# ANNUAL REPORT 2018

GROWING CASHFLOWS

TAG Immobilien AG

# GROUP FINANCIALS

**in TEUR**

| Income statement key figures | 2018 | 2017 (adjusted) | 2016 (adjusted) |
|---|---|---|---|
| Rental income (net rent) | 302.2 | 293.0 | 275.2 |
| EBITDA (adjusted) | 206.4 | 198.3 | 175.2 |
| Consolidated net profit | 488.2 | 313.7 | 200.7 |
| FFO I per share in EUR | 1.00 | 0.87 | 0.72 |
| FFO I in EUR m | 146.5 | 127.4 | 97.0 |
| AFFO per share in EUR | 0.60 | 0.58 | 0.37 |
| AFFO in EUR m | 88.4 | 84.6 | 50.5 |

| Balance sheet key figures | 12/31/2018 | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Total assets | 5,003.3 | 4,634.5 | 4,016.8 |
| Equity | 2,048.3 | 1,646.6 | 1,365.6 |
| Equity ratio in % | 40.7 | 35.5 | 34.0 |
| EPRA NAV per share in EUR | 17.32 | 13.80 | 11.53 |
| LTV in % | 47.3 | 52.3 | 57.1 |

| Portfolio data | 12/31/2018 | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Units | 84,426 | 83,140 | 79,754 |
| Real estate volume | 4,815.5 | 4,275.4 | 3,856.6 |
| Vacancy in % (total) | 5.3 | 5.8 | 6.5 |
| Vacancy in % (residential units) | 4.8 | 4.8 | 6.1 |
| l-f-l rental growth in % | 2.3 | 2.0 | 2.0 |
| l-f-l rental growth in % (incl. vacancy reduction) | 2.6 | 3.1 | 3.7 |

| EPRA key figures | 12/31/2018 | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| EPRA Earnings per share in EUR | 1.10 | 0.77 | 0.66 |
| EPRA NAV per share in EUR | 17.32 | 13.80 | 11.53 |
| EPRA NNNAV per share in EUR | 14.43 | 11.02 | 9.25 |
| EPRA Net Initial Yields in % | 5.8 | 6.3 | 6.9 |
| EPRA Vacancy Rate in % | 4.8 | 5.7 | 6.3 |
| EPRA Cost Ratio (incl. vacancy costs) in % | 31.7 | 32.4 | 36.3 |
| EPRA Cost Ratio (excl. vacancy costs) in % | 29.1 | 29.8 | 32.5 |

| Employees | 2018 | 2017 | 2016 |
|---|---|---|---|
| Number of employees | 993 | 961 | 833 |

| Capital market data | |
|---|---|
| Market cap at 12/31/2018 in EUR m | 2,916.8 |
| Share capital at 12/31/2018 in EUR | 146,498,765 |
| WKN/ISIN | 830350/ DE0008303504 |
| Number of shares at 12/31/2018 (issued) | 146,498,765 |
| Number of shares at 12/31/2018 (outstanding, without treasury shares) | 146,321,650 |
| Free Float in % (without treasury shares) | 99.88 |
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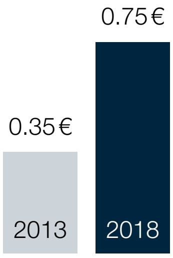
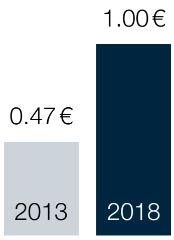



Dividend

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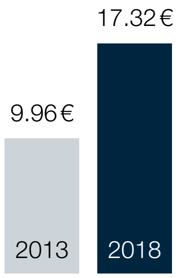
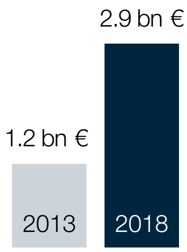
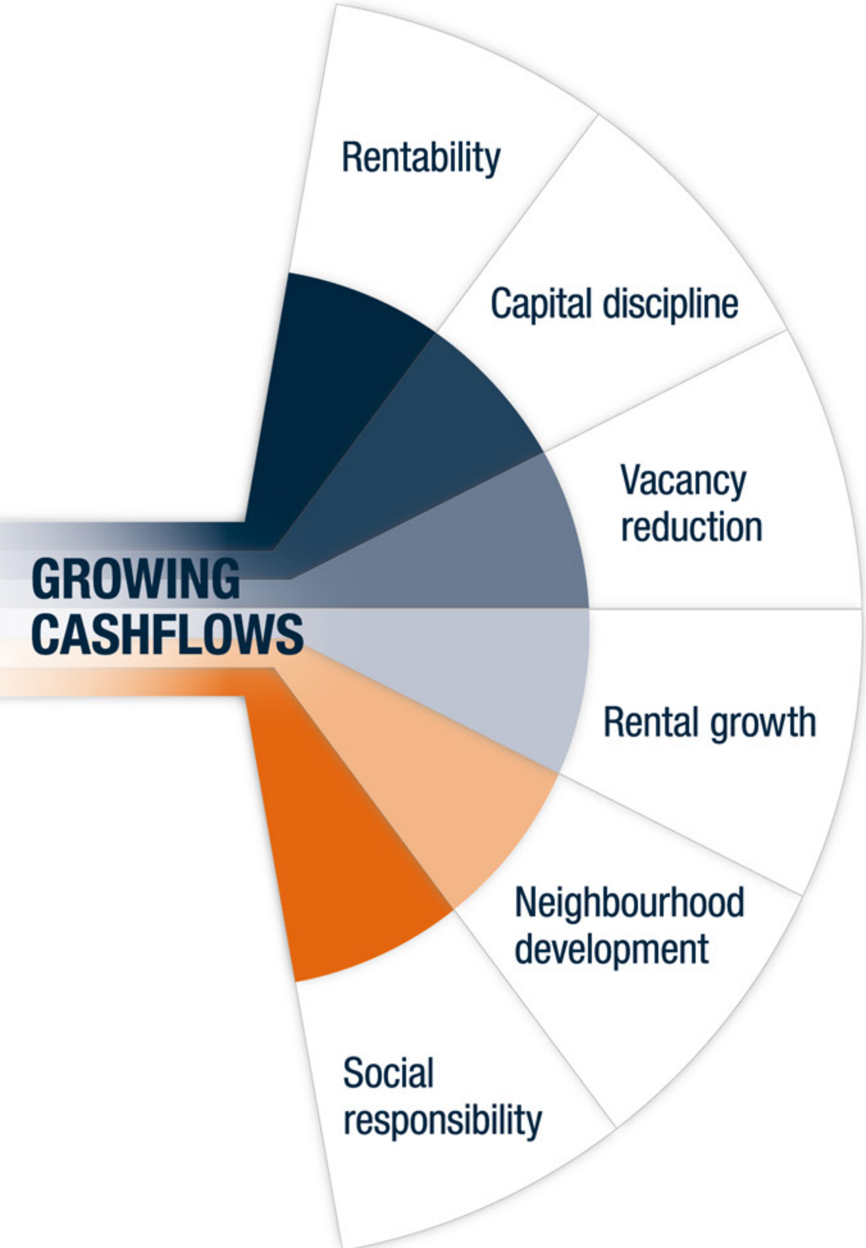
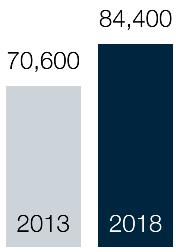



