management services, Trades services, Central Purchasing, Strategic Property Management/Marketing, Change Management, Business Flats
- CFO: Investor and Public Relations, Group Accounting, Taxes, Controlling, Financing and Treasury, ERP/Data Management
- CLO: Human Resources, Legal, IT, Residential Real Estate Management, Compliance, Internal Audit, Judicial Rent Collection

Research & Development

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

II. Business report

a) Economic Situation

The overall economy

The economy in Germany was still characterised by solid, steady growth in 2015. Calculations by the Federal Statistical Office indicate that the annual average of the gross domestic product (GDP) was 1.7% higher than the previous year, and thus once again above the 10-year average of 1.3%. According to the Federal Ministry for Economic Affairs and Energy (BMWi), economic development in the more domestically oriented service sectors in particular remained unaffected by external turbulence such as the crises in the Middle East, the transformation process of the Chinese economy, and the prospect of rising interest rates in the US. However, increasing refugee migration clearly shows that Germany cannot decouple itself from global problems. Given the good condition of public financing and the existing stable economic situation, the German Council of Economic Experts expects foreseeable expenditures by federal and state governments on refugee migration to be manageable (EUR 5.9 billion to EUR 8.3 billion in 2015, and EUR 9.0 billion to EUR 14.3 billion in 2016).

Against the backdrop of falling oil prices and low interest rates, private consumption and private purchasing power rose sharply by 1.9%, stronger than at any time since 2000. The unemployment rate at the end of the year was 6.4%, which is 0.3 percentage points below the previous year, with a record high number people in employment (43.5m). At 0.3% the inflation rate remained at around the same low level of the previous year (0.2%).

The German real estate market

Germany remains an attractive location for both residential and commercial real estate. Since 2009, the transaction volume has been rising and in 2015 reached EUR 79 billion, a new record. The German real estate market is regarded by national and international investors as a low-risk investment vehicle compared to other asset classes. High demand and scarcer supply is leading to further price increases, and not only in the highly popular 'A' cities. For instance, according to research by the EY 'Trendbarometer', the dominance of large metropolitan areas fell measurably in recent years, while market shares of 'B' locations like Dresden, Leipzig, Wolfsburg, Hanover, Kiel and Magdeburg have increased. Secondary locations within cities are also increasingly attractive. For instance, in 2015 a number of large residential portfolios were sold in Berlin locations such as Spandau, Reinickendorf, Marzahn, Neukölln, Pankow and Hohenschönhausen.

The German residential property market

Last year, the market volume for residential real estate portfolio transactions was EUR 22.5 billion (previous year EUR 13.4 billion), which represents an increase of 68%. The number of residential units traded also rose by 33% and remained high at 319,500 units in 255 transactions (previous year: 239,600 units in 254 transactions). Prices also rose sharply: while investors paid almost EUR 56,000 per housing unit in 2014, last year it was more than EUR 70,000 (+25%).

The housing market continued to be dominated by consolidations: by far the most-represented buyer and seller group was listed real estate companies, with an investment volume exceeding EUR 15 billion. Vonovia SE alone, which has emerged from the Deutsche Annington Immobilien SE, contributed around EUR 8 billion to last year's transaction volume with its acquisition of 144,450 units from Gagfah S.A. However, medium- and small-scale sales also increased. The 2016 forecast by the consulting firm Savills assumes that listed residential property companies will continue to play a leading role. For 2016 a transaction volume of over EUR 10 billion is expected as German residential property continues to be popular among investors, but transaction volumes may well have peaked.

At this time, the large influx of refugees holds significant opportunities for the housing industry, but also considerable challenges. Even without this high level of immigration, there is already a housing shortage in many cities. The introduction of a 'rental brake' in the respective regions has at best regulated the lack of inexpensive housing, but not solved the problem. According to estimates by the EY Real Estate 'Trendbarometer Real Estate Investment market Germany 2016', over 400,000 homes p.a. will be required to meet the current needs, taking immigration into consideration.

Overview of residential real estate markets represented in the TAG portfolio

Northern Germany (Hamburg, Salzgitter and Rostock segments)
The northern German area with the city of Hamburg as its economic and cultural centre extends to Wilhelmshaven via Bremen, northwards to Schleswig-Holstein and east to the coast of Mecklenburg-Vorpommern.

With around 1.7 m inhabitants, Hamburg is Germany's second-largest city after Berlin. Hamburg's attractiveness is reflected among other things in a further increase in population. The sharp rise in the number of households in Hamburg, combined with low construction activity and low vacancy, is driving rents upward. In the 2015 city ranking by DekaBank and Immobilienmanager, Hamburg is one of the Top 5 A locations (cities of nationwide and international importance).

Salzgitter is located in southeastern Lower Saxony and in December 2015 had a population of 103,339. 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. At the end of December 2015, the unemployment rate in Salzgitter was 8.8%.

The hanseatic city of Rostock situated on the shores of the Baltic is increasingly becoming one of Mecklenburg-Vorpommern's most popular tourist cities. The DekaBank city ranking, which examines 39 cities with populations of over 200,000 inhabitants, puts Rostock among the best C cities (centres of regional significance). Economically, the city is also on a clear upward trend with significant immigration trends. The city has a population of around 206,000. Rostock is an engine of the tourist industry in Mecklenburg-Vorpommern. In 2013, the city of culture received an award for 'best holiday resort'. Unemployment in Rostock has declined year-on-year and was 8.7% at the end of December 2015.

Berlin (Berlin segment)
The city on the Spree continues to show strong population growth and a high rate of influx – 47,000 people moved to the German Capitol in 2015, and the population now totals approx. 3.61 m. A new population forecast by the Senate Department for Urban Development and Environment confirms that the city will continue to grow substantially. It notes that a sharp increase in asylum seekers will have an additional effect on Berlin's population. Unemployment in Berlin was 10.1% at the end of 2015. Job creation in the economy continues strong, and there is still a strong demand for labour, as is reflected in the declining unemployment rate.

The 'rental brake' policy adopted by the government in the spring of 2015 was meant to counter the overstretched housing market and the ensuing rise in rents. In affected areas, properties can only be let to new tenants at a markup of 10% above the local rent. The precise influence of the rental brake on the development of rents is not yet clear. Berlin is a tenants' market, but not homogeneously so; each of the 12 districts has its own dynamic. In general, the supply of rental housing in the lower price segment has declined significantly since 2012 in almost all districts, mainly due to strong population growth. The result is that the Greater Berlin Region is benefiting from the capitol's appeal, thanks to its proximity to Berlin City.

In the Berlin region, TAG manages portfolios of approx. 1,000 units each, predominantly situated in Berlin's 'greenbelt', including in Strausberg, Eberswalde and Bestensee. These small towns are easily reached by S-Bahn or regional Deutsche Bahn trains. In Nauen, a small town northwest of Berlin, TAG has a portfolio of approx. 3,000 units.

Former East Germany (Dresden, Leipzig, Erfurt and Gera segments)
As before, the eastern German housing market offers room for debate. The raw numbers, especially in major cities such as Berlin, Dresden and Leipzig, show a clearly positive situation: The exodus has stopped. In fact, all three locations indicate a growing population, and the big cities in particular are becoming more and more popular, as everywhere in Germany. The former population drain in Dresden, Leipzig and Berlin has transmogrified into dynamic population growth.

This development was underlined in the 2015 city rankings, where cities in eastern Germany are gaining importance. In the group of 14 B cities (municipalities with national and regional relevance), Dresden and Leipzig are listed in 8th and 9th place. Erfurt and Chemnitz are represented among the top 18 in the ranking of C cities. Although the eastern German housing market has a higher than average vacancy rate (between 6.9% and 11.6%), TAG has been successful in reducing vacancy in regions such as Erfurt, Dresden, Leipzig and Gera. The rent dynamics have now equalised between east and west. The rate of increase in the east most recently followed the nationwide trend. Even smaller sites like Chemnitz, Halle, Magdeburg and Schwerin show a rising trend in average first-time occupancy rents last year.

According to a forecast by the Ifo Institute, the overall economic performance of the eastern German states shows a positive trend and therefore follows the pattern for Germany as a whole. Economic development in eastern Germany is only slightly weaker than in Germany as a whole. Looking only at the state of Saxony, the first half of 2015 even indicates a somewhat stronger economic expansion compared to the German average.

Dresden
Dresden is one of the leading business hubs in Germany. Saxony's capital confirms the influx trend toward the East – it currently has a population of 548,800. The university boosts its attractiveness and in business, the renewable energies sector is a main contributor. The city has become a top location in the areas of microelectronics, nanotechnology, new materials and life sciences. Unemployment at the end of December was 7.4%.

Leipzig
Leipzig, Saxony's university and trade fair city, is home to manufacturing plants of the car manufacturers Porsche and BMW. In addition to the automotive industry, Leipzig also sends a clear economic signal as an emerging location for innovative mid-sized IT, biotechnology and energy companies. The unemployment rate at the end of December 2015 was 8.8%.

Erfurt
The Thuringian capital of Erfurt is considered a 'traffic hub' within Germany. Its central location is not only profitable for large logistics companies (DHL) – fast delivery options to the whole of Germany are helping to further enhance Erfurt's economic position and increase its GDP. The influx is unmistakable – the population now stands at 210,271 (2014: 205,000). Unemployment in the Erfurt region at the end of December 2015 was 7.2%.

Gera
Gera is located just 20 km from Hermsdorfer Kreuz, the intersection of the A9 Berlin-Munich and the A4 Dresden-Frankfurt/Main autobahns. The city has good innovative and technological development potential. Modern technology-driven companies – for example in the med-tech, microelectronics, software engineering and optics industries – have already settled here due to low wages and labour costs, reasonable land and real estate prices, and low utility and disposal costs. The unemployment rate at the end of December 2015 was 10.2%.

North Rhine-Westphalia (Rhine-Ruhr segment)
The westernmost state in Germany, North Rhine-Westphalia is still the country's most populous, with a population of approx. 17.5m. Due to a GDP of around EUR 600 billion and an unemployment rate of 7.7%, North Rhine-Westphalia is among the top federal states in Germany in economic terms. No state has a higher volume of trade. NRW is the most important energy location in Germany and an important European energy region. In addition to being a centre for tradeshows and the chemicals industry, the region is also home to a variety of media and communications companies.

b) Business performance

Acquisitions

Acquisitions in financial year 2014 that became effective in 2015
In November 2014, as part of a share deal, TAG acquired a portfolio of approx. 2,300 units in northern and eastern Germany that was taken over on 31 January 2015. This resulted in an accrual of EUR 123.3 m in the investment property sector. The initial fair value valuation of these properties led to a gain of EUR 19.4 m on the reporting date.

Also in November 2014, the acquisition of a portfolio in Görlitz with around 550 units was closed; this, too, was transferred on 31 January 2015, resulting in an accrual of EUR 14.1 m in the investment property sector. This led to a gain of EUR 0.8 m from the initial fair value valuation of these properties on the reporting date.

Acquisitions in financial year 2015
The following table shows details of the acquisitions closed:

Signing of the contract	Saxony/ Saxony-Anhalt May 2015	Brandenburg June 2015	Ruegen July 2015	Brandenburg Nov. 2015	NRW/ Lower Saxony Nov. 2015	Saxony Dec. 2015	Saxony-Anhalt Dec. 2015
Units	860	134	180	1,776	1,304	972	96
Floor area in sqm	49,900	11,400	11,500	97,200	84,600	57,059	8,365
Net actual EUR/sqm/month	4.64	5.49	5.37	4.30	4.42	5.05	5.08
Vacancy in %	14.8	1.3	6.2	18.6	11.3	3.8	6.3
Purchase price in EUR m	18.6	8.8	8.2	41.5	36.75	39.5	5.3
Net actual p. a. EUR m	2.4	0.74	0.69	4.1	4.0	3.36	0.5
Location	Leipzig, Dresden, Magdeburg, etc.	Brandenburg	Ruegen	Brandenburg	Bochum, Eschweiler, Goslar, etc.	Chemnitz, Riesa, etc.	Bitterfeld
Benefits/ encumbrances	Aug. 2015	Aug. 2015	Aug. 2015	Dec. 2015	Dec. 2015	Jan. 2016	Dec. 2015
Multiples	7.9×	11.1×	11.9×	10.1×	9.2×	11.8×	10.6×

In May 2015, TAG acquired a portfolio of approx. 860 units, most of which are located in Saxony and Saxony-Anhalt. Their transfer, on 31 August 2015, resulted in a valuation gain of EUR 10.0m and an accrual of EUR 29.5m in the investment property sector.

TAG also strengthened its property portfolio in June 2015 with another 134 units in the city of Brandenburg, and in July 2015 with approx. 180 units in Mecklenburg-Vorpommern. These two transactions resulted in a valuation gain of EUR 1.6m and an accrual of EUR 19.6m in the investment property sector.

In November 2015, two other portfolios were purchased and were transferred on 31 December 2015. In the city of Brandenburg, TAG acquired 1,776 units, and in North Rhine-Westphalia and Lower Saxony a portfolio of 1,304 units. These two transactions resulted in a valuation gain of EUR 4.8m and the accrual of EUR 86.6m in the investment property sector.

Furthermore, the acquisition of a residential property portfolio with 96 units in Bitterfeld in Saxony-Anhalt was signed in December 2015. This was transferred on 31 December 2015 and resulted in a valuation gain of EUR 0.3m and an accrual of EUR 5.9m in the investment property sector.

In December 2015, TAG acquired a residential portfolio in Saxony with 972 residential units at a purchase price of EUR 39.5m. The portfolio concentrated on the cities of Chemnitz (about 70% of the units) and Riesa near Dresden (approx. 20% of units). However, the takeover of this portfolio only became effective after the balance sheet date, on 31 January 2016.

Sales

Residential real estate

The following table shows details of the residential real estate sales transacted in 2015:

Signing of the contract	Berlin (Marzahn/Hellersdorf) April 2015	Stuttgart (Commercial) Oct. 2015	Hamburg (Wedel) Dec. 2015	Privatisation and ongoing sales 2015
Units	972	182	100	679
Net actual EUR/sqm/month	5.26	13.64	6.60	–
Net actual p.a. EURm	3.5	4.1	0.41	3.35
Vacancy in %	1.7	0.6	5.0	–
Selling price EURm	59.8	87.5	9.0	64.6
Net (cash) earnings EURm	34.6	40.3	6.3	35.3
Book profit (IFRS) EURm	10.7	7.3	1.8	3.9
Location	Berlin (Marzahn/Hellersdorf)	Stuttgart	Wedel	diverse (e.g. Berlin, Dresden, Leipzig, Erfurt, Frankfurt)
Benefits/encumbrances	Jun. 2015	Dec. 2015	Dec. 2015	2015
Multiples	17.0×	21.3×	22.0×	19.0×

In April 2015, the sale of residential properties in the Hellersdorf and Marzahn districts of Berlin was closed. A total of 972 units were sold at a purchase price of EUR 59.8m, equivalent to about 17 times the net annual rent. This sale generated an accounting profit (before taking breakage fees into account of approx. EUR 1.5m) of EUR 10.7m and net cash proceeds of EUR 34.6m after repayment of the associated bank loans and breakage fees.

Following a structured bidding process in late October 2015, the sale of the Stuttgart Südtor mixed-use commercial complex was signed with an institutional investor from Germany. The sale was part of a share deal. The purchase price was EUR 87.5m, which corresponds to 21.3 times the current annual net rental income. The sale of the property in Stuttgart resulted in a book profit (after transaction costs and before taxes) of EUR 7.3m. After deduction of bank liabilities transferred with the sale, the net inflow of liquidity, again after transaction costs and before taxes, amounted to EUR 40.3m.

Finally, in December 2015 the sale of 100 residential units in Hamburg was signed. The purchase price was EUR 9.0m, or approx. 22.0 times the current annual net rent. This resulted in a book profit of EUR 1.8m.

In addition to these sales in Berlin and Stuttgart as part of a smaller portfolio of transactions, of individual sales and as part of privatisation, around 680 units were closed (previous year: 600) at a total sales price of EUR 64.6m (previous year: EUR 24.4m). This resulted in an overall book profit of EUR 3.9m (previous year: EUR 0.0m) and net cash proceeds of EUR 35.3m (previous year: EUR 9.8m).

Early repayment of bank loans

In Q3 2015, an agreement on the early repayment of loans totalling around EUR 46.5m was agreed with a bank. The interest rates on these loans ranged from 1.7% to 5.5% p. a. Although breakage fees amounting to approx. EUR 1.7m arose in this context, the early repayment results in annual interest savings of approx. EUR 2.1m from the very first year.

Early termination of a convertible bond

On 21 July 2015, TAG announced the early termination of a convertible bond issued at the end of financial year 2010 with an initial aggregate principal amount of EUR 66.6m, an interest rate of 6.5% p.a., and an original term of five years to 10 December 2015. After parts of this convertible bond had already been repurchased by TAG in 2013, in the 2015 financial year, numerous transformations of bonds into shares were carried out so that the outstanding total nominal amount was less than 20% of the original total nominal amount. Bondholders were given until 10 August 2015 to exercise their conversion rights under the loan terms at a conversion price of EUR 6.3717. In all, conversion rights with a nominal value of EUR 31.6m were exercised for the convertible bond in FY 2015.

Acquisition of additional shares in the Colonia Real Estate AG subsidiary

In February 2015, TAG purchased an additional 3.6m shares in the Colonia Real Estate AG subsidiary in exchange for 2m of its own shares, increasing its stake in the company from 79% at 31 December 2014 to 87%. The number of treasury shares fell from 13,127,178 shares to 11,127,178 shares due to this exchange.