EPRA-NAV

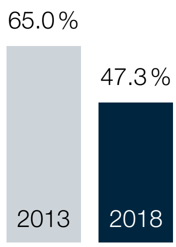



Market capitalisation



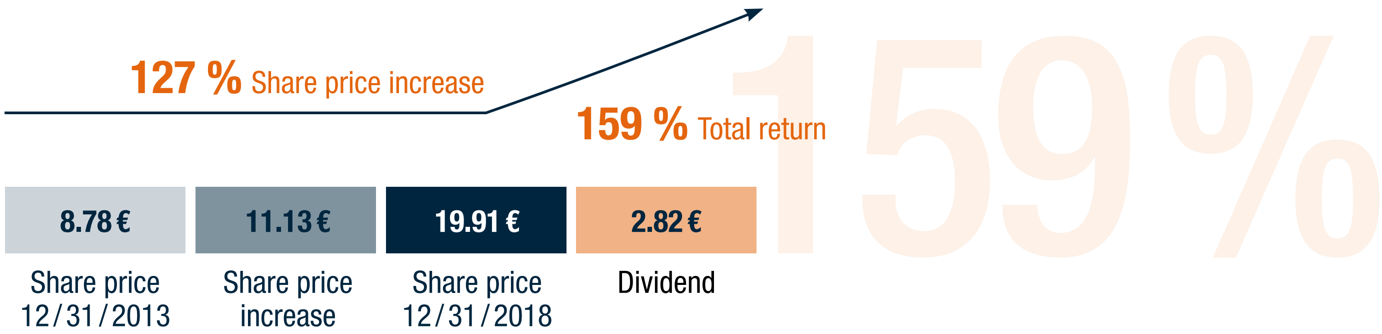




Residential units




LTV

# TOTAL SHAREHOLDER RETURN 2013 - 2018




FOREWORD

# FOREWORD BY THE MANAGEMENT BOARD

**Dear Shareholders,
Ladies and Gentlemen,**

Anyone who acquired TAG shares at the end of 2013 has not only achieved a 127% increase in the share price in a five-year period, but has also received EUR 2.82 in dividends per share. This adds up to a total return of nearly 160%. They invested in a company that during this period increased its operating profit (FFO per share) by 113% and its net asset value (NAV per share) by 74%, while at the same time increasing its market cap by a factor of 2.4 to EUR 2.9bn, and the number of residential units in its portfolio by nearly 14,000 to more than 84,000, yet reducing its debt ratio (LTV) by 18 percentage points.

This is a very gratifying development, which we are happy to present to you today with the publication of our 2018 Annual report. And it is the result of a long-term strategy, as the basis for this was laid back in 2009 when TAG decided to focus entirely on the letting of residential real estate, and started making investments in what are known as ‘B locations’ from the start. Especially in Eastern Germany, where the main focus of our portfolio now lies, TAG was one of the first major investors to recognise the potential of these markets during this period. We benefit greatly from this today, as we were able to acquire our portfolio gradually, at completely different purchase prices than we would pay today. As a result, we have created a very healthy basis for high-yield investments and for the operative success we have continuously achieved, year after year.

We firmly believe that this strategy will continue to help us achieve profitable growth in the years ahead. Our operating successes, which are based on attractive rental growth with only moderate investment requirements, will enable us to continue growing our cashflows and increasing our dividends in future. However, this does not happen at our tenants' expense. Our strategy continues to consist of restoring the attractiveness of portfolios and neighbourhoods for existing and new tenants, in regions that do not receive sufficient attention from many market participants and that suffer from a lack of investment and rising vacancy. We basically see this as the core of our 'sustainable business model'. A term that is far too often only used in a standardised way today, but which for us simply means that what is in our tenants' interests ultimately also makes sense for our shareholders.

But let's take a closer look at the key operative and financial indicators for the 2018 financial year. In the operative business, we were able to significantly reduce vacancy once again. Vacancy across our residential units was just 4.7% in December 2018, compared with 5.3% at the beginning of the 2018 financial year. In the overall portfolio, i.e. including last year's acquisitions and the commercial units integrated into the residential portfolio, vacancy was 5.3% at year-end compared with 5.8% at the end of the previous year. We were able to achieve excellent rental growth on a like-for-like basis, at 2.6% after 3.1% in the previous year, without any cost-intensive material modernisation programmes for us and our tenants.

In acquisitions, the purchase of more than 2,700 residential units was signed in 2018. Although this is fewer than in the previous year, when almost 5,000 residential units were acquired, the average gross initial yields of 7.8% can be described as clearly above average given the intense competition, and are not far off the previous year's average yields (8.2%). This means that we can still grow in our markets through acquisitions, although price discipline is still required for these investments.

However, we also took advantage of the strong demand for German residential real estate and sold some 1,600 residential units that were not part of the company's strategic core portfolio due to their locations. We were able to sell these non-core assets at an initial gross yield of 7.9% based on their book values. We received EUR 53.5 m net cash proceeds from these disposals, which we can then use to make new investments in long-term high-yielding properties in our core markets.

In the area of financing, we were able to carry out extensive refinancing of our corporate bonds in 2018. In addition to the scheduled repayment, in August 2018, of the EUR 191.0 m corporate bond 2013/2018 with an interest rate of 5.125% p.a., in June 2018 we carried out an early repurchase of the 2014/2020 corporate bond which had an interest coupon of 3.75% p.a. At the same time, two new corporate bonds of EUR 125.0 m each were issued, with average annual interest rates of just 1.5% and maturities of five and seven years, respectively. Together with the refinancing measures already taken in 2017, this reduced our average cost of debt at year-end to 1.9% p.a., with average maturities of more than eight years.

All this is reflected in a significant year-on-year increase in FFO of more than 15% from 2017 to 2018. We once again exceeded our FFO forecast, which we had already raised in August 2018. And thanks to a strong increase in the valuation of our portfolio by more than 10%, NAV also developed extremely positively, increasing by 26% in 2018 to EUR 17.32 per share.

**TAG Management Board: Martin Thiel, Claudia Hoyer, Dr Harboe Vaagt**

So we are optimistic about the future, as we believe that the positive trends in the German residential real estate market in general and in our markets in particular will continue. As in the past, we want to maintain a balance between business goals on the one hand and social interests on the other. How we deal with these ostensibly conflicting priorities, which from our point of view do not contradict each other for an investor who takes a long-term view, can also be seen in our sustainability report 2018, which we have published simultaneously with our Annual report. We would like to take this opportunity to draw your attention to it, and warmly recommend it.

Finally, we would like to thank you, our shareholders, for your continued support and confidence in us in the past financial year. And a special thank-you again to our committed and capable employees, whose daily work makes our economic success possible in the first place and who tackle all the opportunities and challenges arising from our business model and the highly competitive residential real estate market with such a positive attitude.

Kind regards,

**Claudia Hoyer**
**COO**

**Martin Thiel**
**CFO**

**Dr Harboe Vaagt**
**CLO**

BOARD REPORT

# SUPERVISORY BOARD REPORT

## Dear Shareholders, Ladies and Gentlemen,

TAG Immobilien AG (TAG) once again had a successful business year in 2018, characterised by a further improvement in financial indicators, the optimisation of the real estate portfolio, and ongoing reduction of financing costs. Purchases of 2,727 high-yield residential properties, especially at the end of the financial year, led to an increase in the residential inventory to around 85,000 units, despite sales. The gratifying increase in the stock price from EUR 15.84 at 31 December 2017 to EUR 19.91 at 31 December 2018 and the successful placement of two corporate bonds totalling EUR 250m in June 2018 testify to the trust and confidence that the capital market continues to extend to TAG. The Supervisory Board wishes to thank all shareholders and investors for their trust in TAG in financial year 2018.

## Collaboration with the Management Board and monitoring of the company's management

In financial year 2018, the Supervisory Board fulfilled the duties required of it 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 the acquisitions and sales completed in 2018. 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 its risk management and compliance. The reports were made in writing and orally. The Management Board was in regular 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

At the Annual General Meeting on 23 May 2018, regular elections to the Supervisory Board were on the agenda. Rolf Elgeti, Lothar Lanz and Dr Phillip Wagner were re-elected. In place of Dr Hans-Jürgen Ahlbrecht, who did not stand for re-election due to age reasons, the meeting elected Prof Dr Kristin Wellner to the Supervisory Board.

In the constituent meeting following the election, Mr Rolf Elgeti was re-elected as Chairman of the Supervisory Board and Mr Lothar Lanz as his Deputy. 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 comprehensively 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. The Supervisory Board regularly conducts efficiency audits, which are carried out by means of a written survey of its members.