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

Results of operations

Preliminary note

As a result of the deconsolidation of TAG Gewerbeimmobilien GmbH on 30 May 2014, the provisions of IFRS 5 for 'discontinued operations' were applied for financial year 2014. Therefore, all income and expenses, including sales profits, attributable to the discontinued operation were included under 'Earnings after tax of the discontinued operation' in the consolidated income statement. In financial year 2015, no income and expenses were recorded that would have been allocated to discontinued operations.

Rental revenues and net rental income

During the financial year 2015, TAG significantly increased its rental income from continued operations to EUR 259.3m (previous year: EUR 248.9m). Besides the positive effects from rental growth and vacancy reduction, the residential portfolios newly acquired in 2015 also contributed to this development. Even taking into account the commercial real estate business sold off in 2014, rents increased from EUR 257.4m in the previous year to EUR 259.3m.

As a result of the increased rental income, the Group's rental profit – i. e. rental income net of expenses for property management from continuing operations also improved from EUR 202.6m in the previous year to EUR 211.7m in 2015. The margin remained approx. constant at 81.6% compared to last year (81.4%).

The highest rental income was recorded in the Dresden and Berlin segments (regions) in 2015, with EUR 40.5m (previous year: EUR 34.7m) and EUR 34.5m (previous year: EUR 48.1m), respectively. The relevant segment results, which in sum essentially correspond to the rental income, amounted to EUR 32.0m (previous year: EUR 30.0m) in the Dresden region, and EUR 28.0m (previous year: EUR 40.7m) in the Berlin region.

Results from sales of investment properties and properties held as inventories

Revenues from the sale of inventory and investment properties totalled EUR 200.1 m, putting them below the previous year's EUR 270.8m. The major sales in financial year 2015 were the portfolio sale in Berlin of EUR 59.8m and the sale of the mixed-used commercial complex in Stuttgart of EUR 87.5m. The previous year's higher revenues were mainly due to more extensive sales packages in the Berlin region.

Besides the book profits, the sales results also include commission expenses of EUR 1.0m (previous year: EUR 1.3m) for ongoing sales; allocations to accruals for compensation risks and litigation costs from building projects from previous years of EUR 1.1 m (previous year: EUR 0.9m); and selling costs, e.g. redemption fees for obligations to restore, of EUR 1.5m (previous year: EUR 0.0m).

Other operating income

Other operating income decreased significantly year-on-year to EUR 5.8m (previous year: EUR 10.9m). This was due to increased income from the release of accrued liabilities, the elimination of liabilities, the reversal of provisions, the elimination of liabilities, and from appreciation of properties recorded as tangible assets in the previous year.

Revaluations

The revaluation of investment properties and the first-time valuation of newly acquired properties resulted in an overall positive valuation result of EUR 98.9m in 2015 (previous year: EUR 46.8m). While the revaluation result of newly acquired properties of EUR 36.9m was largely on a par with the previous year's level of EUR 27.6m, the annual revaluation of the existing portfolio resulted in a clear profit increase to EUR 62.0m (previous year: EUR 19.2m). Apart from the rise in real estate prices due to strong demand in some markets, such as Berlin and Stuttgart, this was also due to the very positive operating performance of TAG's real estate portfolio.

Personnel expenses

Personnel expenses increased during the reporting period to EUR 35.2m (previous year: EUR 33.7m). This was mainly due to the increase in the number of employees due to the company's growth, and especially the further expansion of the in-house caretaker and handyman services.

Other operating expenses

At EUR 22.4m, other operating expenses remained slightly below the previous year's level of EUR 22.6m. They mainly refer to legal, consulting and audit costs, advertising costs, IT costs, rental costs for leased business premises, car and travel expenses, and communications costs.

Depreciation/amortisation and impairments on inventories and receivables

The amortisation of intangible assets and property, plant and equipment of EUR 3.1 m (previous year: EUR 3.4m) relate exclusively to depreciation, mainly to IT software and the Group's own owner-occupied properties, which are to be accounted for at amortised cost according to IFRS.

The impairment losses on inventories and receivables of EUR 5.2m (previous year: EUR 13.0m) relate primarily to write-downs of rent receivables. In the previous year, an impairment of EUR 5.7m resulting from the sale of shares in 2012 to Polares Real Estate Asset Management GmbH, and impairment losses of EUR 1.3m on property held as inventories were included.

Share of profit or loss of associates, income from associated companies, impairment of financial assets, and interest income

The total financial result, i.e. the result of investment income, income from associated companies, depreciation on financial assets, interest income and interest expenditure, was EUR -96.0m (previous year: EUR -108.9m and EUR -118.0m including discontinued operations). Eliminating non-recurring effects in the form of breakage fees in connection with sales, and the early repayment of bank loans and non-cash gains or losses from derivatives and corporate or convertible bonds, leads to a P&L cash financial result excluding special items of EUR -84.0m for FY 2015 after EUR -92.9m in 2014 (including discontinued operations).

This development clearly shows the further improvement in financing costs achieved in 2015. The average interest rate on bank loans was reduced to 3.11% on 31 December 2015 (previous year: 3.44%); the total cost of borrowing at the reporting date was 3.45% following 3.74% at the end of the previous year.

At EUR -0.2m, the sum total of income from investments, equity earnings from associated companies, and impairment of financial assets were not material, as in the previous year (EUR 0.8m).

Income taxes

Taxes on income and earnings amounted to EUR -27.7m in 2015, compared with EUR -53.2m in 2014. The proportion of actual tax expenses in 2015 is EUR 0.4m (previous year: tax income of EUR 0.9m), the remaining expenses of EUR 27.3m (previous year: 54.1m) relate to non-cash deferred taxes, primarily from the valuation of investment properties.

Consolidated net profit

Overall, in financial year 2015 TAG achieved consolidated net profit of EUR 147.3m (previous year: EUR 67.8m or EUR 29.0m, including losses from discontinued operations of EUR 38.9m).

The main reasons for the significant increase in consolidated net profit were the EUR 9.1m improvement in net rental income, the EUR 52.1m increase in valuation, and the EUR 26.8m reduction in deferred tax expenses.

Funds from Operations (FFO)

FFO I is calculated based on the Group's consolidated EBT (including results from discontinued operations), adjusted for non-cash items, such as valuation results, depreciation, amortisation (without an adjustment for impairment losses on rent receivables), non-cash interest expense and without regularly recurring special effects, and then deducting current tax income. FFO I is also adjusted for proceeds from sales. AFFO (adjusted funds from operations) is based on FFO I, but minus the capitalised investments in the portfolio holdings ('Capex'). FFO II is based on FFO I and also takes into account the balance sheet profit from property sales. In 2015, the number of shares outstanding was calculated as a weighted average. The comparative figures have been adjusted accordingly.

The following table shows the calculation of FFO I, AFFO and FFO II in the financial year:

in EUR m	2015 Total	2014 Total	Q4 Total	Q3 Total
Net income	**147.3**	**29.0**	**32.1**	**67.0**
Taxes	27.8	54.1	-0.8	18.5
Net financial result	96.0	118.0	21.6	25.9
EBIT	**271.1**	**201.1**	**52.9**	**111.4**
Net financial result (cash) (without special effects)	-84.0	-92.9	-20.2	-20.1
Taxes (cash)	-0.4	0.7	-0.3	0.0
Adjustments				
Valuation result	-98.9	-46.8	-4.8	-73.3
Revaluation of real estate inventory	0.0	-2.1	0.0	0.0
Deconsolidation of commercial portfolio	0.0	-1.0	0.0	0.0
Depreciation	3.1	3.4	0.7	0.7
Impairment losses on receivables and inventories	0.2	42.7	0.1	0.1
One off personnel costs and project costs	5.3	9.7	0.3	0.9
Results from sales	-20.1	-40.3	-8.0	-0.7
FFO I	**76.3**	**74.5**	**20.7**	**19.0**
CAPEX	-40.1	-31.6	-9.6	-13.7
AFFO	**36.2**	**42.9**	**11.1**	**5.3**
FFO I incl. results from sales	20.1	40.3	8.0	0.7
FFO II	**96.4**	**114.8**	**28.7**	**19.7**
Number of shares (outstanding) in thousands	123,118	128,846	125,469	124,844
FFO I per share in EUR	**0.62**	**0.58**	**0.16**	**0.15**
AFFO per share in EUR	**0.29**	**0.33**	**0.09**	**0.04**
Diluted number of shares (in thousands)	134,531	140,790	134,986	135,053
FFO I per share in EUR (diluted)	**0.60**	**0.58**	**0.16**	**0.15**
AFFO per share in EUR (diluted)	**0.29**	**0.35**	**0.09**	**0.05**

FFO I increased year-on-year in 2015, both in absolute terms (from EUR 74.5m to EUR 76.3m) and on a per-share basis (from EUR 0.58 to EUR 0.62). Based on the previous number of shares outstanding at the reporting date, the FFO I per share was EUR 0.61 (previous year: 0.63). The quarter-by-quarter development of FFO I in 2015 with EUR 18.1m in Q1, EUR 18.6m in Q2, EUR 19.0m in Q3 and finally EUR 20.7m in Q4, illustrates the positive development of TAG's operating business.

The Group had originally forecast FFO I of EUR 0.67 to 0.69 per share for financial year 2015, which corresponds to an absolute FFO I of between EUR 79.5m and EUR 81.8m. Mainly due to the acquisitions and disposals of financial year 2015, which due to the delayed processing dates for the transfer of ownership led to a shifting of EUR 3.0m in profits to 2016, the actual FFO I achieved dropped to the aforementioned EUR 76.3m, or EUR 0.62 per share. FFO per share also decreased because of an increase in the number of shares by 6.9m units during financial year 2015 due to the early termination of a convertible bond, and from the issue of treasury shares in exchange for shares in Colonia Real Estate AG.

Assets position

Assets

The total assets at 31 December 2015 was EUR 3.8 billion after EUR 3.7 billion at 31 December 2014. The reduction in total assets total from realised sales was offset against effects from the aforementioned purchases of residential property portfolios, as well as the increase in value of the existing portfolio.

In addition to investment properties of EUR 3,531.1m (previous year: EUR 3,331.6m), the Group's total real estate assets also include properties reported under property, plant and equipment totalling EUR 10.3m (previous year: EUR 10.9m); inventories of EUR 12.8m (previous year: EUR 19.3m); and real estate reported under non-current assets held for sale of EUR 23.7m (previous year: EUR 9.5m). At 31 December 2015, total real estate assets amounted to EUR 3,577.9m, as compared to EUR 3,371.3m at the end of the previous year.

Cash and cash equivalents at 31 December 2015 totalled EUR 103.8m compared to EUR 196.6m at 31 December 2014. In addition, at the reporting date there were liquid assets from sales of EUR 16.2m (previous year: EUR 54.5m) in the form of deposits in escrow accounts on the Group's behalf.

Investments

In financial year 2015, TAG further strengthened its residential real-estate portfolio with acquisitions, and signed contracts for the acquisition of 5,300 units (previous year: 8,900) for a total purchase price of EUR 158.7m (previous year: EUR 294.1m). Apart from this, in 2015 TAG invested a total of EUR 65.3m in its residential portfolio for routine maintenance and for modernisation and restructuring expenses (previous year: EUR 55.0m). A total of EUR 25.2m was spent on maintenance recognised as expense (previous year: 23.9m), and EUR 40.1 on capitalisable investment (previous year: EUR 31.1m).

Financial position

Equity

The equity ratio in financial year 2015 was 29.5% after 26.9% at the end of the previous year. In the Management Board's opinion, this equity ratio means that TAG Group is very solidly funded. The conversions of a convertible bond exercised during the financial year, and the Group's much higher net profit year-on-year strengthened the equity base.

Net Asset Value (NAV)

Unlike our main competitors, we do not assess all of our investment properties with a flat-rate transaction allowance for incidental acquisition costs (usually 7-8% of the fair value), but only in those markets where, based on publically available information, the majority of transactions that take place are actually asset deals, and therefore transaction costs are indeed to be expected at this level. We assess all other properties with our historic transaction costs for share deals (0.2% of fair value).

The following table shows the calculation of NAV, also alternatively taking into account a flat-rate transaction cost deduction for the entire portfolio:

in EUR m	12/31/2015	09/30/2015	12/31/2014
Equity (before minorities)	**1,085.1**	**1,054.9**	**979.5**
Deferred tax	245.1	240.1	211.3
Derivatives	5.4	7.1	7.4
EPRA NAV	**1,335.6**	**1,302.1**	**1,198.2**
Standardized purchaser costs	-207.6	-203.1	-185.1
EPRA NAV (post-standardized purchaser costs)	**1,128.0**	**1,099.0**	**1,013.1**
Number of shares in thousands (outstanding)	125,469	125,469	118,586
EPRA NAV per share in EUR	**10.64**	**10.38**	**10.10**
EPRA NAV per share in EUR (post-transaction costs)	**8.99**	**8.76**	**8.54**
Number of shares in thousands (diluted)	134,986	134,986	132,523
EPRA NAV per share in EUR (diluted)	**10.45**	**10.20**	**9.85**
EPRA NAV per share in EUR (diluted, post-transaction costs)	**8.91**	**8.69**	**8.45**

The increase in NAV per share in financial year 2015, from EUR 10.10 (or EUR 9.89 taking into account the adjustment of the shares of non-controlling interests as described in the Notes) to EUR 10.64, is mainly attributable to the significant increase in consolidated net profit. The main counter effect was the dividend paid in financial year 2015 of EUR 0.50 per share, which reduced the NAV accordingly.

Financing

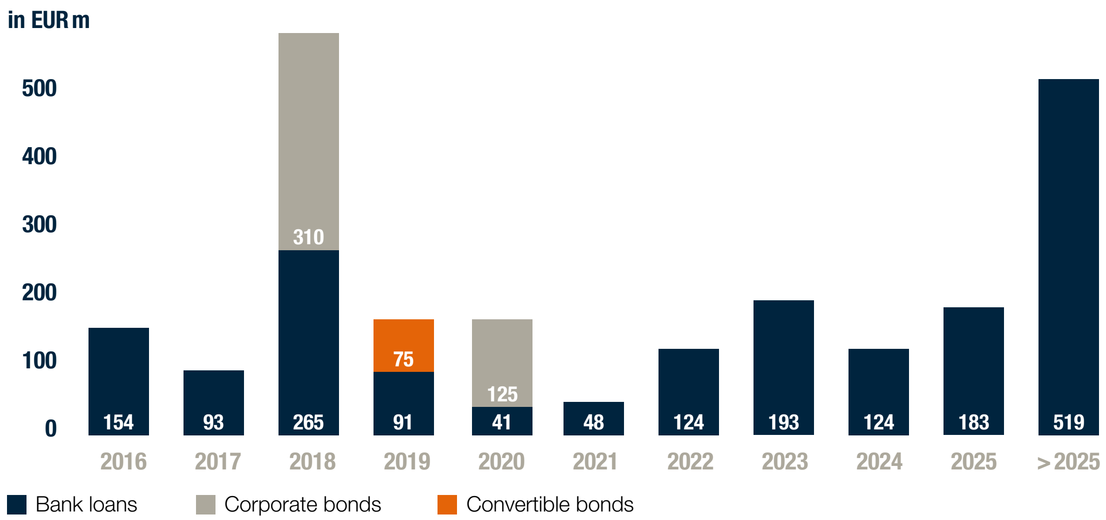
TAG bases its funding on four separate pillars. In addition to bank loans secured by land/property in its real estate companies and subsidiaries, the Company also uses capital market-based financing by issuing convertible and corporate bonds. TAG and its subsidiaries can also draw on credit lines at banks.

During the financial year, liabilities to banks decreased from EUR 1,903.7m to EUR 1,834.9m, due among other things to an early repayment of loans totalling EUR 46.5m. Liabilities to banks with maturities of less than one year stood at EUR 204.1m at year-end 2015 vs. EUR 106.0m the previous year. TAG was again able to achieve a reduction in interest rates by refinancing maturing loans in 2015. The average interest rate on liabilities to banks was 3.11% as of 31 December 2015, taking into account interest rate hedges (previous year: 3.44%).

The carrying amount of the Group's convertible bonds, including accrued interest liabilities, totalled EUR 71.0m at the reporting date (previous year: EUR 105.5m). In July 2015, TAG announced the early termination of a convertible bond due at the end of financial year 2015, with an original aggregate principal amount of EUR 66.6m, an interest rate of 6.5% p. a. and an original term of five years. In total, conversion rights with a nominal value of EUR 31.6m were exercised for the convertible bond issue in financial year 2015. Also, a convertible bond issued by the Colonia Real Estate AG subsidiary in financial year 2010 was fully repaid in May 2015 at the end of its term at its accrued par value of EUR 3.6m. As a result, at 31 December 2015 there was only one convertible bond still outstanding with a nominal value of EUR 74.5m and an interest rate of 5.5% p.a. It matures in June 2019. As the conversion prices of this bond was EUR 7.83 at 31 December 2015, given the much higher market price (31 December 2015 EUR 11.50 per share), we expect it will be fully converted to equity at the end of its term.

As in the previous year, at 31 December 2015 the carrying amount of both TAG corporate bonds issued in 2013 and 2014, including accrued interest payable, was EUR 443.7m. The interest rates are 3.75% and 5.125% p.a. with initial maturities of between five and six years.