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 independence. The members of the Audit Committee possess accounting and auditing expertise. Mr. Lanz, as 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 composition of the Supervisory Board and its committees is as follows:

| | Supervisory Board | Audit Committee | Personnel Committee |
|---|---|---|---|
| Rolf Elgeti | Chairman | Member | Chairman |
| Lothar Lanz | Deputy Chairman | Chairman | Member |
| Dr Hans-Jürgen Ahlbrecht | Member until 22 May 2018 | Member until 22 May 2018 | – |
| Prof Dr Kristin Wellner | Member from 23 May 2018 | – | – |
| Dr Philipp K. Wagner | Member | – | Member |
| Harald Kintzel | Member | Member from 23 May 2018 | – |
| Marco Schellenberg | Member | – | – |

## Supervisory Board Meetings

At a total of four joint presence 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. The following overview shows the attendance record of the Supervisory Board members in the financial year under review:

| Meeting attendance by Supervisory Board members in 2018 | 20 Mar | 22 May | 10 Sep | 14 Dec |
|---|---|---|---|---|
| Rolf Elgeti | × | × | × | × |
| Lothar Lanz | × | – | × | × |
| Dr Hans-Jürgen Ahlbrecht (to 23 May 2018) | × | × | N/A | N/A |
| Prof Dr Kristin Wellner (from 23 May 2018) | N/A | N/A | × | × |
| Dr Philipp K. Wagner | × | × | × | – |
| Harald Kintzel | × | × | × | × |
| Marco Schellenberg | – | × | × | × |

At the meeting to approve the year-end financial statements on **20 March 2018**, the Supervisory Board dealt in detail with the Annual and Group Financial Statements for the 2017 financial year, and with the results of the review by the auditor, whose representatives personally attended the meeting to report on the outcome of the audit. At this meeting, the Supervisory Board also dealt with the non-financial declaration of TAG ('Sustainability report'), which was required for the first time for the 2018 financial year pursuant to Sections 289b et seq. and 315b of the German Commercial Code (HGB), and which was published in the past financial year. The Supervisory Board also adopted the resolution items on the agenda of the Annual General Meeting and the proposals for elections to the Supervisory Board on May 23, 2018, which were based on the recommendations of the Personnel Committee.

At the meeting on **22 May 2018**, besides preparations for the Annual General Meeting on 23 May 2018, Group-wide compliance at TAG was on the agenda. The Supervisory Board accepted the report of the Compliance Officer and finally approved the planned sale of up to 2,400 units in several sub-portfolios, which are not part of the Group's core portfolio due to their locations.

The meeting on **10 September 2018** dealt with an acquisition of 1,266 units, mainly located in Schwerin and Angermünde, and another company with around 600 units, also located in Schwerin. The Management Board reported on various other acquisitions that were completed in FY 2018, and presented the plans to launch a Commercial Paper Program, which the Supervisory Board noted with approval.

At the meeting on **14 December 2018**, the Management Board presented the planning for the years 2019 to 2021 to the Supervisory Board, which the Supervisory Board subsequently approved. The Supervisory Board also dealt with the transfer of shares in the subsidiary TAG Colonia-Immobilien AG to another co-investor, and the results of the 2018 tenant survey. The Supervisory Board and the Management Board jointly adopted the Compliance Statement for 2018 at this meeting.

Beyond these Supervisory Board meetings, other resolutions were passed by written circulation and in conference calls, which among other things concerned the placement of Corporate Bonds 2018/2023 and 2018/2025 of EUR 125 m each, the early redemption of Corporate Bonds 2014/2020 of EUR 125 m each and various other acquisitions.

**Riesa (Saxony)**

## Audit Committee Work

During the reporting year, the Audit Committee held three meetings in which it dealt with relevant items of the Supervisory Board's work. Representatives of the auditor attended parts of all of the meetings, and in this context reported on the voluntarily commissioned audit review of the interim financial statements as at 30 June 2018. In 2018, the focus of the consultations was also on various sub-areas of the audit, namely the audit of the accounting-related internal control system, the IT system 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 2018 financial year at the AGM on 23 May 2018. 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.

## Auditors for the 2018 financial year

The Supervisory Board engaged the auditor KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, which had been chosen by the shareholders at the Annual General Meeting on 23 May 2018, to audit the annual financial statements of TAG Immobilien AG as at 31 December 2018, in accordance with the recommendations of the DCGK.

As stipulated by Article 7.2.1 of the DCGK, the auditors submitted their declaration of independence, to which no objections were raised. The requirements specified in Article 7.2.3 of the DCGK with respect to the relations between the Company and the auditors were met.

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and the consolidated financial statements of TAG Immobilien AG for the first time for the financial year 2012. Up until and including the audit of the annual financial statements for FY 2017, the key audit partner was Mr Niels Madsen WP/StB. Since the 2018 financial year, Mr Rainer Thiede WP/StB has taken over the mandate as key audit partner and together with Mr Achim Bagehorn WP/StB, signed the audit certificate for the annual financial statements and consolidated financial statements as at 31 December 2018.

## Approval of annual financial statements and consolidated financial statements

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and management report prepared according to German commercial law, as well as the consolidated financial statements, including the group management report for financial year 2018, which were prepared in accordance with the International Financial Reporting Standards (IFRS). An unqualified audit certificate was issued in each case.

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 5 March 2019, 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. Representatives of the auditors personally attended the 5 March 2019 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 0.75 per share. The annual financial statements and the consolidated financial statements prepared by the Management Board were thus approved/accepted by the Supervisory Board.

## Corporate Governance

As in previous years, the Supervisory Board, and especially the Audit Committee, closely monitor management's compliance with the principles of good corporate governance.

The company does not currently fulfil 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.

In 2018, the company's Declaration of Conformance was approved at the December meeting. Apart from the exception stated just above, the company completely follows all the recommendations of the German Corporate Governance Code. Please also refer to the Corporate Governance report for financial year 2018.

## Personnel news

At the meeting on 22 May 2018, as proposed by the Personnel Committee, Martin Thiel's appointment to the Executive Board, which expired on 1 April 2019, and the corresponding executive employment contract, were extended by a further five years. Dr Hans-Jürgen Ahlbrecht resigned from the Company's Supervisory Board in fiscal 2018 as he no longer stood for re-election due to his age. The Supervisory Board would like to sincerely thank Dr Ahlbrecht for his trustworthy and dedicated work on the Supervisory Board over the past years.

The Supervisory Board would like to commend and thank all employees of the TAG Group, whose strong commitment and dedication made possible the Group's positive performance and continued growth in the first place, as well as the Management Board, for their good work.

Hamburg, March 2019

The Supervisory Board

Rolf Elgeti
Chairman of the Supervisory Board

# GOVERNANCE

## CORPORATE GOVERNANCE REPORT

'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 Supervisory and Management Boards of TAG Immobilien AG (TAG) 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 employees of TAG.

In accordance with Section 3.10 of the German Corporate Governance Code (DCGK), the Management Board and Supervisory Board issue the following report for the TAG Group, which also includes the Remuneration report published within the group management report for the 2018 business year. 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/ in the 'Corporate Governance' section.

### 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: 7 February 2017). Section 161 of the German Stock Corporations Act stipulates that the Management Board and Supervisory Boards shall declare annually to what extent the recommendations of the DCGK were complied with and which recommendations will not be applied in future, either. In December 2018, the Supervisory and Management Boards reviewed the Declaration of Compliance for 2018 and jointly adopted it.

TAG only deviates from one point of the requirements of the Code, as it does not follow the recommendation of section 4.2.1 to appoint a Management Board spokesman or chairman. For the reasoning behind this deviation, please refer to the Declaration of Conformance published below and the Supervisory Board report for FY 2018.

## 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 Corporate Governance Code (DCGK in the following) in the version dated 5 May 2015 (published on 12 June 2015) – with the following exception – and are and will continue to be in compliance with the recommendations in the DCGK in the version dated 7 February 2017 (published on 24 April 2017), with the following exceptions:

Given an earlier reduction of the Management Board of the company to just three members, the company's Management Board has had no spokesman or Chairman since 1 November 2014. So the recommendation in Section 4.2.1 Sentence 1 of the DCGK is not 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 plan for allocation of businesses, and that the full Board can appropriately represent the Company to the outside.

Hamburg, December 2018

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 DCGK, the Supervisory Board is to set specific targets for its composition. Taking into account the company's specific situation, these targets should reflect the company's business activity, consider potential conflicts of interest, set an age limit for supervisory board members, and promote diversity. The Supervisory Board has specified its rules and criteria regarding the composition of the Supervisory Board as follows:

- Each member of the Supervisory Board shall possess the knowledge, skills and professional experience required for the proper exercise of their duties, and shall be sufficiently independent. Each Board member shall ensure that they have enough time to devote to fulfilling their mandate. Board members should not hold office longer than until the end of the Annual General Meeting that follows their 75th birthday.
- Each Board member who also sits on the Executive/Management Board of a listed company may not accept more than a total of five Supervisory Board 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 they are 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.

In addition, the Supervisory Board has specified the 'competence profile' relevant to its composition and will take the following competences into account in the composition and selection of future candidates as follows:

| Financial competence | Real estate competence | Supervisory competence |
|---|---|---|
| Accounting | Professional qualification | Industry experience |
| Financial indicators | Industry/product expertise | Risk management |
| Liquidity planning | M&A experience | Compliance |
| Auditing | Strategic management | Corporate Governance |

At this time, the members of the Supervisory Board fulfil these criteria and also cover these competences. In the opinion of the Supervisory Board, all members of the Supervisory Board are 'independent' within the meaning of section 5.4.2. DCGK, so that it is not necessary to mention the independent members by name as stipulated in section 5.4.1.

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 minimum quota of 30% for the Management Board, which has been met for many years. The Supervisory Board has striven and continues to strive to increase the proportion of women on the Supervisory Board, but is sticking to the gender quota of 0% agreed at its meeting on 3 September 2015, in order not to restrict discretionary scope in the selection of candidates with regard to the aforementioned prerequisites and competencies and in order not to prejudice the election of shareholder representatives in the future. Following the Supervisory Board elections carried out in May 2018, the proportion of women on the Supervisory Board in relation to shareholder representatives was 25%, and 17% in relation to the entire Supervisory Board.

Overall, the gender ratio at TAG can be considered balanced. In the first and second management tiers of the Group, where the Management Board has stipulated a quota of at least 40%, the proportion of women is at around 48%, and in the Group as a whole it is around 70%.

## Disclosure of conflicts of interest

Good corporate governance includes the disclosure and transparency of any business transactions that could create conflicts of interest. There were no conflicts of interest between the company and the members of the Supervisory Board or the Management Board, e.g. through the assumption of advisory or executive functions for third parties or business partners, in the business year under review. There were also no business relationships between the members of the Supervisory Board or the Management Board or related parties or companies and TAG or its subsidiaries during the reporting period.