The following table shows the maturity of all liabilities as of 31 December 2015:



The Management Board assumes that all loans maturing in 2016 will be renewed as scheduled. TAG does not have any foreign currency financing. The Company expects interest rates to remain low and therefore believes that in the long term, the Company's overall interest expenses will be further reduced – partly because the interest rates on some of the maturing loans are substantially higher than current market levels.

TAG has available credit lines totalling EUR 64.4 m at various banks (previous year: EUR 24 m). As of 31 December 2015, EUR 53.1 m had been drawn down (previous year: EUR 5.0 m).

The TAG Group's debt ratio, which is reflected in the loan-to-value ratio (LTV), decreased to 60.7% as of 31 December 2015 (previous year: 62.2%). The LTV is calculated by dividing the net liquidity position (financial debt less cash and cash equivalents, including the purchase prices already deposited into notary accounts) by real estate assets (less advance payments already received for property sales). The LTV II, which includes financial debt as well as convertible bonds, also decreased from 65.3% to 62.7% as of 31 December 2015.

Overall assessment of the economic situation

TAG was able to significantly increase some of its key operational indicators, such as rental growth and percentage points in vacancy reduction, in financial year 2015. At EUR 76.3 m, FFO was above the previous year's level (EUR 74.5 m). On a per-share basis, FFO I increased to EUR 0.62 after EUR 0.58 in 2014. Thus the earnings situation continues to be positive and rising. The equity ratio remained sound at 29.5% (previous year: 26.9%). TAG has sufficient liquidity and is competitively financed.

Proposed dividend

In view of this positive development, TAG's Management Board intends to propose to the Annual General Meeting, subject to the requisite approval of the Supervisory Board, an increased dividend of EUR 0.55 per share for the 2015 financial year (previous year: EUR 0.50 per share).

d) HR report (employees) and personnel changes on the company's boards

Employees

TAG's employees at the end of the financial year are shown in the following table:

	12/31/2015	12/31/2014
Operational staff	462	442
Administration and control area	103	79
Caretakers	201	134
Handymen	15	0
Total	**781**	**655**

The increase in the number of employees was in the context of further corporate growth, in particular through the expansion of the Group's own caretaker and handyman services.

In addition, TAG increased the number of employees by permanently hiring numerous trainees, as well as increasing the number of temporary and part-time employees.

Changes on the company's boards

In place of the employee representatives Ms Andrea Mäckler and Ms Wencke Röckendorf, who resigned their mandates with effect from 31 December 2014 and 31 January 2015, respectively, on 1 May 2015 Mr. Harald Kintzel and Mr. Marco Schellenberg were elected onto the Supervisory Board by TAG employees for a period of five years.

e) Other financial and non-financial performance indicators

In addition to the above-described financial indicators, net asset value (NAV), loan to value (LTV) and funds from operations (FFO I), TAG especially and continually monitors the vacancy rate, rent per sqm and the rental income generated as an essential basis for the development of FFO I. For said development, please refer to the remarks in the 'Foundations of the Group – Portfolio' section above.

III. Material events after the reporting date

There were no material events after the reporting date.

IV. Forecast, opportunities and risk report

Forecast

The German economy is still on a slight upturn. Employment is at record levels, unemployment is falling, and job market performance is rock solid. Thanks to this development, gross domestic product rose by 1.7% last year. However, increasing refugee migration clearly shows that Germany cannot decouple itself from global problems. Given the good condition of public financing and the existing stable economic situation, the German Council of Economic Experts expects foreseeable expenditures by federal and state governments on refugee migration to be manageable (EUR 5.9 billion to EUR 8.3 billion in 2015, and EUR 9.0 billion to EUR 14.3 billion in 2016).

The economic outlook for Germany remains cautiously positive. Specifically, in its annual forecast of January 2016, the German government expressed its expectation that exports will remain an important mainstay, and especially with high private consumption, a gross domestic product of about 1.9% can be achieved in the current year. Likewise, according to the German Council of Economic Experts and Bundesbank forecasts, the German economy will be able to grow minimally overall, with economic growth forecast at 1.6%. Despite the cautious estimates, Germany is likely to maintain its strong competitive position. For 2016, a modest continuation of the upswing is predicted of around 1.9% (Ifo Institute), 1.8% (Bundesbank) and 1.6% (German Council of Economic Experts). Private consumption remains the main driver of the economy in Germany.

Our strategy for shareholders focuses on total return per share. In contrast to previous years, growth in absolute numbers is no longer a priority for TAG, as the group's real estate portfolio of around 78,000 units at 31 December 2015 has reached a size that allows us to effectively manage our portfolio. For this reason, in the future we will focus even more on optimising the portfolio and effectively increasing our cashflows.

Consequently, this means that we will continue to take advantage of attractive opportunities in the market and invest at sites with development potential where we already have a presence, in order to expand and further develop our residential portfolio. As before, our strategy when purchasing portfolios is determined by explicit capital discipline. At the same time, we will continue to take advantage of select sales opportunities if they improve the profitability of the portfolio as a whole.

Due to strong operating performance, the successful integration of acquired properties, and the further reduction of finance costs, and excluding further acquisitions and sales, TAG forecasts FFO I of EUR 0.67 per share for 2016, or in absolute terms of between EUR 84.0m and EUR 85.0m. An EBT (excluding evaluation results of investment properties and derivative financial instruments) of between EUR 76.0m and EUR 77.0m, or EUR 0.61 per share, is expected for 2016. For the NAV, assuming a dividend of EUR 0.55, an increase to around EUR 10.80 to EUR 10.90 per share is planned.

We expect vacancy in our residential units (based on the 7.7% vacancy rate at 31 December 2015, including acquisitions of 2015) to decrease by another roughly 1.0 percentage point, and expect rent on a 'like for like basis' to increase by approx. 1.5% p.a. (2015: 1.6%), or approx. 2.5% p.a. (2015: 3.3%) including the effects of the vacancy reduction.

Opportunities and risk report

Risk management

TAG has implemented a central risk management system to identify, measure, control and monitor all of the material risks to which the Group is exposed. This risk management system is designed to reduce potential risks, safeguard the Group's assets, and support its continued successful performance. All organisational units within TAG are obliged to comply with the requirements of the risk management system. Updating and developing the risk management and compliance system is seen as an ongoing management task to which top priority is assigned.

The TAG Management Board is responsible for ensuring a consistent and appropriate risk management process. 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 continuously changing conditions and requirements, risk identification is an ongoing task that is integrated in the organisation and in operational processes. All organisational units are always 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 by means of recurring internal report controls. Risks are regularly recorded and evaluated, and countermeasures already taken are reviewed and followed up on. Moreover, as needed, the Management Board is immediately notified of all material risks and developments so that it can promptly take the requisite steps.

TAG has an internal auditing department that additionally monitors risk management and compliance with the internal control system. As an independent unit, it regularly reviews the Company's business processes, installed systems, and implemented checks.

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 TAG Group's exposure. Individual risks are to be evaluated in terms of their reciprocal effects with other risks.

Description of individual risks

Economic and sector risks
The German real estate market depends on macroeconomic developments and the demand for real estate in Germany. Demand for real estate is influenced, in particular, by demographic trends, the job market, private debt levels and real incomes, as well as the activities of international investors in Germany, and is largely dependent on the regional situation. One key factor is the tax environment in which taxation instruments such as periods of use, retention periods for private sales, and taxes on inheritance and real-estate purchases are applied.

TAG is exposed to intense competition. Especially for the acquisition of real estate portfolios, it competes with real estate companies, real estate funds, and other institutional investors, some of which may 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.

TAG's business focus on specific regions within Germany can also lead to a dependency on regional market developments and expansion risks.

TAG's strategic concentration on dynamic urban centres and selected other locations limits these risks. Select purchases of residential real estate also serve to strengthen its concentration on a high-quality, high-yield portfolio. To prepare for acquisition decisions, general and regional market developments are permanently monitored, and the properties on offer are meticulously analysed with regard to their condition, location and rents. To assess potential income, synergies and rental and cost risks, potential transactions are subjected to a thorough due diligence process. These factors are evaluated in the same way for TAG's entire real estate portfolio and are also considered in potential sales of inventories.

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 TAG's 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

Rental risks
Substantial vacancy and a 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 through 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 ensures that payments are received continuously and can help to avert defaults with minimum delay. Although there are always individual risks of default, we consider it to be marginal overall.

Portfolio appraisal risks
The market value (fair value) of the real estate shown in the consolidated financial statements is based on calculations performed at least once a year by independent, accredited appraisers. These appraisals depend on various factors, some of which are objective – such as macroeconomic conditions, or prevailing interest rates – as well as other exogenous factors such as rental levels and vacancies.

The appraiser also takes into account discretionary, qualitative factors such as the location and 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 Group net income. It does not, however, have any direct impact on TAG's liquidity.

The relevant transaction costs are to be deducted from fair value of the property. 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 make 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 German states were defined as sub-markets to determine the relevant market. On the basis of information provided by the relevant valuation 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 for 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 deductible transaction costs for these averaged 8.1% (previous year: 7.4%).

The definition of the respective relevant market segments is the same as in the previous year. In the event of the market for asset deals being deemed to be the main market for all German states, this would result in a devaluation of the residential real estate of around EUR 207.6 m (previous year: about EUR 185.1 m). If no major market is identifiable for any federal state, and thus the market for share deals is used as the most advantageous market in assessing the valuation, this would result in an appreciation of the residential real estate of around EUR 52.4 m (EUR 75 m last year).

Financial risks

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

Liquidity risks
Extensive liquidity planning instruments, both short- and medium-term, are used 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. A 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. Should this lead 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 using current market conditions in order to refinance long-term loans on favourable terms in order to mitigate this risk.

The Group has loans totalling around EUR 1,434.7 m (previous year: EUR 1,518 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 2015, all essential requirements of the financial covenants stipulated in loan contracts were complied with by the Group, as they were last year. There were no premature termination obligations.

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 takeover offer' below – may be subject to a right of premature termination.

Interest rate risks
The Group's activities are primarily subject 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. 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 the business planning department. 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 very small volume of business was still denominated in Swiss francs during the financial year.

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.

There are legal risks associated with the Group's past activity in the property development business. As the pro-consumer and pro-buyer administration of justice often does not consider final inspections of buildings carried out years ago by purchasers to be effective, claims by purchasers of construction defects years later and after the usual warranty periods of five years are possible. A number of these proceedings are still pending in the court for cases where works were completed over ten years ago. There is also the risk of claims of environmental contamination or hazards arising from construction materials warranty claims in connection with the sale of real estate, which may exceed the corresponding rights of recourse available.

Occasionally, claims are asserted against TAG subsidiaries by purchasers in connection with lost tax advantages, compensation and, in some cases, the rescission of contracts entered into many years ago. Appropriate provisions have been created to cover risks in connection with legal disputes, claims for damages, and warranty claims.

Tax risks

Some of TAG's tax structures are complex. Various different taxable entities (tax groups and taxation at individual company level), and legal forms exist within the Group. In this connection, restrictions on 'interest barriers' or the claiming of the 'prerogative of extended trade tax reduction' often become especially relevant. In addition, the tax-neutral allocation of capital gains to reserves (e.g. in accordance with Section 6b of the German Income Tax Act), and acquisitions of shares in real estate companies where the property transfer tax is eliminated through appropriate structures, are significant for the Group's tax burden.

Although the Company believes that tax risks have been adequately covered by provisions, it is possible that future tax audits could lead to further, and perhaps significant, tax burdens.

Opportunities for future development

TAG Immobilien AG further strengthened and expanded its market position last year. As a result, the increase in the number of units has also led to an increase in real estate volume, rental revenue and FFO. Thanks to the Group's decentralised structure with its 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.

TAG Group's portfolio is located in various regions 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, enable a consistent generation of returns and cashflows from the portfolio.

Moreover, TAG Group's core skill is active asset and property management, which in the past has been instrumental in reducing vacancies, boosting rental income and lowering vacancy-related costs. In the years ahead, vacancy reduction and the realisation of rent-raising potential within the portfolio will continue to form the basis for further organic value increases.

Apart from implementing our growth strategy and improving our capital market position, TAG also has a solid funding structure. Most of the Group's financing is long-term. As of 31 December 2015, the average interest rate on total debt (bank loans, corporate bonds and convertible bonds) stood at 3.45% (previous year: 3.74%). The average term of bank loans was 10.2 years (previous year: 11.0).

TAG's business model – in particular its active asset management, which is reflected in continuous vacancy reduction – is well established on the capital market and with the banks. All these facts form the basis for a successful implementation of the Group's strategy and 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 not changed fundamentally 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 counteract, at an early stage, risks that could threaten the existence of the Company.

At this time, the Management Board is unaware of any 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. All of the Group's financial statements are prepared by its own employees, for the most part at the Group headquarters in Hamburg. Although parts of the accounting are handled locally – e.g. payroll accounting by an external service provider, and rental accounting by the Group's shared service centres, or, if only to a very minor extent at this point, by external real estate management companies – the Accounting department at Group headquarters bears the final responsibility.

Key real estate sector indicators, funding and liquidity developments, as well as the financials of the individual companies, the subgroup and the Group as a whole, are checked by Controlling and reconciled with the budgets and prior periods. The most important findings from these figures are submitted to the Management Board in a monthly report and are also forwarded to the Supervisory Board.

In financial year 2015, the Accounting department used a uniform ERP system (SAP Promos) throughout the Group to prepare the financial statements.

External service providers are involved in preparing the quarterly and annual financial statements. For instance, independent appraisers investigate reports on the fair value of the real estate. The fair value of interest swaps and calculation of pension provisions are also calculated with the assistance of external experts. Risks arising from interest rate swaps are monitored on an ongoing basis. The efficiency of interest rate 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, and voting rights are required in accordance with Section 315 (4) of the German Commercial Code. The information provided in the following is based on the conditions that existed as of 31 December 2015:

Composition of share capital

The Company's share capital stood at 136,596,330.00 as of 31 December 2015, up from EUR EUR 131,298,317.00 as of 31 December 2014. It is divided into 136,596,330 shares (previous year: 131,712,859). The computed pro rata amount of share capital attributable to each share is EUR 1.00. All shares carry the same rights. Each share entitles the owner to one vote; the dividend entitlement is determined by the number of shares held.

Limitations 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 as per 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 its 11,127,178 own shares (previous year: 13,127,178) that TAG holds indirectly via a 100% subsidiary at the reporting date. The Company's 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 when it comes to 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 shares exceeding 10%

The Company is aware of the following direct or indirect holdings of more than 10% of its voting rights as of 31 December 2015, based on reports submitted to it pursuant to the German Securities Trading Act (WpHG):

- Flossbach von Storch AG, Cologne, Germany
- Sun Life Financial Inc., Toronto, Canada
- Pension institution of the federal and state governments, Karlsruhe, Germany

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

Employees who own capital shares in TAG exercise their control rights like other shareholders in accordance with the statutory provisions and the Articles of Association. 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 the Company's Articles of Association. Management Board members are appointed by the Supervisory Board for a maximum term of five years. A reappointment or extension of the term for a maximum of five years is permitted.

According to the Articles of Association, the Supervisory Board may appoint a Chairman and a Deputy Chairman. The Supervisory Board did not exercise this power in the past financial year. The Management Board consists of at least two 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 resolution by the (Annual) General Meeting. 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 to change the Articles of Association can in principle passed by a simple majority of the votes cast and the share capital represented in the vote.

The law stipulates, in several instances, a larger majority of 75% of the capital shares represented in the vote – e.g. for certain capital measures and the exclusion of subscription rights.

Authorisation of the Management Board to issue new shares (authorised and contingent capital) 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 40m 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. Following this utilisation, EUR 8,190,307.00 is still available.

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 20m 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 assets/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 2015:

- Contingent capital 2010/I dating back to the shareholders' resolution of 25 June 2010 increased the share capital by another 9.8m shares. This contingent capital serves to underpin the EUR 66.6m convertible bond (WKN A1E89W), which was terminated by the company with effect from 21 August 2015. The exercise of conversion rights in the financial year increased the share capital from this convertible bond to 4,883,471 shares.
- Contingent capital 2011/I dating back to the shareholders' resolution of 26 August 2011 increased the share capital by a further 15m shares. It serves to underpin the EUR 85.3m 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 13m 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 160m 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.
- Contingent capital 2015/I dating back to the shareholders' resolution of of 19 June 2015 increased the share capital by a further 20m 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 300m are issued by 18 June 2020 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 19 June 2015.

In a resolution passed at the Annual General Meeting on 13 June 2014, the Company was authorised to acquire its own shares representing up to 10% of the available share capital on the effective or upon exercise of this authorisation, whichever is lower, up until 12 June 2019. The Company made use of this authorisation in financial year 2014 to repurchase 13,127,178 shares, of which 2,000,000 were sold again during the 2015 financial year. On the reporting date, all 11,127,178 own shares were held by a wholly owned subsidiary (previous year: 6,400,000).

Following this share buyback, the extraordinary general meeting on 28 November 2014 issued a new authorisation to acquire own shares representing up to 10% of the available share capital on the effective date or upon exercise of this authorisation, whichever is lower, up until 27 November 2019. The Company may not utilise this authorisation for the purpose of trading in own shares.