## Directors' dealings and shareholdings

On the reporting dates the past two years, the following shares were held by Board members:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| **Shareholders** | **Shares (direct)** | **Shares (remunerati-on program)** | **Total** | **Shares (direct)** | **Shares (remunerati-on program)** | **Total** |
| Rolf Elgeti | 20,000 | 0 | 20,000 | 20,000 | 0 | 20,000 |
| Lothar Lanz | 5,000 | 0 | 5,000 | 5,000 | 0 | 5,000 |
| Dr Philipp K. Wagner | 0 | 0 | 0 | 0 | 0 | 0 |
| Dr Hans-Jürgen Ahlbrecht (until 22 May 2018) | N/A | N/A | N/A | 4,500 | 0 | 4,500 |
| Prof Dr Kristin Wellner (from 23 May 2018) | 0 | 0 | 0 | N/A | N/A | N/A |
| Harald Kintzel | 0 | 0 | 0 | 0 | 0 | 0 |
| Marco Schellenberg | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Supervisory Board** | **25,000** | 0 | **25,000** | **29,500** | 0 | **29,500** |
| Claudia Hoyer | 9,000 | 18,702 | 27,702 | 9,000 | 18,702 | 27,702 |
| Martin Thiel | 17,298 | 18,702 | 36,000 | 12,383 | 18,702 | 31,085 |
| Dr Harboe Vaagt | 15,085 | 18,702 | 33,787 | 15,085 | 18,702 | 33,787 |
| **Total Management Board** | **41,383** | **56,106** | **97,489** | **36,468** | 56,106 | **92,574** |
| **Sum total** | **66,383** | **56,106** | **122,489** | **65,968** | 56,106 | **122,074** |

During the 2018 Mr Martin Thiel bought 4,915 shares on the stock market. In addition, each of the three members of the Management Board was promised 10,617 (FY 2016) and 8,085 (FY 2017) shares as part of their variable long-term remuneration for 2016 and 2017. These, however, will only become available to them in FY 2020 and 2021, respectively, after the three-year vesting period.

## Remuneration of the Supervisory Board

The remuneration paid to members of the Supervisory Board was set 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 1.5 times this basic fixed fee, and the Chairman of the Supervisory Board receives a fixed fee in the amount of EUR 175,000.00 for each financial year. No variable remuneration based on the company's pay-out is granted. In the company's opinion, a purely function-related remuneration of the Supervisory Board 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, unless the fee is waived as in the past. In all, the following remuneration (net of VAT and reimbursements for travel expenses) was provided for 2018:

| Supervisory Board members | 2018 in TEUR | 2017 in TEUR |
|---|---|---|
| Mr Rolf Elgeti | 175 | 175 |
| Mr Lothar Lanz | 105 | 105 |
| Dr Philipp K. Wagner | 20 | 20 |
| Dr Hans-Jürgen Ahlbrecht (until 22 May 2018) | 10 | 25 |
| Prof Dr Kristin Wellner (from 23 May 2018) | 12 | 0 |
| Mr Harald Kintzel | 23 | 20 |
| Mr Marco Schellenberg | 20 | 20 |
| **Total** | **365** | **365** |

## Remuneration of the Management Board

The members of the TAG Management Board receive a fixed base remuneration in cash and a performance-related variable component, which is paid out partly in cash and partly in form of TAG shares. The performance-related remuneration of Management Board members is based on the provisions of Section 87 paragraph 1 sentence 3 of the German Stock Corporation Act and the DCGK and since FY 2018 has consisted of a Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP). The STIP is based on the development of financial ratios and is intended to be paid out in cash immediately. The LTIP is based on the ‚Total Shareholder Return' (TSR) over a three-year period and is paid exclusively in TAG shares, which are only transferred to the Management Board after a vesting period of three years. This regulation ensures that the variable remuneration and its amount is also dependent on the long-term and sustainable development of the company.

Neubrandenburg (Mecklenburg-Western Pomerania)

The remuneration of the Management Board earned in the financial year under review (funds granted) amounts to TEUR 1,861 (previous year: TEUR 2,045). The amounts received by the Management Board in the past financial year, some of which also include remuneration earned in previous years, amount to TEUR 2,132 (previous year: TEUR 1,814). Further details about compensation paid to Board members for the 2018 financial year are presented in the remuneration report within the group management report for the 2018 financial year. Please refer to the comments included therein.

## Compliance

'Compliance' refers to the observance of and compliance with the laws that apply for TAG's business activities, the recommendations of the German Corporate Governance Code, and the Company's own internal policies and directives. In-house policies and instructions are part of TAG's compliance management system, which is regularly reviewed and updated. Since FY 2018, it also includes the option for employees to report legal violations in the company using a protected communication channel.

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 DCGK, remains an ongoing task for management.

EPRA

# EPRA REPORTING

TAG Immobilien AG has been a member of EPRA (European Public Real Estate Association) since 2001, a non-profit organisation representing listed European real estate companies. EPRA regularly publishes best practice recommendations for financial reporting and for calculating certain performance indicators. Although TAG's internal management process is not currently based on EPRA figures with the exception of EPRA NAV, we are publishing below the figures and calculations prepared in accordance with the latest EPRA best practice recommendations (http://www.epra.com/finance/financial-reporting/guidelines). In doing so, TAG is supporting EPRA's initiative for uniform accounting and improved comparability of real estate companies' financials.