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

TAG has lines of credit totalling EUR 5.69m (previous year: EUR 6.35m), which require the bank's approval in the event of a change of shareholder, or in the case of a change of control at the level of TAG Immobilien AG, may otherwise lead to the loans being terminated. In addition, there are numerous 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 corporate bonds totalling EUR 435m issued in August 2013 and June 2014 also have special change-of-control provisions that obligate the Company to buy back the bonds at terms stated in detail in the terms of the bond. The outstanding convertible bond in the amount of EUR 74.5m (originally EUR 85.3m), maturing in June 2019, provides 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 bonds totalling EUR 435m issued in August 2013 and June 2014 with maturities of five or six years respectively, also have special change-of-control provisions, which obligate the Company to buy back the bonds at terms stated in detail in the terms of the bond.

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

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

There are no remuneration agreements with the members of the Management Board in case of a takeover bid. Please refer to the Remuneration Report for the measures agreed with the Management Board members in this case.

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 under 'Investor Relations/Corporate Governance/Declaration of Corporate Governance'.

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

In accordance with the provisions of the Act on Appropriateness of Management Board Remuneration, the members of the Management Board receive a fixed and a variable remuneration component. This system was applied for the first time for 2010, reviewed in the following years by the Supervisory Board, and refined in the 2014 and 2015 financial years by incorporating additional parameters in the tax base and raising the (cap on the) maximum bonus payable. In addition, the parameters are now based solely on the performance per share.

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, and the Group's business success and outlook.

The variable components of the Management Board's remuneration are calculated for the previous year based on the following criteria, which are each given equal weighting:

- Development of the share price during the financial year (after deduction of dividend paid out during the year)
- Development of the net asset value (NAV) per share during the year (after deduction of a dividend paid out during the year)
- Development of the FFO I per share during the year
- Development of EBT (earnings before taxes) per share during the year, not taking into account any results from reassessments of the investment properties and from the fair-value reassessment of derivative financial instruments.

These figures are calculated relative to the figures for the previous year as at 31 December and based on the IFRS consolidated financial statements. 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 adjusted accordingly if there is any deterioration in the Company's performance. This ensures that allowance is made for long-term business performance.

Upon the ordinary termination of office on the part of any member of the Management Board, such member receives the outstanding part of the variable remuneration for which entitlement has accrued. As in the previous year, the variable remuneration has been capped at TEUR 250. In exceptional cases, the Supervisory Board may pass other resolutions to allow for special circumstances and / or special achievements by the individual member of the Management Board.

No provision has been made for stock options or similar variable remuneration arrangements. Members of the TAG Management Board are not entitled to claim any additional bonuses or duplicate remuneration if they simultaneously serve on the Management Board or Supervisory Board of Colonia Real Estate AG or sit on the managerial or supervisory boards of other subsidiaries. Variable remuneration is determined solely at TAG Immobilien AG level and charged to TAG Immobilien AG. All ancillary activities are subject to approval.

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, the members of the Management Board are entitled to terminate their service contract subject to an advance notice of six months (special right of termination). If this special right of termination is exercised, the Company undertakes to pay a gross settlement amount on the date of departure that is equal to the annual gross salary, provided that the service contract still has a remaining period of at least 24 months as of the date of termination. In the event of a shorter remaining period, the member of the Management Board is entitled to claim a gross settlement equalling the gross salary that he or she would have earned in the remaining term of the service contract. In the event of a premature termination of Management Board contracts for other reasons, the contracts contain the provision that the compensation payable to them is to be capped at a value equalling two annual salaries, and shall not exceed the amount due for the remaining period of the contract.

The contracts with the members of the Management Board do not provide for any pension entitlements.

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, private use of communications devices, and compensation for expenses incurred during business travel.

The non-performance-based remuneration takes the form of a fixed annual salary paid out in equal monthly instalments. Some members of the Management Board use a company car, which is taxed accordingly as a non-cash benefit. Please refer to the Notes to the Consolidated Financial Statements for details on the remuneration of members of the Management Board.

Hamburg, 9 March 2016

Claudia Hoyer	**Martin Thiel**	**Dr Harboe Vaagt**
COO	**CFO**	**CLO**

CONSOLIDATED BALANCE SHEET

Assets in TEUR	Notes	12/31/2015	12/31/2014 (adjusted*)	01/01/2014 (adjusted*)
Non-current assets				
Investment properties	(1)	3,531,108	3,331,600	3,544,075
Intangible assets	(2)	2,959	3,831	5,142
Property, plant and equipment	(3)	14,668	14,422	13,028
Investments in associates	(4)	114	146	119
Other financial assets	(5)	12,956	12,659	18,178
Deferred taxes	(6)	43,627	58,981	50,341
		3,605,432	**3,421,639**	**3,630,883**
Current assets				
Property held as inventory	(7)	12,809	19,308	46,874
Other inventories	(7)	348	677	618
Trade receivables	(8)	29,859	70,693	16,221
Income tax receivables	(6)	5,000	1,953	3,293
Derivative financial instruments	(21)	14	3,551	8,884
Other current assets	(9)	13,194	10,269	14,984
Cash and cash equivalents	(10)	103,833	196,646	85,326
		165,057	**303,097**	**176,200**
Non-current assets held for sale	(11)	**23,710**	**9,510**	**5,969**
		3,794,199	**3,734,246**	**3,813,052**

* for the adjustments see the section 'Adjustments of comparable figures of the previous year' in the Notes

Equity and liabilities in TEUR	Notes	12/31/2015	12/31/2014 (adjusted*)	01/01/2014 (adjusted*)
Equity				
Subscribed capital	(12)	125,469	118,586	131,298
Share premium	(13)	618,317	582,002	680,040
Other reserves	(14)	-2,400	-5,665	-10,930
Retained earnings	(15)	343,735	258,728	281,040
Attributable to the equity holders of the parent company		1,085,121	953,651	1,081,448
Attributable to non-controlling interests	(16)	35,431	51,402	45,918
		1,120,552	**1,005,053**	**1,127,366**
Non-current liabilities				
Liabilities to banks	(17)	1,630,787	1,797,751	1,947,049
Liabilities from corporate bonds	(19)	434,967	434,972	197,006
Liabilities from convertible bonds	(20)	70,942	69,925	106,125
Derivative financial instruments	(21)	1,390	5,447	13,519
Retirement benefit provisions	(18)	6,020	6,317	5,618
Other non-current liabilities	(22)	3,354	3,445	293
Deferred taxes	(6)	231,589	211,120	170,438
		2,379,049	**2,528,977**	**2,440,048**
Current liabilities				
Other provisions	(23)	17,285	16,429	24,214
Income tax liabilities	(6)	6,162	6,925	9,423
Liabilities to banks	(17)	204,088	105,959	179,534
Trade payables	(24)	14,629	9,147	11,385
Derivative financial instruments	(21)	4,044	5,481	9,166
Liabilities from corporate bonds	(19)	8,764	8,764	4,100
Liabilities from convertible bonds	(20)	34	35,539	190
Other current liabilities	(25)	39,592	11,972	7,626
		294,598	**200,216**	**245,638**
		3,794,199	**3,734,246**	**3,813,052**

* for the adjustments see the section 'Adjustments of compareable figures of the previous year' in the Notes

CONSOLIDATED INCOME STATEMENT

in TEUR	Notes	01/01/– 12/31/2015	01/01/– 12/31/2014
Total revenues		**461,226**	**521,581**
Rental revenues	(26)	259,284	248,875
Rental expenses	(26)	-47,630	-46,261
Net rental income		211,654	202,614
Revenues from the sale of inventory real estate	(27)	9,016	14,317
Expenses on the sale of inventory real estate	(27)	-9,107	-13,694
Net revenues from sale of inventory real estate		-91	623
Revenues from the sale of investment properties	(27)	191,100	256,525
Expenses on the sale of investment properties	(27)	-170,941	-216,186
Net revenues from the sale of investment properties		20,159	40,339
Revenues from property management	(28)	1,826	1,864
Expenses for the provision of property management	(28)	-1,194	-378
Net income from property management		632	1,486
Other operating income	(29)	5,772	10,943
Fair value revaluation of investment properties	(30)	62,052	19,249
Valuation gains/losses on newly acquired investment properties	(30)	36,871	27,550
Total valuation gains/losses on investment properties		98,923	46,799
Gross profit		**337,049**	**302,804**
Personnel expenses	(31)	-35,246	-33,747
Depreciation/amortisation	(32)	-3,110	-3,375
Impairment losses on receivables and inventories	(33)	-5,187	-13,014
Other operating expenses	(34)	-22,407	-22,590
EBIT		**271,099**	**230,078**
Net profit from investments	(35)	311	727
Share of profit or loss of associates	(4)	-32	27
Impairment of financial assets	(36)	-469	0
Interest income	(37)	3,545	3,990
Interest expenses	(37)	-99,370	-113,631
EBT		**175,084**	**121,191**
Income taxes	(6)	-27,715	-53,162
Other taxes	(38)	-48	-200
Consolidated net profit from continuing operations		**147,321**	**67,829**
Discontinued operation			
Post tax result of discontinued operations		0	-38,865
Consolidated net profit		**147,321**	**28,964**
attributable to non-controlling interests	(16)	2,020	5,319
attributable to equity holders of the parent company		145,301	23,645
Earnings per share (in EUR)			
Basic earnings per share	(39)	1.18	0.18
Diluted earnings per share	(39)	1.12	0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	Notes	01/01/– 12/31/2015	01/01/– 12/31/2014
Net profit as shown in the income statement		**147,321**	**28,964**
Unrealised gains and losses from hedge accounting	(14)	4,312	9,485
Deferred taxes on unrealised gains and losses	(6)	-1,031	-3,087
Other comprehensive income after taxes		3,281	6,398
Total comprehensive income		**150,602**	**35,362**
attributable to non-controlling interests	(16)	2,020	5,898
attributable to equity holders of the parent company		148,582	29,464

CONSOLIDATED CASHFLOW STATEMENT

in TEUR	Notes	01/01/– 12/31/2015	01/01/– 12/31/2014
Consolidated net profit		147,321	28,964
Net interest income/expense through profit and loss	(37)	95,825	109,641
Current income taxes through profit and loss	(6)	383	925
Depreciation, amortisation and financial assets	(32, 36)	3,580	3,375
Share of profit or loss of associates and other financial assets	(4, 5)	-279	-27
Total valuation profit/losses of investment properties	(30)	-98,923	-46,799
Gains/losses from the disposal of discontinued operations		0	34,024
Gains/losses from the disposal of investment properties	(1, 27)	-20,159	-40,339
Earnings from the sales of tangible and intangible assets		55	0
Impairments inventories and receivables	(33)	5,187	13,014
Changes to deferred taxes	(6)	27,332	46,100
Changes in provisions	(18, 23)	559	-6,963
Interest received	(37)	1,664	1,749
Interest paid	(37)	-85,934	-89,124
Income tax paid		-3,883	865
Changes in receivables and other assets		-1,865	-5,857
Changes in payables and other liabilities		7,612	30,990
Cashflow from operating activities		**78,475**	**80,538**

in TEUR	Notes	01/01/– 12/31/2015	01/01/– 12/31/2014
Payments received from the disposal of investment properties (less selling costs)	(1, 27)	202,905	149,184
Payments made for investments in investment properties	(1)	-282,321	-241,498
Payments received from the disposal of discontinued operations (less cash and cash equivalents)		0	70,282
Proceeds from the sales of tangible and intangible assets		34	0
Payments made for investments in intangible assets and property, plant and equipment	(2, 3)	-2,951	-3,458
Payments received from other financial assets	(5)	1,706	741
Payments received from the disposal of non-current assets held for sale	(11)	0	44,871
Cashflow from investing activities		**-80,627**	**20,122**
Purchase of treasury shares	(12)	0	-122,083
Costs related to purchase of treasury shares (net of income tax)	(13)	0	-699
Payments received from the issuance of corporate bonds	(19)	0	238,300
Costs associated with the issuance of corporate bonds	(19)	0	-371
Payments made for repaying convertible bonds	(20)	-4,324	0
Dividends paid		-60,294	-45,954
Distributions to minority shareholders		-550	0
Payments received from liabilities to banks	(17)	110,616	170,529
Payments made for repaying liabilities to banks	(17)	-118,803	-247,872
Payments made for company acquisitions without a change of status		0	-158
Cashflow from financing activities		**-73,355**	**-8,308**
Net change in cash and cash equivalents		-75,507	92,352
Cash and cash equivalents at the beginning of the period		171,433	79,008
Currency translation	(14)	-16	73
Cash and cash equivalents at the end of the period		**95,910**	**171,433**

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	Retained earnings	Total	Non-controlling interests	Total equity
Amount on 01/01/2015 (historical*)		**118,586**	**607,860**	**46**	**-5,727**	**16**	**258,728**	**979,509**	**25,544**	**1,005,053**
Adjustment of comparable figures from previous year*		**0**	**-25,858**	**0**	**0**	**0**	**0**	**-25,858**	**25,858**	**0**
Amount on 01/01/2015 (adjusted*)		**118,586**	**582,002**	**46**	**-5,727**	**16**	**258,728**	**953,651**	**51,402**	**1,005,053**
Consolidated net profit		0	0	0	0	0	145,301	145,301	2,020	147,321
Other comprehensive income		0	0	0	3,281	0	0	3,281	0	3,281
Total comprehensive income		0	0	0	3,281	0	145,301	148,582	2,020	150,602
Issue of treasury shares for Colonia shares	(12)	2,000	17,294	0	0	0	0	19,294	-19,294	0
Deferred taxes convertible bonds	(6, 20)	0	-7,860	0	0	0	0	-7,860	0	-7,860
Sale of subsidiaries		0	0	0	0	0	0	0	-401	-401
Initial consolidation of real estate asset companies		0	29	0	0	0	0	29	2,242	2,271
Conversion of bonds	(12, 20)	4,883	26,852	0	0	0	0	31,735	12	31,747
Payments to minority shareholders		0	0	0	0	0	0	0	-550	-550
Dividends paid		0	0	0	0	0	-60,294	-60,294	0	-60,294
Currency translation	(14)	0	0	0	0	-16	0	-16	0	-16
Amount on 12/31/2015		**125,469**	**618,317**	**46**	**-2,446**	**0**	**343,735**	**1,085,121**	**35,431**	**1,120,552**
Amount on 01/01/2014 (historical*)		**131,298**	**705,898**	**527**	**-11,546**	**89**	**281,040**	**1,107,306**	**20,060**	**1,127,366**
Adjustment of comparable figures from previous year*		**0**	**-25,858**	**0**	**0**	**0**	**0**	**-25,858**	**25,858**	**0**
Amount on 01/01/2014 (adjusted*)		**131,298**	**680,040**	**527**	**-11,546**	**89**	**281,040**	**1,081,448**	**45,918**	**1,127,366**
Consolidated net profit		0	0	0	0	0	23,645	23,645	5,319	28,964
Other comprehensive income		0	0	0	5,819	0	0	5,819	579	6,398
Total comprehensive income		0	0	0	5,819	0	23,645	29,464	5,898	35,362
Issue of treasury shares	(12)	-13,127	-108,475	-481	0	0	0	-122,083	0	-122,083
Deferred taxes convertible bonds	(6, 20)	0	8,714	0	0	0	0	8,714	0	8,714
Increase in shares without any change of status		0	-158	0	0	0	0	-158	-414	-572
Conversion of bonds	(12, 20)	415	2,354	0	0	0	0	2,769	0	2,769
Costs related to purchase of treasury shares (net of income taxes)		0	-473	0	0	0	0	-473	0	-473
Dividends paid		0	0	0	0	0	-45,957	-45,957	0	-45,957
Currency translation	(14)	0	0	0	0	-73	0	-73	0	-73
Amount on 12/31/2014		**118,586**	**582,002**	**46**	**-5,727**	**16**	**258,728**	**953,651**	**51,402**	**1,005,053**

* for the adjustments see the section 'Adjustments to comparison figures for the previous year' in the Notes

CONSOLIDATED SEGMENT REPORT

		Segment by LIM Region											
in TEUR		LIM Berlin	LIM Dresden	LIM Rhine-Ruhr	LIM Erfurt	LIM Gera	LIM Hamburg	LIM Leipzig	LIM Rostock	LIM Salzgitter	Other activities	Consolidation	Total
Segment revenues	**2015**	**34,523**	**40,482**	**18,531**	**28,137**	**28,824**	**27,774**	**28,041**	**18,691**	**28,781**	**6,353**	**-853**	**259,284**
	2014	48,099	34,745	16,797	23,906	24,633	23,968	25,266	17,021	29,287	14,403	-752	257,373
Rental revenues	2015	34,523	40,482	18,531	28,137	28,824	27,774	28,041	18,691	28,781	6,353	-853	259,284
	2014	48,099	34,745	16,797	23,906	24,633	23,968	25,266	17,021	29,287	14,403	-752	257,373
Segment expenses	**2015**	**-6,555**	**-8,508**	**-4,948**	**-5,412**	**-6,222**	**-6,890**	**-4,442**	**-3,785**	**-9,362**	**-1,531**	**5,692**	**-51,963**
	2014	-7,430	-4,630	-5,238	-4,802	-5,857	-5,346	-4,855	-3,431	-11,475	-3,332	3,316	-53,080
Rental expenses	2015	-3,274	-4,137	-2,039	-3,096	-3,142	-2,447	-2,307	-1,706	-3,892	-786	4,509	-22,317
	2014	-2,735	-2,201	-1,893	-2,315	-3,389	-1,943	-2,272	-1,394	-4,531	-2,053	2,183	-22,543
Maintenance	2015	-2,822	-4,041	-2,380	-1,603	-2,778	-3,269	-2,090	-1,848	-5,163	-405	1,183	-25,216
	2014	-4,220	-2,374	-2,483	-1,621	-2,364	-2,690	-2,140	-1,624	-5,662	-1,247	1,133	-25,292
Impairment losses on receivables	2015	-536	-414	-606	-746	-353	-1,226	-196	-250	-309	-358	0	-4,994
	2014	-563	-359	-874	-900	-322	-738	-503	-433	-1,294	-51	0	-6,037
Other income/expenses	2015	77	84	77	33	51	52	151	19	2	18	0	564
	2014	88	304	12	34	218	25	60	20	12	19	0	792
Segment results	**2015**	**27,968**	**31,974**	**13,583**	**22,725**	**22,602**	**20,884**	**23,599**	**14,906**	**19,419**	**4,822**	**4,839**	**207,321**
	2014	40,669	30,115	11,559	19,104	18,776	18,622	20,411	13,590	17,812	11,071	2,564	204,293
Segment assets	**2015**	**517,732**	**541,823**	**302,309**	**384,077**	**372,940**	**391,189**	**372,698**	**260,238**	**375,247**	**59,644**	**0**	**3,577,899**
	2014	484,671	519,387	233,363	359,514	371,182	332,401	339,759	241,503	360,916	128,572	0	3,371,269

This Group segment report is an integral part of the notes

SUMMARY OF 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 2015 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 fulfilled 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:

Standard	Inhalt
IFRIC 21	Disclosures
IFRS improvements cycle 2011–2013	Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40
Amendments to IAS 19	Defined benefit plans: employee contributions
IFRS improvements cycle 2010-2012	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38

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 prematurely adopted on a voluntary basis:

Standard	Index	Application mandatory for accounting periods commencing on or after
Endorsed by the EU		
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations	01/01/2016
Amendments to IAS 1	Disclosures in the notes	01/01/2016
Amendments to IAS 16 and IAS 38	Clarification of the permissible depreciation method	01/01/2016
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	01/01/2016
Amendments to IAS 27	Equity method of accounting in seperate financial statements	01/01/2016
IFRS improvements cycle 2012 – 2014	Amendments to IFRS 5, IFRS 7, IAS 19, IAS 34	01/01/2016
EU endorsement pending		
IFRS 9	Financial instruments	01/01/2018
IFRS 14	Regulatory deferral accounts	01/01/2016
IFRS 15	Revenue from contracts with customers	01/01/2018
IFRS 16	Leasing relationships	01/01/2019
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between related companies/joint ventures	undefined
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: exception from consolidation	01/01/2016
Amendments to IAS 7	Cashflow statement: disclosure initiative	01/01/2017
Amendments to IAS 12	Taxes on income: clarifications	01/01/2017

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

The parent company's registered offices are located at Steckelhörn 5, 20457 Hamburg, Germany.

The financial year of the parent company and the consolidated subsidiaries, joint ventures and associates is the calendar year. Uniform recognition and valuation 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 aggregate cost method. EBIT is defined as earnings before income and other taxes, interest and net borrowing costs. EBT stands for earnings before income and other taxes.

TAG is a listed real estate company that can look back on a history spanning more than 125 years. Its main business activity is to manage residential 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 objective. In particular, it may incorporate companies with a similar or different purposes and establish branches in Germany or other countries. It may sell all or part of its business operations or transfer them to other companies. A Swiss subsidiary was sold at the beginning of the year The domiciles of the subsidiaries in the Netherlands and Luxembourg were relocated to Germany under a cross-border change of legal form. Accordingly, all subsidiaries are domiciled in Germany as of the end of the financial year.

TAG's consolidated financial statements and the Group management report were prepared by the Management Board and released for publication on 9 March 2016 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 de-consolidated 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.

If shares are acquired or sold in companies that 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 and sale of property companies that do not engage in any business as defined in IFRS 3 is treated as a direct real estate purchase or sale (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 (associate companies) are accounted for using the equity method of accounting. The share of losses of associate companies is not recorded if the carrying amount of the investment in the associate company 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 likewise eliminated.

Interests in consolidated equity capital and consolidated net profit not attributable to TAG are recorded within 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.

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.

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

- TAG Immobilien AG, Hamburg (parent company)
- TAG Leipzig-Immobilien GmbH, Hamburg
- TAG Finance Holding GmbH, Hamburg
- TAG Beteiligungsverwaltungs GmbH, Hamburg
- TAG Wohnen & Service GmbH, Hamburg
- TAG Stuttgart-Südtor Verwaltungs GmbH, Hamburg
- Ingenieur-Kontraktbau Gesellschaft für Ingenieurfertigbau mit beschränkter Haftung i.L., Leipzig
- TAG Brandenburg-Immobilien GmbH (formerly: TAG Patrona Saxoniae Grundbesitz GmbH), Hamburg
- Wenzelsplatz GmbH & Co. Nr. 1 KG, Hamburg
- Wenzelsplatz Grundstücks GmbH, Hamburg
- Fürstenberg'sche Häuser GmbH, Hamburg
- TAG Nordimmobilien GmbH, Hamburg (formerly: TAG Nordimmobilien S.à.r.l., Luxemburg)
- TAG Chemnitz-Immobilien GmbH, Hamburg
- TAG Sachsenimmobilien GmbH, Hamburg
- TAG Marzahn-Immobilien GmbH, Hamburg
- TAG SH-Immobilien GmbH, Hamburg
- TAG Magdeburg-Immobilien GmbH, Hamburg
- TAG Grebensteiner-Immobilien GmbH, Hamburg
- TAG Klosterplatz-Immobilien GmbH, Hamburg
- TAG Wolfsburg-Immobilien GmbH, Hamburg
- TAG Beteiligungs und Immobilienverwaltungs GmbH, Hamburg
- TAG NRW-Wohnimmobilien und Beteiligungs GmbH, Hamburg
- TAG 1. NRW-Immobilien GmbH, Hamburg
- TAG 2. NRW-Immobilien GmbH, Hamburg
- TAG Spreewaldviertel-Immobilien GmbH, Hamburg
- TAG Stadthaus Am Anger GmbH, Hamburg
- TAG Wohnen GmbH, Hamburg
- TAG TSA Wohnimmobilien GmbH, Hamburg
- FC REF I GmbH, Hamburg (80%)
- FC REF II GmbH, Hamburg (80%)
- Bau-Verein zu Hamburg Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg

- Bau-Verein zu Hamburg „Junges Wohnen“ GmbH, Hamburg
- Bau-Verein zu Hamburg Wohnungsgesellschaft mbH, Hamburg
- BV Hamburger Wohnimmobilien GmbH, Hamburg
- BV Steckelhörn GmbH & Co. KG, Hamburg
- BV Steckelhörn Verwaltungs GmbH, Hamburg
- G+R City Immobilien GmbH, Berlin
- URANIA Grundstücksgesellschaft mbH, Hamburg
- VFHG Verwaltungs GmbH, Berlin
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin
- Wohnanlage Ottobrunn GmbH, Hamburg
- Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg (98%)
- Colonia Real Estate AG, Hamburg (87%, 2014: 79%)
- Colonia Wohnen GmbH, Hamburg (87%, 2014: 79%)
- Colonia Portfolio Ost GmbH, Hamburg (87%, 2014: 79%)
- Colonia Portfolio Berlin GmbH, Hamburg (87%, 2014: 79%)
- Colonia Wohnen Siebte GmbH, Hamburg (87%, 2014: 79%)
- Colonia Immobilien Verwaltung GmbH, Hamburg (87%, 2014: 79%)
- Colonia Portfolio Hamburg GmbH & Co. KG, Hamburg (87%, 2014: 79%)
- Colonia Portfolio Bremen GmbH & Co. KG, Hamburg (87%, 2014: 79%)
- TAG Grasmus Immobilien GmbH, Hamburg (88%, 2014: Grasmus Holding B.V., Maastricht/Niederlande (80%))
- Emersion Grundstückverwaltungs-Gesellschaft mbH, Hamburg (88%, 2014: 80%)
- Domus Grundstückverwaltungs-Gesellschaft mbH, Hamburg (88%, 2014: 80%)
- TAG Potsdam-Immobilien GmbH, Hamburg
- TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Hamburg (95%)
- TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH, Hamburg
- TAG Wohnungsgesellschaft Sachsen mbH, Hamburg
- TAG Wohnungsgesellschaft Thüringen mbH, Hamburg (94%)
- TAG Wohnungsgesellschaft Gera-Bieblach Ost mbH, Hamburg (94%)
- TAG Wohnungsgesellschaft Gera-Debschwitz mbH, Hamburg (94%)
- TAG Wohnungsgesellschaft Altenburg mbH, Hamburg (94%)
- TAG Immobilien Wohn-Invest GmbH, Hamburg
- TAG Immobilien Service GmbH, Hamburg
- TAG Infrastruktur GmbH, Hamburg

The previously non-consolidated company TAG Handwerkerservice GmbH (formerly Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH), Hamburg, was consolidated for the first time as of 1 April 2015.

Following the first-time consolidation of newly acquired companies, the following companies were also consolidated for the first time as of 31 January 2015:

- TAG Bartol Immobilien GmbH, Hamburg (94,8%, formerly: Bartol Properties S.à.r.l., Luxembourg)
- TAG Certram Immobilien GmbH, Hamburg (94,8%, formerly: Certram Properties S.à.r.l., Luxembourg)
- TAG Sivaka Immobilien GmbH, Hamburg (94,8%, formerly: Sivaka German Properties S.à.r.l., Luxembourg)
- TAG Zidal Immobilien GmbH, Hamburg (94,8%, formerly: Zidal Properties S.à.r.l., Luxembourg)

The newly incorporated entity Colonia Portfolio Nauen GmbH & Co. KG, Hamburg (87%) was consolidated for the first time as of 31 December 2015.

The shares in Gimag Immobilien AG, Zug, Switzerland, were sold effective 1 January 2015.

TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, Hamburg, was sold effective 31 December 2015

TAG Dresdner Straße GmbH & Co. KG, Hamburg, was merged with TAG Wohnen & Service GmbH effective 1 January 2015. TAG Wohnungsgesellschaft Berlin Süd-West mbH, Berlin, was merged with TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Hamburg, effective 1 January 2015. Patrona Saxoniae GmbH & Co. KG, Hamburg, was merged with TAG Wohnen & Service GmbH effective 1 October 2015. Wasserkraftanlage Gückelsberg OHG, Leipzig, was liquidated effective 5 February 2015.

The following companies are of subordinate importance for the consolidated financial statements and are therefore not consolidated on account of their immateriality:

Non-consolidated companies	Share held %	Net profit/loss 2015 TEUR	Equity 12/31/2015 TEUR
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg*	100	6	273

* Disclosures in accordance with the German Commercial Code

Trinom Hausverwaltungs GmbH i.L., Leipzig, has been liquidated.

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

- GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, Hamburg (50%)
- Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH, Hamburg (50%)
- Texas Gewerbeimmobilien S.à.r.l., Luxembourg (20%)

The following combined financial information on these associates is available as of 31 December 2015:

Associates	Assets TEUR	Liabilities TEUR	Revenues TEUR	Net profit/loss TEUR
GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG	690 (previous year: 834)	553 (previous year: 634)	98 (previous year: 5,809)	-63 (previous year: 48)
Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH	34 (previous year: 34)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 0)
Texas Gewerbeimmobilien S.à.r.l.*	263,895 (previous year: 294,355)	264,353 (previous year: 283,712)	11,449 (previous year: 24,303)	-11,101 (previous year: 0)

* Figures based on the Luxemburg GAAP financial statements for the period from 31 May until 31 December 2014 (previous year: German GAAP annual financial statements as of 31 December 2013).

Deconsolidation of TAG Gewerbeimmobilien GmbH and resultant discontinuation of commercial real estate business in 2014

In a contract dated 28 March 2014, TAG sold 80% of its shares in Texas Gewerbeimmobilien S.à.r.l. (formerly TAG Gewerbeimmobilien GmbH). The contract was closed on 30 May 2014, upon which date the transfer of the shares took legal effect and control was lost. TAG Gewerbeimmobilien GmbH was deconsolidated on that date.

As of that date, the remaining 20% share was recognised using the equity method of accounting, meaning that the company is now reported as an associate company. The fair value of this investment was recognised at EUR 1.00 following deconsolidation. Deconsolidation resulted in the disposal of the following net assets:

	05/30/2014 TEUR
Investment properties	293,917
Other assets	2,512
Cash and cash equivalents	4,750
Liabilities to banks	166,078
Derivatives	6,750
Deferred income taxes	8,933
Other liabilities	5,236
Net assets and liabilities	114,182

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

The cash purchase price stated covers both the sale of 80% of the shares and the shareholder loan, which was also sold and was valued at TEUR 78,028 as of 30 May, 2014. The deferred purchase price, which is subject to interest of 1.5% p. a., was recognised as of the date of the sale at the present value of the expected future cashflows arising from the incremental sale of the real estate assets of TAG Gewerbeimmobilien GmbH. This estimate was revised at the end of 2014 due to the heightened uncertainty as to the amount and timing of the future cashflows, as a result of which the deferred purchase price was written down to EUR 1.

As a result of this sale, TAG has disposed of all material elements of its commercial real estate portfolio. The Group has only retained sporadic assets which are mostly required in conjunction with other types of use, e. g. residential and the use of its corporate headquarters in Hamburg. These residual activities fall short of the IFRS 8 materiality thresholds for the definition of a separate segment, as they account for less than 10% of assets, rental income and consolidated earnings. Accordingly, they are included within "Other Activities" in the consolidated segment report together with other activities of subordinate importance such as the remaining service business.

The guidance contained in IFRS 5 on discontinued operations is applied as a result of the deconsolidation. In the consolidated income statement, all income and expenses accruing from the discontinued operations, including gains from the sale, are netted and presented within 'post-tax profit or loss of the discontinued operation'. The income, expenses and assets of the discontinued operations are also shown separately under 'Other activities' in the consolidated segment report. The previous-year figures in the consolidated income statement and in the consolidated segment report are restated accordingly.

The post-tax profit or loss from the discontinued operations reported within the consolidated income statement which is fully attributable to the parent company's equityholders breaks down as follows:

	2014 TEUR
Revenues	10,348
Expenses	-13,869
EBT	**-3,521**
Income taxes and other taxes	-784
Net profit/loss after tax on discontinued operations	**-4,305**
Proceeds from sale	1,004
Impairment of outstanding purchase price consideration	-35,564
Net profit/loss after tax of discontinued operations (total)	**-38,865**
Earnings per share of discontinued operations	
Basic (in EUR)	-0.30
Diluted (in EUR)	-0.30

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

	05/30/2014 TEUR
Cash purchase price	76,035
Costs to sell	-1,003
Cash and cash equivalents transferred	-4,750
Net inflow of cash and cash equivalents	**70,282**

The following cashflows are allocated to the discontinued operations:

	2014 TEUR
Cashflow from operating activities	3,591
Cashflow from investing activities	1,705
Cashflow from financing activities	-1,328
Total cashflow from discontinued operations	**3,968**

Recognition and valuation 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, portfolio properties or owner-occupied 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 that 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 valuation of investment properties is that they are put to the best possible use. Allowance is made for any planned changes in utilisation provided 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 measured annually effective 30 September. When real estate assets are acquired, the valuation reports are prepared as of the date of acquisition. Corresponding adjustments are made in the event of any material changes in the input factors as of the valuation date. 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 three 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 financial 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 amounts 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. Impairments of 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 associated company profit in the income statement.

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

Non-derivative financial assets

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

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

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 in 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 unfinished and finished buildings and other inventories

Land with finished and unfinished buildings and other inventories is 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 that is expected to be resold at the time of acquisition. 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 and unused tax losses to the extent that realisation of the related income tax benefit through future taxable profits is probable within a forecast period of five years. Deferred income taxes were recognised at an amount calculated in the applicable forecast. 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.

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.

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 is considered 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 the issue of new share capital) net of the resultant income tax relief are deducted from equity and netted with other paid-in capital.

The components of a hybrid instrument issued by the Group (convertible bond) are recorded 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 valuation.

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 are initially recognised, they are measured at 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.

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 that 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 the right to use an asset for an agreed period of time in return for a payment or series of payments. 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 that 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 and heating 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

TAG receives government grants in the form of investment expenditure advances and loans, as well as low-interest loans. They are recognised only where it is reasonably certain that the applicable conditions have been met and the grants will be disbursed.

Expenditure-related advances, e. g. advances towards rents, are recognised through profit and loss upon the expense to which they refer arising. They are recorded within income from facility management.

TAG predominantly receives government grants in the form of loans with preferential interest rates compared with the market average, repayment advances or subject to deferred interest / repayments.

These preferential loans are initially recognised at their fair value and subsequently remeasured at amortised cost. The difference between the nominal amount and the fair value of the loan is recorded as prepaid income and released over the fixed-interest period of the loan in question.

The conditions tied to the grant of the preferential loans, e. g. restrictions on rent adjustments, are factored into the calculation of the fair value of the real estate in question.