## 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.

| in EUR m | 2018 | 2017 |
|---|---|---|
| **Net income** | **488.2** | **313.7** |
| Fair value changes in investment properties and valuation of properties held as inventory | -430.0 | -293.0 |
| Deferred income taxes | 72.7 | 76.9 |
| Deferred income taxes on valuation result | 0.1 | 0.0 |
| Cash taxes on net revenues from sales | 0.0 | 0.0 |
| Bewertungsergebnis derivative Finanzinstrumente | 31.0 | 1.2 |
| Deferred income taxes | -9.8 | 0.0 |
| Breakage fees from the early repayment of bank loans | 9.8 | 14.4 |
| Cash dividend payments to minorities | -1.3 | -0.8 |
| **EPRA Earnings** | **160.8** | **112.4** |
| Deferred income taxes (other than on valuation result) | -12.9 | 2.8 |
| Other non-cash financial results | 0.6 | -0.2 |
| Non-recurring effects (Provisions for property transfer tax risks) | -6.2 | 8.5 |
| Depreciation/amortisation | 4.3 | 3.9 |
| Cash taxes on net revenues from sales | 0.0 | 0.0 |
| **Adjusted EPRA Earnings (FFO I)** | **146.5** | **127.4** |
| Weighted average number of shares (outstanding) | 146.341 | 145.709 |
| **EPRA Earnings per share in EUR** | **1.10** | **0.77** |
| **Adjusted EPRA Earnings (FFO I) per share in EUR** | **1.00** | **0.87** |
| Interest expense convertible bond | 1.6* | |
| **EPRA Earnings, diluted** | **162.4** | |
| Number of shares in TEUR, diluted | 161.016* | |
| **EPRA-Earnings per share in EUR, diluted** | **1.01** | |

*From 2018: including the effects of the potential conversion of the 2017/2022 convertible bond and the potential shares used for Management Board remuneration. In 2017: excluding potential shares from the convertible bond as it is not traded 'in the money'.

As is the case with funds from operations (FFO I), which are reported here as 'adjusted EPRA Earnings', 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 the utilisation and impairment of deferred income taxes recognised on 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 deducted from EPRA Earnings whilst eliminated from FFO I.

## EPRA NAV

EPRA NAV represents the company's net asset value after the recognition of real estate at its fair value. Certain items which are 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.

| in EUR m | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Consolidated equity (before non-controlling interests) | 2,006.5 | 1,625.9 |
| Deferred income taxes on investment properties and derivative financial instruments | 425.2 | 362.3 |
| Fair value of derivative financial instruments | 42.0 | 8.4 |
| Difference between fair value and book value for properties valued at cost | 60.0 | 24.8 |
| **EPRA NAV** | **2,533.6** | **2,021.4** |
| Number of shares (outstanding) | 146.322 | 146.439 |
| **EPRA NAV per share in EUR** | **17.32** | **13.80** |
| Effect from conversion of convertible bond | 257.5* | |
| **EPRA NAV, diluted** | **2,791.1** | |
| Number of shares in TEUR, diluted | 161.023* | |
| **EPRA NAV per share in EUR, diluted** | **17.33** | |

*From 2018: including the effects of the potential conversion of the 2017/2022 convertible bond and the potential shares used for Management Board remuneration. In 2017: excluding potential shares from the convertible bond as it is not traded 'in the money'.

## EPRA NNNAV

EPRA NNNAV is based on EPRA NAV and also takes account of financial liabilities including derivative financial instruments and the related deferred income taxes at their fair value, which is estimated for this purpose.

| in EUR m | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **EPRA NAV, diluted** | **2,791.1*** | **2,021.4** |
| Fair value of derivative financial instruments | -5.1 | -8.4 |
| Deferred income taxes | -437.1 | -362.3 |
| Difference between the fair value and book value of financial liabilities | -37.8 | -54.7 |
| Deferred income taxes | 12.2 | 17.7 |
| **EPRA NNNAV, diluted** | **2,323.3** | **1,613.7** |
| Number of shares in TEUR, diluted | 161.023* | 146.439 |
| **EPRA NNNAV per share in EUR, diluted** | **14.43** | **11.02** |

*From 2018: including the effects of the potential conversion of the 2017/2022 convertible bond and the potential shares used for Management Board remuneration. In 2017: excluding potential shares from the convertible bond as it is not traded 'in the money'.

## EPRA NET INITIAL YIELD

EPRA net initial yield is the ratio between the annualised annual net rental income less non-rechargeable ancillary 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.

| in EUR m | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Annualised net annual rental income on the reporting date | 314.1 | 303.3 |
| Non-rechargeable ancillary expenses | -9.8 | -14.0 |
| **Rental income after non-rechargeable ancillary expenses** | **304.3** | **289.3** |
| Adjustments for rental incentives (rent-free periods) | 0.0 | 0.0 |
| **Rent after non-allocable utility costs and rental ads** | **304.3** | **289.3** |
| Market value of total real estate assets | 4,815.5 | 4,275.4 |
| Transaction costs deducted (acquisition costs) | 399.7 | 333.5 |
| **Market value of total real estate assets (gross)** | **5,215.2** | **4,608.9** |
| **EPRA Net Initial Yield in %** | **5.8** | **6.3** |
| **EPRA 'topped up' Net Initial Yield in %** | **5.8** | **6.3** |

## 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 on the entire portfolio. Vacancies arising from protracted project development activities are excluded from the calculation of the EPRA Vacancy Rate.

| in EUR m | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Estimated rental income in December | 27.0 | 26.4 |
| Estimated rental income lost as a result of vacancies in December | 1.3 | 1.5 |
| **EPRA Vacancy Rate in %** | **4.8** | **5.7** |

## EPRA COST RATIO

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 total rental income for the year in question. This is a key metric to enable meaningful measurement of the changes in a company's operating costs.