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 applied 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 expenses 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 independent from a financial, economic and organisational point of view. The assets and liabilities of foreign subsidiaries are translated into euros at the end of the year using the applicable end-of-year exchange rate; income and expenses are translated into 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 valuation 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 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 valuation 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. It is calculated using the discounted cashflow method on the basis of expected future cashflows. Accordingly, the valuers must estimate certain factors, such as future rent income or the applicable discount rates, which TAG estimates in conjunction with the valuers and which 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 3,531.1 m (previous year: EUR 3,331.6 m).
- The estimate of the net proceeds from the sale of real estate held as inventories entails uncertainty particularly with respect to the achievable prices. As of the reporting date, the carrying amount of the land with unfinished and finished buildings stood at EUR 12.8 m (previous year: EUR 19.3 m).
- For the purpose of testing the other financial assets for any evidence of 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 stood at EUR 13.0 m as of the reporting date (previous year: EUR 12.7 m) and is made up of investments in and loans to real estate companies, as well as other non-current receivables.
- The sale of TAG Gewerbeimmobilien GmbH resulted in a residual purchase price receivable of a nominal amount of around EUR 48.5 m, which will be settled using income from the sale of individual items of commercial real estate, provided that a defined revenue threshold is exceeded. As the amount and timing of the possible income are subject to high uncertainty, this receivable was recognised at an amount of EUR 1.00 as of 31 December 2015. If future sales proceeds exceed the revenue threshold, this will result in corresponding income for TAG.
- The sale of POLARES Real Estate Management GmbH resulted in a residual purchase price receivable of around EUR 11.7 m. This receivable was replaced by a debt warrant in 2014 and written off in full. Accordingly, it has a carrying amount of EUR 1.00. Depending on the company's future business performance, this receivable, or parts of it, may be reinstated.
- 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, damage 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 17.3 m as of the reporting date (previous year: EUR 16.4 m).

Adjustments to comparison figures for the previous year within consolidated equity

In February 2015, TAG acquired a further 3.6 m shares in its subsidiary Colonia Real Estate AG in a swap for 2 m of its own shares. Accordingly, its share in this company increased from 79% as of 31 December 2014 to 87%. As a result of this transaction, TAG's treasury stock dropped from 13,127,178 to 11,127,178 shares.

In this connection, the treatment of acquisitions of shares that had been executed in earlier years following the acquisition of a majority interest in Colonia Real Estate AG in 2011 was reviewed. As a result, the comparison figures for the previous year, i.e. those contained in the consolidated balance sheet as of 31 December 2014 and 1 January 2014, were adjusted. Whereas in earlier years the fair value of the non-controlling interests had been deducted from the carrying amount of the shares, the reduction in the carrying amount is now calculated on a proportionate basis according to the ratio of the shares acquired to the total shares held by third parties.

This correction resulted in an increase in non-controlling interests of TEUR 25,858 as of 1 January 2014 and 31 December 2014. In addition, there was a reduction of the same amount in the share premium and, hence, the equity attributable to the equity holders of the parent company. There were no changes in total equity, i.e. including non-controlling interests. Likewise, this adjustment did not have any effect on the consolidated income statement or the consolidated cashflow statement.

NOTES ON THE BALANCE SHEET

1. Investment properties

Remeasurement gains of EUR 148.3 m (previous year: EUR 209.3 m) and remeasurement losses of EUR 49.4 m (previous year: EUR 162.5 m) were recognised in 2015. Net gains from the valuation of the fair value of the investment properties came to a total of EUR 98.9 m (previous year: EUR 46.8 m). The table below sets out the movements in the portfolio of investment properties:

Investment properties	TEUR
Amount on 01 / 01 / 2014	**3,544,075**
Sale of TAG Gewerbe	-293,917
Additions as a result of other acquisitions	210,077
Trailing transaction costs	30,373
Transfers from inventories	16,125
Transferred to property, plant and equipment	-1,155
Transferred to available-for-sale assets	-59,311
Sales	-161,466
Change in market value	46,799
Amount on 12 / 31 / 2014	**3,331,600**
Additions as a result of other acquisitions	240,665
Trailing transaction costs	41,655
Transferred to available-for-sale assets	-102,348
Sales	-79,387
Change in market value	98,923
Amount on 12 / 31 / 2015	**3,531,108**

The investment properties are almost fully secured, primarily by means of mortgages and the assignment of rental receivables.

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

Investment properties	2015 TEUR	2014 TEUR
Rental income	248,215	246,569
Operating expenses (maintenance, facility management, land taxes, etc.)	-45,430	-45,168
Total	**202,785**	**201,401**

The fair value of the investment properties 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 valuation 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 that 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 fair value of the real estate per segment and the material assumptions underlying this valuation method:

Segment	Berlin		Dresden		Rhine/Ruhr	
	2015	2014	2015	2014	2015	2014
Market value (in EUR m)	511.7	470.7	539.7	512.9	281.6	233.1
Net rental without heating (in TEUR)	2,637	2,823	3,350	2,882	1,425	1,403
Vacancy (in %)	5.5	5.8	11.3	9.8	4.0	4.0
Valuation parameters (average)						
Net market rental income to market rental (in %)	89.5	90.3	94.8	94.1	92.2	93.1
Increase in market rental p.a. (in %)	0.7	0.7	0.6	0.6	0.9	1.0
Maintenance costs (in EUR/sqm)	7.2	7.2	7.8	7.9	7.5	8.1
Administration costs (in EUR per unit)	213.1	208.5	226.4	230.5	230.0	250.7
Structural vacancy (in %)	3.7	3.4	4.1	3.8	1.7	1.9
Discount rate (in %)	6.0	5.9	6.3	6.3	5.9	6.5
Capitalisation rate (in %)	5.3	5.3	5.7	5.6	4.9	5.5

Segment	Erfurt		Gera		Hamburg	
	2015	2014	2015	2014	2015	2014
Market value (in EUR m)	383.6	359.4	371.9	370.6	380.5	326.8
Net rental without heating (in TEUR)	2,332	2,136	2,392	2,352	2,338	2,017
Vacancy (in %)	7.0	8.2	12.3	14.2	6.9	8.1
Valuation parameters (average)						
Net market rental income to market rental (in %)	94.4	93.7	92.6	90.7	93.1	93.5
Increase in market rental p.a. (in %)	0.7	0.7	0.5	0.5	0.8	0.8
Maintenance costs (in EUR/sqm)	7.9	7.8	7.5	7.4	7.3	7.2
Administration costs (in EUR per unit)	219.4	221.0	221.1	221.3	232.9	227.9
Structural vacancy (in %)	2.5	2.3	5.2	5.3	2.5	2.6
Discount rate (in %)	6.4	6.3	6.3	6.3	6.1	6.1
Capitalisation rate (in %)	5.7	5.6	5.8	5.8	5.2	5.2

Segment	Leipzig		Rostock		Salzgitter	
	2015	2014	2015	2014	2015	2014
Market value (in EUR m)	369.1	335.2	259.7	234.6	375.2	360.9
Net rental without heating (in TEUR)	2,273	2,161	1,538	1,377	2,392	2,289
Vacancy (in %)	7.2	8.2	6.9	7.9	14.5	17.3
Valuation parameters (average)						
Net market rental income to market rental (in %)	94.9	94.5	93.8	94.0	91.7	93.1
Increase in market rental p.a. (in %)	0.4	0.4	0.5	0.5	0.5	0.5
Maintenance costs (in EUR/sqm)	7.3	7.4	7.8	7.7	7.7	7.7
Administration costs (in EUR per unit)	220.4	224.8	223.4	222.2	212.6	208.8
Structural vacancy (in %)	4.7	4.7	3.3	3.2	5.6	7.2
Discount rate (in %)	6.1	6.1	6.1	6.2	6.5	6.3
Capitalisation rate (in %)	5.7	5.7	5.7	5.7	6.0	5.8

Valuations are based on the tenant lists and vacancies as of 30 June of the year in question. Allowance is made for any fluctuation as of 31 December where there is evidence of any material differences.

The 'Other Activities' segment includes the remaining commercial real estate activities and the boarding houses operated by the Group. The market value of these investment properties dropped to EUR 58.0m (previous year: EUR 127.2m) as a result of sales.

The sum total of the discounted cash surpluses and the discounted potential sales 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.

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. As in the previous year, the market-specific transaction costs of a potential buyer under a share deal were deducted at a rate of 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 deductible transaction costs for these stand at an average of 8.1% (previous year: 7.4%).

The assumptions underlying the valuation of the fair value of the 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 percentage points higher, the fair value would decline by EUR 281m (previous year: EUR 276m); if the discount and capitalisation rate were 0.5 percentage points lower, the fair value would increase by EUR 338m (previous year: EUR 331m). 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 EUR 208m (previous year: EUR 185m) lower. If no main market were identifiable for all of 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 EUR 52m (previous year: EUR 75m).

2. Intangible assets

The table below analyses the movements in intangible assets.

Acquisition and production costs	TEUR
Amount on 01/01/2014	6,676
Additions	1,020
Amount on 12/31/2014	7,696
Additions	699
Disposals	-377
Amount on 12/31/2015	8,018

Cumulative depreciation	TEUR
Amount on 01/01/2014	1,534
Additions	2,331
Amount on 12/31/2014	3,865
Additions	1,493
Disposals	-299
Amount on 12/31/2015	5,059
Carrying amount on 12/31/2014	3,831
Carrying amount on 12/31/2015	2,959

As in the previous year, no impairment losses were recognised on intangible assets in the year under review. Currently, there are no intangible assets with an indefinite useful life.

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	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2014	10,761	5,669	16,430
Additions	1,155	1,683	2,838
Disposals	-2	-880	-882
Amount on 12/31/2014	11,914	6,472	18,386
Additions	0	2,252	2,252
Disposals	-420	-390	-810
Amount on 12/31/2015	11,494	8,334	19,828

Property, plant and equipment Accumulated depreciation	Real estate TEUR	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2014	880	2,522	3,402
Additions	184	1,242	1,426
Disposals	-2	-862	-864
Amount on 12/31/2014	1,062	2,902	3,964
Additions	202	1,416	1,618
Disposals	-42	-379	-422
Amount on 12/31/2015	1,222	3,938	5,160
Carrying amount on 12/31/2014	10,852	3,570	14,422
Carrying amount on 12/31/2015	10,272	4,396	14,668

The real estate reported within property, plant and equipment is fully secured by mortgages or the assignment of rental income.

4. Investments in associated companies

Changes in investments in associated companies result solely from changes in the share of associated company capital.

5. Other financial assets

Other financial assets comprise the shares in associated companies not consolidated for materiality reasons, investments and long-term loans. These are analysed in the following table:

Historical costs	TEUR
Amount on 01/01/2014	**24,950**
Additions	353
Disposals	-12,552
Amount on 12/31/2014	**12,751**
Additions	2,523
Disposals	-1,758
Amount on 12/31/2015	**13,516**

Accumulated depreciation	TEUR
Amount on 01/01/2014	**6,772**
Additions	6,990
Disposals	-13,670
Amount on 12/31/2014	**92**
Additions	468
Disposals	0
Amount on 12/31/2015	**560**
Carrying amount on 12/31/2014	**12,659**
Carrying amount on 12/31/2015	**12,956**

The impairments recognised in 2015 related to investments and are included in impairments of financial assets. In 2014, a non-current receivable of TEUR 5,000 had been derecognised. The corresponding impairment was reported in the income statement under impairments of inventories and receivables.

6. Current and deferred income tax assets and liabilities

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

	2015		2014		Change
Deferred income taxes	**TEUR Assets**	**TEUR Equity and liabilities**	**TEUR Assets**	**TEUR Equity and liabilities**	
Unused tax losses (incl. interest carried forward)	53,014	0	52,670	0	344
Investment properties	2,113	-246,026	196	-215,594	-28,515
Intangible assets	67	0	153	0	-86
Property, plant and equipment	0	-692	0	-728	36
Other financial assets	160	-1,432	288	-1,680	120
Liabilities	1,201	-3,495	190	-4,589	2,105
Provisions	6,826	-221	6,899	-478	184
Liabilities from convertible bonds	1,091	-1,786	6,470	-38	-7,127
Derivative financial instruments	1,218	0	4,105	-3	-2,884
Total	65,690	-253,652	70,971	-223,110	-35,823
Offset	-22,063	22,063	-11,990	11,990	–
Deferred income taxes recorded on the face of the balance sheet	43,627	-231,589	58,981	-211,120	–
				Change in 2015:	-35,823
				reported through equity:	8,491
				Change in cash:	-27,332

The items recorded within equity include the effect of the cancellation of the convertible bonds held by the Company, as well as hedge accounting effects.

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

Income taxes	2015 TEUR	2014 TEUR
Current income tax expense	-383	925
Deferred income taxes	-27,332	-54,087
Total	**-27,715**	**-53,162**

As of 31 December 2015, the income tax reimbursement claims include claims of EUR 3.2 m (previous year: EUR 0.0 m) for investment tax on internal Group distributions. Income tax liabilities chiefly comprise income tax expenses for prior years. In addition, a liability of EUR 1.0 m relates to the sale of a real-estate portfolio.

Current income taxes primarily include taxes on the sale of real estate and a tax refund claim of TEUR 1,607 (previous year: TEUR 1,640) for earlier years. Deferred income tax assets of TEUR 3,222 relate to prior periods (previous year: TEUR 975). Deferred income tax liabilities of TEUR 27,676 (previous year: TEUR 36,035) arise from changes in temporary differences. Income from changes in deferred income taxes on unused tax losses stands at TEUR 344 (previous year: expense of TEUR 18,052).

Expected and actual net tax expense is reconciled as follows:

Actual net income tax expense	2015 TEUR	2014 TEUR
Earnings before income taxes (EBT after other taxes)	175,036	120,991
Expected net tax expense (32.275%)	-56,493	-39,050
Reconciled with tax effects from:		
Income and expenses from earlier years	4,829	665
Impairment of deferred income taxes and utilisation of previously unrecognised unused tax losses/interest carried forward	-4,503	-17,271
Tax-free returns and non-deductible expenses	-4,362	-4,032
Effects of trade tax exemption	21,900	18,451
Net gains/losses from consolidation	2,034	-11,819
Devaluation of convertible bond issues	7,929	0
Others	951	-106
Actual net income tax expense	**-27,715**	**-53,162**

The effects of trade tax exemption are primarily related to the extended trade tax deduction for real estate. Companies that 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	2015 %	2014 %
Corporate tax	15.000	15.000
Solidarity surcharge	0.825	0.825
Trade tax	16.450	16.450
Total	**32.275**	**32.275**

The notional Group tax rate for the year under review stands at 15.83% (previous year: 43.9%).

Excluded from deferred income tax assets are unused corporate tax losses of EUR 190m (previous year: EUR 169m) and unused trade tax losses of EUR 167m (previous year: EUR 166m) as well as interest carried forward of EUR 24m (previous year: EUR 13m), as utilisation currently does not appear to be likely. The sum total of unrecognised temporary differences in connection with shares in subsidiaries, associated companies and joint ventures stands at EUR 30m (previous year: EUR 26m). The Group does not expect any strain from this, as there are currently no plans for these to be reversed.

7. Properties held as inventories and other inventories

The changes that arose in the year under review are set out in the following table:

Land with finished and unfinished buildings	2015 TEUR	2014 TEUR
Amount on 01/01	**19,308**	**46,874**
Additions	5	5,672
Reversal of impairments	0	267
Impairments	-193	0
Disposals	-6,311	-12,243
Reclassification as investment properties	0	-26,462
Reclassification from investment properties	0	5,200
Amount on 12/31	**12,809**	**19,308**

The real estate reported within inventories is fully secured by mortgages or the assignment of rental income.

This item also includes real estate that will probably only be sold after more than twelve months as of the reporting date.

Other inventories primarily comprise heating material.

8. Trade receivables

Trade receivables break down as follows:

Trade receivables	2015 TEUR	2014 TEUR
Rental receivables	11,366	13,579
Receivables from the sale of properties	16,838	54,969
Others	1,655	2,145
Total	**29,859**	**70,693**

Impairments of trade receivables are analysed in the following table:

Individual impairments	TEUR
Amount on 01/01/2014	16,131
Utilised	-6,415
Reversed	-5,006
Deconsolidation of TAG Gewerbe	-270
Additions	8,952
Amount on 12/31/2014	13,392
Utilised	-5,117
Reversed	-6,128
Additions	9,202
First-time consolidation	761
Amount on 12/31/2015	12,110

In the year under review, impairments of TEUR 4,994 (previous year: TEUR 6,047) 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. Other current assets

Other current assets break down as follows:

Reimbursable pension obligations	2015 TEUR	2014 TEUR
Weiterbelastbare Verpflichtungen für Pensionen	4,436	4,621
Overpayments to suppliers	3,331	628
Loans to minority shareholders	2,282	0
Reveivables from associates	271	473
Deferrals and accruals	57	349
Others	2,817	4,198
Total	13,194	10,269

10. Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash at banks. The cashflow statement includes the cash in hand and cash at banks less short-term overdraft facilities at banks. 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 7,923 (previous year: TEUR 27.275) were subject to drawing restrictions. The amount reported refers to incoming payments subject to temporary restrictions from sales, as well as bank balances pledged in the short term for maintenance activities.

11. Non-current assets held for sale

The non-current assets held for sale as of the reporting date comprise solely investment properties and primarily relate to the Dusseldorf segment (EUR 20.5 m), whereas in the previous year, they had chiefly comprised the Berlin segment (EUR 7.5 m) and the Dresden segment (EUR 2 m).

12. Subscribed capital

Share capital

The Company's fully paid-up share capital stood at EUR 136,596,330.00 as of 31 December 2015, up from EUR 131,712,859.00 as of 31 December 2014, and is divided into 136,596,330 (previous year: 131,712,859) shares. They are bearer shares.

Treasury stock

In a resolution passed at the annual general meeting on 13 June 2014, the Company is authorised until 12 June 2019 to buy treasury stock in an amount of up to 10% of the share capital existing upon the authorisation taking effect – or if less – upon the authorisation being exercised. The Company made use of this authorisation in 2014 to buy back 13,127,178 shares, of which 2,000,000 were re-issued for the purposes of the acquisition of Colonia shares in 2015. All 11,127,178 (previous year: 6,400,000) shares of treasury stock were held by a 100% subsidiary as of the reporting date.

Following the execution of this buyback transaction, a resolution was passed at an extraordinary shareholder meeting held on 28 August 2014, authorising the Company until 27 November 2019 to buy treasury stock in an amount of up to 10% of the existing share capital upon the authorisation taking effect – or if less – upon the authorisation being exercised. The authorisation may not be utilised by the Company to trade in treasury stock.

Reported subscribed capital less treasury stock thus stands at EUR 125,469,152.00 (previous year: EUR 118,585,681.00).

Authorised capital

As of the reporting date, the Company had the following authorised capital:

- In a resolution passed at the annual general meeting held on 14 June 2012, the shareholders approved the creation of "Authorised capital 2012/I" and 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 40m by issuing up to 40m 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 last made partial use of this authorisation in 2012, as a result of which the authorised capital currently stands at EUR 8,190,307.00.
- In a resolution passed at the annual general meeting of 14 June 2013, further capital was authorised ("Authorised capital 2013/I"). The Management Board was authorised subject to the Supervisory Board's approval to increase the Company's share capital once or repeatedly on or before 13 June 2018 by a maximum amount of EUR 20m by issuing up to 20m no-par value shares. The Management Board has so far not made any use of this authorisation.

Contingent capital

The Company has various types of contingent capital covering the convertible bonds it has issued in the last few years and therefore changed due to the exercise of conversion rights in 2015:

- Share capital increased by a further 9.8m shares through the utilisation of Contingent Capital 2010/I, which had been approved in a resolution passed at the annual general meeting of 25 June 2010. This contingent capital covers the convertible bonds of EUR 66.6m (WKN A1E89W), which were called in by the Company with effect from 21 August 2015. Following the exercise of conversion rights in the year under review, the Company's share capital increased by 4,883,471 shares.
- Share capital increased by a further 15m shares through the utilisation of Contingent Capital 2011/I, which had been approved in a resolution passed at the annual general meeting of 26 August 2011. This capital covers the convertible bonds of EUR 85.3m (WKN A1PGZM). No conversion rights have been exercised yet.
- Share capital increased by a further 13m shares through the utilisation of Contingent Capital 2013/I, which had been approved in a resolution passed at the annual general meeting of 14 June 2013. New shares will only be issued under this authorisation to the extent that convertible and option bonds with a total amount of up to EUR 160m are issued on or before 13 June 2018 under the authorising resolution of 14 June 2013, and the holders or creditors of such bonds are granted further conversion or option rights for new shares in TAG.
- Share capital increased by a further 20m shares through the utilisation of Contingent Capital 2015/I, which had been approved in a resolution passed at the annual general meeting of 19 June 2015. New shares will only be issued under this authorisation to the extent that convertible and option bonds with a total amount of up to EUR 300m are issued on or before 18 June 2020 under the authorising resolution of 19 June 2015 and the holders or creditors of such bonds are granted further conversion or option rights for new shares in TAG.

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 100m. The Company had not utilised this authorisation as of 31 December 2015.

13. 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.

Equity issue costs of TEUR 0 (previous year: TEUR 699) net of the related income tax relief of TEUR 0 (previous year: TEUR: 226) were reported within the share premium.

14. Other reserves

Retained earnings comprise the legal reserve in accordance with the provisions contained in Section 150 of the German Stock Corporations Act.

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	2015 TEUR	2014 TEUR
Amount on 01/01	**-5,727**	**-11,546**
Deconsolidation of TAG Gewerbe	0	6,342
Unrealised gains and losses	3,319	4,958
Recorded in profit and loss	993	-5,478
Deferred income tax effect	-1,031	-3
Amount on 12/31	**-2,446**	**-5,727**

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. As of the end of 2015, there are no longer any fully consolidated foreign companies.

15. Retained earnings

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

The Management Board plans to propose a dividend of EUR 0.55 (previous year: EUR 0.50) per share for 2015 for approval at the upcoming annual general meeting subject to the approval of the Supervisory Board.

16. 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.

Following a change in the recognition of non-controlling interests on the face of the balance sheet, it was necessary to restate the comparison figures for the previous year. More information can be found in the section on adjustments to the comparison figures for the previous year.

17. Liabilities to banks

Liabilities to banks break down as follows: 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). The average interest rate on liabilities to banks was 3.11% as of 31 December 2015 (previous year: 3.44%) allowing for interest rate hedges.

18. 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 01/01/2014	**5,618**
Utilised	-399
Added	1,098
Amount on 12/31/2014	**6,317**
Utilised	-358
Added	61
Amount on 12/31/2015	**6,020**

In 2013, a wholly owned subsidiary had transferred active plan assets of TEUR 1,001 to the seller of the shares in that subsidiary as this company is legally entitled to hold these claims. On the other hand, the subsidiary continued to recognise the provisions in full. The provisions for this subsidiary stand at TEUR 4,441 (previous year: TEUR 4,639).

A corresponding reimbursement claim of TEUR 4,436 against the seller (previous year: TEUR 4,621) is reported within other assets.

The allocation in the year under review primarily comprises interest expense as well as actuarial gains or losses. As the reimbursement claim is subject to the same factors, the effects are mostly reported within equity. Any additional effects are included within interest expense.

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

Retirement benefit provisions	2015	2014
Interest rate in %	2.04	2.02
Rate of salary increase in %	1.50	1.50
Retirement age	In accordance with social code VI	

Of the retirement benefit provisions, an amount of TEUR 353 (previous year: TEUR 358) is due for payment within one year. These amounts, together with other retirement benefit obligations, are reported within non-current liabilities. The table below sets out movements in the net liabilities recognised:

Net liabilities	2015 TEUR	2014 TEUR
Recognised on the face of the balance sheet as of 01/01	**6,317**	**5,618**
Recognised appropriation	46	86
Reimbursement recognised (within equity)	15	1,012
Pension payments	-358	-399
Amount on 12/31	**6,020**	**6,317**

As in the previous year, the present value of the defined benefit obligation corresponds to the liability shown in the consolidated balance sheet. The present value of the defined benefit obligation as of the applicable reporting date stood at TEUR 5,618 in 2013, TEUR 5,126 in 2012, TEUR 1,760 in 2011 and TEUR 1,801 in 2010.

19. Liabilities from corporate bonds

The bond issued in August 2013 and increased in February 2014 has a total volume of EUR 310m. It has a coupon of 5.125% p.a. and a term of five years. In June 2014, TAG issued a further bond of EUR 125m with a coupon of a nominal 3.75% and a term of six years.

The interest deferred as of the reporting date is recognised within current liabilities.

20. Liabilities from convertible bonds

Liabilities from convertible bonds including issuing costs and called bonds break down as follows:

Liabilities from corporate bonds	Net interest p.a. %	2015 TEUR Non-current	2015 TEUR Current	2014 TEUR Non-current	2014 TEUR Current
TAG Immobilien AG convertible bond EUR 66.6m	6.5	0	0	0	32,018
Convertible bond EUR 85.3m	5.5	70,942	34	69,925	34
Colonia Real Estate AG convertible bond EUR 11.4m	5.875	0	0	0	3,487
Total		**70,942**	**34**	**69,925**	**35,539**

The convertible bond of EUR 66.6m with an original term expiring on 10 December 2015 was called in or converted ahead of schedule on 21 July 2015. Conversion rights equivalent to a total nominal amount of around EUR 31.6m were exercised.

As a result of the buybacks in 2013, the Company also has holdings of convertible bonds not recognised on the face of the balance sheet with a nominal value of EUR 10.8m (previous year: EUR 57.1m).

21. Derivative financial instruments

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.

22. Other non-current liabilities

This item includes a residual purchase price obligation of TEUR 3,270 (previous year: TEUR 3,257) for a hereditary building right due for payment in 2023, as well as phased retirement obligations.

23. Other provisions

Other provisions break down as follows:

Other provisions in TEUR	Amount 01/01/2015	Utilised	Reversed	Added	Sale Stuttgart Südtor	Amount 12/31/2015
Outstanding invoices	9,377	8,293	1,042	9,774	96	9,720
Damages and litigation risk	3,303	509	784	1,142	0	3,152
Bonus	1,525	1,071	0	2,121	0	2,575
Legal, consulting and auditing costs	817	816	0	783	18	766
Others	1,407	1,066	169	916	16	1,072
Total	**16,429**	**11,755**	**1,995**	**14,736**	**130**	**17,285**

Provisions for outstanding invoices primarily relate to invoices not yet received as of the reporting date for ongoing maintenance and renovation. Provisions for compensation claims and litigation risks predominantly relate to possible claims arising from construction work completed in earlier years.

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.

24. Trade payables

Trade payables primarily comprise net obligations under advance payments towards operating expenses less operating costs that have not yet been invoiced and liabilities to suppliers.

25. Other current liabilities

This item breaks down as follows:

Other current liabilities in TEUR	2015	2014
Down payments received for real estate purchases	22,388	2,575
Tenant credit from advance payments and utility bills	11,643	6,949
Obligations from associated companies	1,590	0
Deferrals and accruals	337	323
Others	3,634	2,125
Total	**39,592**	**11,972**

NOTES ON INCOME STATEMENT

26. Rental revenues and expenses

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

Rental income is mostly generated from the rent of investment properties. The increase over the previous year is due to increased rents, a reduction in inventories and acquisitions during the year under review.

Rental expenses break down as follows:

Rental expenses	2015 TEUR	2014 TEUR
Maintenance expenses	25,216	24,248
Non-recoverable changes	11,850	11,214
Operating costs of vacant real estate	10,564	10,799
Total	**47,630**	**46,261**

Non-recoverable changes costs include the increase/decrease in as yet unbilled rechargeable heating and operating costs in the year under review, as well as heating and operating costs billed in the previous year. Reimbursements by tenants for operating and ancillary costs are netted with rental expenses.

27. Revenues and expenses from the sale of real estate

Income from the sale of real estate is mostly generated from the sale of investment properties and chiefly relates to properties in Berlin and Stuttgart. The deconsolidation of the property company in Stuttgart, TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, following its sale resulted in a gain of TEUR 7,270 (previous year: TEUR 0).

Expenses for the sale of properties primarily comprise 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.

28. Revenues and expenses from services

Revenues and expenses from services mostly relate to property management activities and the employment of janitors.

29. Other operating income

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

Other operating income	2015 TEUR	2014 TEUR
Reversal of provisions	1,989	2,952
Derecognition of liabilities	302	532
Income from impaired receivables	258	323
Attribution of properties recorded as tangible assets	0	2,102
Capital gains from securities	0	962
Other out-of-period income	1,732	1,914
Other	1,491	2,158
Total	**5,772**	**10,943**

Other out-off-period income primarily relates to the discharge of liabilities under statements of operating costs for former years.

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

This item comprises gains and losses from the fair value valuation of investment properties as of the balance sheet date, broken down by net fair value gains and losses from the initial valuation of newly acquired investment properties and from the revaluation of the other investment properties. Reference should be made to Note 1 for further details of the Group's investment properties.

31. Personnel expenses

Personnel expenses break down as follows:

Personnel expenses	2015 TEUR	2014 TEUR
Operational employees	21,023	20,147
Administration and central area	10,452	11,167
Caretakers	3,405	2,433
Handymen	366	0
Total	**35,246**	**33,747**

32. Depreciation / amortisation

Depreciation / amortisation is disaggregated in the following table:

Depreciation / amortisation	2015 TEUR	2014 TEUR
Amortisation of intangible assets	1,493	1,949
Depreciation of property, plant and equipment	1,617	1,426
Total	**3,110**	**3,375**

33. Impairments of inventories and receivables

This item breaks down as follows:

Impairments	2015 TEUR	2014 TEUR
Impairments of rental receivables	4,994	6,047
Impairments of portfolio real estate	193	1,285
Impairment of the receivable from the sale of the shares in POLARES Real Estate Asset Management GmbH	0	5,682
Total	**5,187**	**13,014**

34. Other operating expenses

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

Other operational experditures	2015 TEUR	2014 TEUR
Legal, consulting and auditing costs (incl. IT consulting)	6,815	7,548
Costs of premises	1,924	2,030
IT costs	1,690	3,065
Telephone costs, postage, office material	1,423	1,247
Travel expenses (incl. motor vehicles)	1,314	1,297
Advertising	948	881
Other ancillary staff costs	856	843
Investor Relations	734	761
Incidental costs of monetary transactions	684	232
Office furnishings and equipment	597	455
Contributions and donations	556	264
Insurance	473	433
Other	4,393	3,534
Total	**22,407**	**22,590**

In the year under review, other operating expenses included payments under operating leases of TEUR 2,953 (previous year: TEUR 2,996) for copiers, motor vehicles and office space.

35. Share of profit or loss of associated companies

Investment income of TEUR 311 (previous year: TEUR 727) relates to long-term non-controlling interests.

36. Impairment of financial assets

This item solely comprised impairments recognised on shares in non-controlling interests reported within other non-current financial assets.

37. Net borrowing costs

Net borrowing costs consist of the following items:

Net borrowing costs	2015 TEUR	2014 TEUR
Interest rate derivatives		
Non-cash income	1,799	1,046
Other financial assets		
Non-cash income	82	1,850
Other interest income	1,664	1,094
Interest income	**3,545**	**3,990**
Interest rate derivatives		
Non-cash expenses	-4,306	-6,360
Other expenses	-5,120	-5,460
Other financial liabilities		
Premature termination compensation	-5,208	-10,678
Non-cash expenses	-3,922	-8,810
Other expenses	-80,814	-82,323
Borrowing costs	**-99,370**	**-113,631**
Total	**-95,825**	**-109,641**

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:

Earnings per share	2015	2014
Consolidated net profit (in TEUR)		
Consolidated net profit excluding non-controlling interests	145,301	23,645
Interest expense on convertible bonds	5,217	7,571
Consolidated net profit excluding non-controlling interests (diluted)	150,518	31,216
Number of shares (in thousands)		
Weighted number of shares outstanding	123,118	128,846
Effect of conversion of convertible bonds	11,413	11,944
Weighted number of shares (diluted)	134,531	140,790
Earnings per share (in EUR)		
Basic	1.18	0.18
Diluted*	1.12	0.18

* As the convertible bonds shown in the reconciliation statement in the previous year 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 on 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	2015 TEUR	2014 TEUR
Cash and cash equivalents as reported on the balance sheet	103,833	196,646
Cash at banks subject to drawing restrictions	-7,923	-25,213
Cash and cash equivalents	**95,910**	**171,433**

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.

TAG pursues a regional diversification strategy for its residential real estate. In accordance with the regional distribution of the residential real estate, the following segments have been defined: Berlin, Dresden, Rhein-Ruhr, Erfurt, Gera, Hamburg, Leipzig, Rostock, Salzgitter and Other Activities. The “Other Activities” segment includes service business, the remaining commercial real estate activities and the boarding houses operated by the Group.

The figures disclosed in the segment report are based solely on the IFRS accounting rules. Rental income as well as the corresponding expenses and the real estate assets are shown.

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

DISCLOSURES ON FINANCIAL INSTRUMENTS

Risks as a result of financial instruments

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

Capital risk management

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

Equity ratio	**2015 TEUR**	**2014 TEUR**
Equity	1,120,552	1,005,053
Total assets	3,794,199	3,734,246
Equity ratio in %	**29.5**	**26.9**

Fair value of assets and liabilities

The fair value of assets and liabilities is determined by using inputs which are as market-oriented as possible. The valuation 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 2015.

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

	Fair value hierarchy	2015 TEUR	2014 TEUR
Assets			
Investment properties	Level 3	3,531,108	3,331,600
Derivatives with no hedging relationship	Level 2	14	3,551
Derivatives with a hedging relationship	Level 2	0	0
Equity and liabilities			
Derivatives with no hedging relationship	Level 2	584	856
Derivatives with a hedging relationship	Level 2	4,850	10,072

Reference should be made to the section on investment properties for details on the methodology and the main parameters for measuring the value of real estate assets. Derivative financial instruments are measured using established methods (e.g. discounted cashflow method), the inputs for which are derived from active markets.

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

31 December 2015	Carrying amount TEUR	IAS 39 Category*	Fair value TEUR	Fair value hierarchy
Assets				
Other financial assets				
Investments	7,345	AfS	n/a	n/a
Other financial assets	5,611	LaR	5,611	Level 2
Trade receivables	29,859	LaR	29,859	Level 2
Other current assets	13,194	LaR	13,194	Level 2
Cash and cash equivalents	103,833	LaR	103,833	Level 2
Equity and liabilities				
Liabilities to banks	1,834,875	AmC	1,889,821	Level 2
Liabilities from convertible bonds	70,976	AmC	75,703	Level 2
Liabilities from corporate bonds	443,731	AmC	459,385	Level 2
Other non-current liabilities	3,354	AmC	3,354	Level 2
Trade payables	14,629	AmC	14,629	Level 2
Other current liabilities	39,592	AmC	39,592	Level 2
31 December 2014				
Assets				
Other financial assets				
Investments	5,646	AfS	n/a	n/a
Other financial assets	7,013	LaR	7,013	Level 2
Trade receivables	70,693	LaR	70,693	Level 2
Other current assets	10,269	LaR	10,269	Level 2
Cash and cash equivalents	196,646	LaR	196,646	Level 2
Equity and liabilities				
Liabilities to banks	1,903,710	AmC	1,983,490	Level 2
Liabilities from convertible bonds	105,464	AmC	112,277	Level 2
Liabilities from corporate bonds	443,736	AmC	466,515	Level 2
Other non-current liabilities	3,445	AmC	3,445	Level 2
Trade payables	9,147	AmC	9,147	Level 2
Other current liabilities	11,972	AmC	11,972	Level 2

* AfS: Available-for-sale financial assets LaR: Loans and receivables; AmC: Amortised cost (financial liabilities)

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 light of their duration and risk-adjusted market interest rates. Non-current liabilities to banks 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 liabilities to banks, 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 liabilities to banks 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 2015	IAS 39 Category*	Interest TEUR	Impairments TEUR	Write-off liabilities	Others TEUR
Loans and receivables	LaR	1,659	-4,736	0	0
Investments	AfS	0	-469	0	311
Financial liabilities	AmC	-89,852	0	302	0
Derivative financial instruments with no hedging relationship	HfT	-3,493	0	0	0
31 December 2014					
Loans and receivables	LaR	1,818	-47,294	0	0
Investments	AfS	0	0	0	727
Financial liabilities	AmC	-107,459	0	532	0
Derivative financial instruments with no hedging relationship	HfT	-5,448	0	0	0

* 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 uses derivative financial instruments to the extent necessary for managing existing interest risks. These include interest swaps, albeit only in a small volume, as well as caps to minimise the risk of changing interest rates and sensitivity in the event of rising interest rates.

The Group does not enter into or trade in any financial instruments including derivative financial instruments for speculative purposes. 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 2015, there were interest derivatives (mainly payer swaps) of a nominal volume of EUR 161.8 m (previous year: EUR 236.1 m). These interest rate swaps break down as follows:

Interest rate hedges	Nominal volume		Market values	
(in TEUR)	2015	2014	2015	2014
Interest rate swaps	152,215	224,655	-5,434	-10,929
■ due for settlement in less than 1 year	100,560	25,237	-2,128	-198
■ due for settlement in 1–5 years	51,655	199,418	-3,305	-10,731
Caps	9,617	11,453	14	39
■ due for settlement in 1–5 years	9,617	11,453	14	39
Total	**161,832**	**236,108**	**-5,420**	**-10,890**

Derivative financial instruments with a nominal value of EUR 20.4 m (previous year: EUR 35.8 m) and a fair value of EUR -0.6 m (previous year: EUR -0.8 m) are not included in a hedge relationship. The option transaction of EUR 3.5 m reported within derivative hedging instruments in the previous year was settled in connection with the early repayment of bank loans and the renegotiation of the underlying master contract. 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.

Changes in market interest rates	2015 TEUR	2014 TEUR
Change in market value in the event of a 0,5 percentage points increase in interest levels	825	1,965
Change in market value in the event of a 0,5 percentage points decrease in interest levels	-828	-1,938

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 percentage points, the net interest result deteriorates (improves) as follows:

Interest sensitivity	2015 TEUR	2014 TEUR
Net borrowing costs in the year under review	-95,825	-109,641
Average interest rate for non-current loans in % (without interest rate hedge)	3.0	3.1
Average interest rate for current loans in % (without interest rate hedge)	2.1	4.2
Change in net borrowing costs in the event of a general 0,5% increase in interest rate	-1,722	-1,719
Change in net borrowing costs in the event of a general 0,5% decrease in interest rate	1,722	1,719

The change in interest expense in this simulation does not take account of the compensating effect of the interest rate hedges. The change in net interest expense would directly affect consolidated net profit and consolidated equity in light of the effect on income tax considerations.

Credit risk

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

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

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.

Standardised contracts for financial forwards have been entered into with all issuing banks to hedge the risk of default with derivative financial instruments. These give rise to a contingent offsetting claim, e. g. in the event of insolvency. The offsetting criteria are not satisfied. The following financial assets and liabilities were mutually offset in the year under review.

	Offset on the face of the balance sheet			Not Offset on the face of the balance sheet		
in TEUR	Gross Carrying amount	Offset amount	Net Carrying amount	Financial instruments	Collateral	Total Net value
31 December 2014						
Financial assets						
Derivatives	39	0	39	-39	0	0
Financial liabilities						
Derivatives	10,928	0	10,928	-39	0	10,889

It is not possible for the derivative financial assets of TEUR 14 reported as of 31 December 2015 to be offset from the balance sheet.

Liquidity risk

The Management Board is responsible for liquidity risk management and has established an appropriate model for managing short-, medium- and longterm finance and liquidity requirements. The Group controls liquidity risks by maintaining reasonable reserves and bank facilities, and by conducting 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 liabilities to banks. Based on the non-discounted cashflows of financial liabilities as of the earliest day on which the Group is under any settlement obligation.

Liabilities to banks	2015 TEUR	2014 TEUR
Due for settlement in less than 1 year	204,088	105,959
1 to 5 years	526,420	650,901
More than 5 years	1,104,367	1,146,850
Total	**1,834,875**	**1,903,710**

In addition, there are estimated future payment outflows from interest on financial liabilities due for settlement in less than one year of EUR 46m (previous year: EUR 63m), in more than one but less than five years of EUR 135m (previous year: EUR 170m) and in more than five years of EUR 322m (previous year: EUR 414m).

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	2015 TEUR	2014 TEUR
Due for settlement in less than 1 year	146,900	281,159
More than 5 years	12,956	12,659
Total	**159,856**	**293,818**

The Group is able to utilise overdraft facilities. The total amount not utilised as of the reporting date stands at EUR 11m (previous year: EUR 19m). 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

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

In addition, a loan of around EUR 1,435m (previous year: EUR 1,518m) has been raised within the Group for which financial covenants specifying certain capital service ratios and equity / debt ratios have been agreed. If any of these covenants are breached, premature loan repayments may be necessary. As of 31 December 2015, all main financial covenants stipulated in loan contracts were complied with.

Similarly, the convertible bond and corporate bonds are subject to certain terms and conditions which, if breached, constitute a liquidity risk. In the event of any breach of the terms of issue, e. g. a change of control or a breach of the financial covenants, the convertible bond and corporate bonds – like the loans referred to in the section entitled 'Disclosures in accordance with Section 315 (4) of the German Commercial Code – Conditions for a change of control following a take-over offer' in the Management Report – may be subject to a right of premature termination.

Collateral

The Group holds collateral in the form of financial assets (on-demand accounts and savings accounts) from tenants valued at around EUR 38.4m (previous year: EUR 28.1m). 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 TEUR	2015	2014
Rentals for business premises	2,214	2,632
Others (e.g. manager contracts, leases, rental guarantees)	3,640	4,492
Total	**5,854**	**7,124**

One part of the other financial obligations of TEUR 3,751 (previous year: TEUR 4,092) is due for settlement in less than one year, a further part of TEUR 2,103 (previous year: TEUR 3,027) between one and less than five years and a further part of TEUR 0 (previous year: TEUR 5) in more than five years.

Minimum lease payments under operating leases

In the residential real estate segment, rental contracts are generally subject to a statutory notice period of three months. There are no claims to minimum lease payments beyond this. Long-term leases with commercial tenants are only of subordinate importance.

Business relations with associated companies

A guarantee had been issued in 2014 to a bank in favour of the associate GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG of in 2015 TEUR 0 (31 December 2014: TEUR 505). No remuneration was agreed.

Material transactions with related persons

There were no material transactions with related persons in 2015.

In 2014, transactions had arisen with the following related persons:

- Die NOERR LLP, Munich, and Nörr Stiefenhofer Lutz Partnerschaft, Frankfurt am Main, with which Prof. Dr. R. Frohne, a former member of the Supervisory Board, is related, received payments of TEUR 325 in the previous year in consideration of the provision of legal advice.
- Guarantees of around EUR 55m were initially still outstanding for bank loans granted to TAG Gewerbeimmobilien GmbH, which had been sold and has since been renamed Texas Gewerbeimmobilien S.à.r.L. As the underlying loans were discharged in 2014, these obligations have expired.
- In the second quarter of 2014, TAG AG acquired 1% of TAG Beteiligungs- und Immobilienverwaltungs GmbH from TAG Beteiligungsverwaltungs GmbH, in which Dr. Harboe Vaagt held a share of 16.8% as of that date, for a price of TEUR 704.
- In 2014, 50.4% of the capital of TAG Beteiligungsverwaltungs GmbH was acquired for a sum of TEUR 142, which matched the market value. Of this, TEUR 47 was paid to Management Board member Dr. Harboe Vaagt.

Fees payable to statutory auditors

The fees of a total of EUR 1,251 (previous year: TEUR 1,038) (plus value added tax at the statutory rate) payable within the entire Group for the services of the statutory auditors break down as follows:

- TEUR 1,058 (previous year: TEUR 884) for auditing services
- TEUR 99 (previous year: TEUR 109) for other attestation services
- TEUR 35 (previous year: TEUR 43) for tax consulting services, and
- TEUR 59 (previous year: TEUR 2) for other services.

The other consulting services primarily entail the limited review of the condensed interim consolidated financial statements as of 30 June.

The fees for auditing activities include trailing costs of TEUR 162 (previous year: TEUR 134) for the prior year.

Headcount

TAG had the following number of employees as of the end of the year:

	12/31/2015	12/31/2014
Operational employees	462	442
Administration and central area	103	79
Caretakers	201	134
Handymen	15	0
Total	**781**	**655**

The annual average stood at 754 (previous year: 662).

Material events after the balance sheet date

No further reportable events occurred after the reporting date.

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

TAG TSA Wohnimmobilien GmbH, Hamburg, and Bau-Verein zu Hamburg Immobilien GmbH, Hamburg, made use of the exemption provisions under Sections 264 (3) of the German Commercial Code in 2015.

Supervisory Board

The members of the Supervisory Board and the offices held by them in other supervisory boards or comparable domestic and international corporate governance bodies in 2015 are listed below:

- Rolf Elgeti, businessman, Potsdam (Chairman)
  - Sirius Real Estate Limited, Guernsey
  - Fair Value REIT AG, Munich (Chairman from February 2015)
  - 1801 Deutsche Leibrente AG (Chairman from July 2015)
- Lothar Lanz, businessman, Munich (Deputy Chairman)
  - Axel Springer SE, Berlin
  - Zalando SE, Berlin
  - Home24 AG, Berlin (Chairman from September 2015)
  - Dogan TV Holding A.S., Istanbul, Turkey
  - Bauwert AG, Bad Kötzting (Chairman from December 2015)
- Dr Philipp K. Wagner, attorney, Berlin
  - Colonia Real Estate AG, Hamburg
- Dr Hans-Jürgen Ahlbrecht, engineer, Berlin
- Wencke Röckendorf, office assistant, Hamburg, staff representative (until 31 January 2015)
- Harald Kintzel, attorney, Berlin, employee representative (starting 1 May 2015)
- Marco Schellenberg, real estate management assistant, Berlin, employee representative (starting 1 May 2015)

The remuneration paid to the Supervisory Board in the year under review came to TEUR 321 (previous year TEUR 306) plus value added tax.

Management Board

The members of the Management Board and the offices they hold on other supervisory boards or comparable domestic and non-domestic supervisory bodies in 2015 are set out below:

- Claudia Hoyer, Chief Operating Officer, Potsdam
- Martin Thiel, Chief Financial Officer, Hamburg
- Dr Harboe Vaagt, Chief Legal Officer, Halstenbek
  - Colonia Real Estate AG, Hamburg (Chairman)
  - Grasmus Holding B.V., Maastricht, Netherlands (until December 2015)

Remuneration accruing to the Management Board in the year under review (incentives granted) came to TEUR 1,905 (previous year TEUR 3,831). The amounts paid to the members of the Management Board in the year under review, which also partially include remuneration earned in earlier years, stand at TEUR 1,429 (previous year: TEUR 4,461).

in TEUR	Claudia Hoyer COO				Martin Thiel CFO (starting 04/01/2014)				Dr. Harboe Vaagt CLO			
	2014 (Actual)	2015 (Actual)	2015 (Min.)	2015 (Max.)	2014 (Actual)	2015 (Actual)	2015 (Min.)	2015 (Max.)	2014 (Actual)	2015 (Actual)	2015 (Min.)	2015 (Max.)
Incentives granted												
Fixed remuneration	307	340	340	340	270	360	360	360	410	420	420	420
Ancillary benefits	14	14	14	14	5	7	7	7	14	14	14	14
Total	**321**	**354**	**354**	**354**	**275**	**367**	**367**	**367**	**424**	**434**	**434**	**434**
One-year variable remuneration	77	83	0	83	58	83	0	83	77	83	0	83
Multi-year variable remuneration	153	167	0	167	115	167	0	167	153	167	0	167
Total	**230**	**250**	**0**	**250**	**173**	**250**	**0**	**250**	**230**	**250**	**0**	**250**
Total remuneration	**551**	**604**	**354**	**604**	**448**	**617**	**367**	**617**	**654**	**684**	**434**	**684**
Inflow												
Fixed remuneration	307	340	340	340	270	360	360	360	410	420	420	420
Ancillary benefits	14	14	14	14	5	7	7	7	14	14	14	14
Total	**321**	**354**	**354**	**354**	**275**	**367**	**367**	**367**	**424**	**434**	**434**	**434**
One-year variable remuneration	42	77	0	77	0	58	0	58	42	77	0	77
Multi-year variable remuneration	0	21	0	21	0	0	0	0	0	41	0	41
Total	**42**	**98**	**0**	**98**	**0**	**58**	**0**	**58**	**42**	**118**	**0**	**118**
Total remuneration	**363**	**452**	**354**	**452**	**275**	**425**	**367**	**425**	**466**	**552**	**434**	**552**

in TEUR	Rolf Elgeti CEO (until 10/31/2014)				Georg Griesemann CFO (until 03/31/2014)				Hans-Ulrich Sutter CFO (until 06/30/2012)			
	2014 (Actual)	2015 (Actual)	2015 (Min.)	2015 (Max.)	2014 (Actual)	2015 (Actual)	2015 (Min.)	2015 (Max.)	2014 (Actual)	2015 (Actual)	2015 (Min.)	2015 (Max.)
Incentives granted												
Fixed remuneration	522	0	0	0	776	0	0	0	0	0	0	0
Ancillary benefits	6	0	0	0	5	0	0	0	0	0	0	0
Total	**528**	**0**	**0**	**0**	**781**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
One-year variable remuneration	290	0	0	0	0	0	0	0	0	0	0	0
Multi-year variable remuneration	579	0	0	0	0	0	0	0	0	0	0	0
Total	**869**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total remuneration	**1,397**	**0**	**0**	**0**	**781**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Inflow												
Fixed remuneration	522	0	0	0	776	0	0	0	0	0	0	0
Ancillary benefits	6	0	0	0	5	0	0	0	0	0	0	0
Total	**528**	**0**	**0**	**0**	**781**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
One-year variable remuneration	290	0	0	0	125	0	0	0	0	0	0	0
Multi-year variable remuneration	1,334	0	0	0	49	0	0	0	250	0	0	0
Total	**1,624**	**0**	**0**	**0**	**174**	**0**	**0**	**0**	**250**	**0**	**0**	**0**
Total remuneration	**2,152**	**0**	**0**	**0**	**955**	**0**	**0**	**0**	**250**	**0**	**0**	**0**

* including termination benefits

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.

Hamburg, 9 March 2016

Claudia Hoyer
COO

Martin Thiel
CFO

Dr Harboe Vaagt
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, 9 March 2016

Claudia Hoyer	**Martin Thiel**	**Dr Harboe Vaagt**
COO	**CFO**	**CLO**

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the TAG Immobilien AG, Hamburg, comprising Consolidated balance sheet, Consolidated income statement, Consolidated statement of comprehensive income, Consolidated cashflow statement, Statement of changes in consolidated equity, Consolidated segment report and Notes to the consolidated financial statement together with the group management report for the business year from January 1, 2015 to December 31, 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch „German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agree-ment/articles of incorporation) 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, 10 March 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Madsen	**Krüger**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(German Public Auditor)	**(German Public Auditor)**

TAG FINANCIAL CALENDAR

ANNOUNCEMENTS

25 February 2016	Publication of the preliminary 2015 numbers
24 March 2016	Publication of Annual Report 2015
10 May 2016	Publication of Interim Report – Q1 2016
17 June 2016	Annual General Meeting, Hamburg
28 June 2016	Capital Markets Day, Dresden
11 August 2016	Publication of Interim Report Q2 2016
10 November 2016	Publication of Interim Report Q3 2016

CONFERENCES

07 January 2016	Oddo European Mid Cap Forum, Lyon
19 January 2016	UniCredit Kepler Cheuvreux German Corporate Conference, Frankfurt
16 February 2016	Oddo Mid Cap Conference, Frankfurt
02–03 March 2016	db Convertible Conference 2016, London
10 March 2016	HSBC Real Estate Conference, Frankfurt
13 April 2016	Bankhaus Lampe, Conference, Baden-Baden
14 April 2016	Berenberg, Convertible Bond Conference, London
25–26 May 2016	Kempen European Property Seminar, Amsterdam
01 June 2016	Kepler Cheuvreux Conference, Paris
08–10 June 2016	db Conference Corporate Access, Berlin
13–14 September 2016	UBS Best of Germany One on One Conference, New York
19–21 September 2016	Goldman Sachs & Berenberg German Conference, Munchich
20–22 September 2016	Baader Investment Conference, Munich

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The English version of the 2015 annual report is a translation of the German version.
The German version is legally binding.

NOTES

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