| in EUR m | 2018 | 2017 (adjusted) |
|---|---|---|
| Rental expenses (non-rechargeable) | 52.0 | 50.7* |
| Impairments | 4.1 | 5.8* |
| Net income from property services | -17.7 | -14.9* |
| Other operating income | -9.6 | -5.5* |
| Personnel expenses | 43.7 | 41.4 |
| Non-recurring effects | 17.1 | 25.8 |
| Non-recurring effects (Provisions for property transfer tax risks) | 6.2 | -8.5 |
| **EPRA costs incl. vacancy costs** | **95.8** | **94.8** |
| Vacancy costs | -7.8 | -7.6 |
| **EPRA costs excl. vacancy costs** | **88.0** | **87.2** |
| Rental income (net rent) | 302.2 | 293.0 |
| **EPRA costs ratio incl. vacancy costs in %** | **31.7** | **32.4** |
| **EPRA costs ratio excl. vacancy costs in %** | **29.1** | **29.8** |

*The restatement of the comparative figures for the previous year is due to the first-time application of IFRS 9: Financial Instruments and is described in the section entitled 'New Standards and Interpretations' in the notes to the consolidated financial statements for 2018. This did not result in a change in the EPRA cost ratios applied in the previous year.

REPORT

# GROUP MANAGEMENT REPORT 2018

## FOUNDATIONS OF THE GROUP

### Overview and corporate strategy

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, at 31 December 2018 TAG managed more than 84,400 residential units (previous year: 83,100). TAG shares are listed in the MDAX of the Frankfurt Stock Exchange; TAG's market capitalisation at 31 December 2018 was EUR 2.9bn (previous year: EUR 2.3bn.).

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 – repair craftsman services. It specialises in inexpensive housing, addressing the needs of broad sections of the population. The Group's own multimedia company supports the provision of multimedia to tenants and expands the range of property management services offered. Energy management is pooled in a subsidiary through which the Group supplies commercial heating to its own portfolio with the aim of optimising energy management. In the medium term, these services are to be further expanded and supplemented with new services for tenants.

TAG deliberately invests in medium and smaller towns, to take advantage of the potential for growth and profit here, as well as in and near big cities. The newly acquired portfolios usually 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 where TAG already manages assets, to be able to use existing administrative structures. Also, local knowledge of the market is essential in the acquisition of new portfolios.

In addition to long-term property management, the Group selectively exploits sales opportunities in order to reinvest the realised capital appreciation and liquidity into new portfolios with higher yields. This strategy of 'capital recycling' is TAG's response to the intense competition for German residential real estate, and puts a focus on returns per share. Growth in absolute orders of magnitude is no longer at the forefront of the corporate strategy. Instead, the aim is to offer tenants affordable housing through sustained and active portfolio management, and investors growing cashflows through attractive dividends.

## 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. At Management Board level, responsibilities are distributed as follows:

- COO: Real Estate Management, Acquisitions and Sales, Strategic Property Management/Marketing, Shared Service Centre, Facility Management services, Trades services, Central Purchasing, Change Management, Business Apartments, Energy residential services, Multimedia for the properties, Business development, Environmental Social Governance (ESG), and Digitalisation
- CFO: Group Accounting, Financing and Treasury, Taxes, Controlling, Investor and Public Relations, ERP/Data Management
- CLO: Human Resources, Legal, Judicial rent collection, IT, Compliance, Internal Audit, Residential Real Estate Management

The Group consists of additional subgroups, operating subsidiaries and property companies, each of which own real estate inventories and are included in TAG's consolidated statements. At 31 December 2018, the Group consisted of 75 (previous year: 73) fully consolidated companies. A complete overview of all companies in the Group is shown in the Notes to the consolidated financial statements.

The organisational structure of TAG's operative business is decentralised, has 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 way and largely autonomously within the approved budget. The regions correspond to the segments presented in the segment reporting. Key areas of decentralised responsibility include direct customer care and tenant satisfaction, letting, technical support for residential units with regard to maintenance measures and investments in the modernisation of apartments and buildings, as well as receivables management.

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 central functions of the operating business primarily concern the overarching development of portfolio, location, and management concepts and standards, with the aim of ensuring uniform quality and more service for tenants, efficiently and sustainably. In addition, functions such as Purchasing/Sales, Facility Management Services, Purchasing and Shared Service Center are centrally organised. Bundling these functions reduces the workload of operational management and guarantees independence from third-party service providers. Beyond this, the central Strategic Property Management and Central Purchasing departments standardise processes, negotiates nationwide framework agreements, and reviews products and services across the Group.

## Management system

To monitor and steer its business activities, TAG uses a management system that is constantly updated. The management system is based on operating figures determined at regional level and on financial indicators at Group level. The CFO is responsible for the management and ongoing monitoring of these key figures at the Management Board level.

**Operative indicators**

The two key operative indicators that are determined and reported on a monthly basis to the Management Board are:

- Development of rental income
  In order to assess the rental income performance, the development of rental income over time is calculated in absolute terms and on a like-for-like basis (i.e. not including properties acquired and sold during the previous twelve months), along with the net actual rent and new letting rent per square metre. In like-for-like rental growth, there continues to be a distinction between like-for-like rental growth with and without the effects of vacancy reduction. The development of the indicators provides information on where we stand on attaining our rental growth targets. For corporate controlling, like-for-like rental growth including the effects of vacancy reduction is the key performance indicator used to assess the development of rental income over time.

- Development of vacancy
  Vacancy is calculated as the ratio of unlet square metres to the total square metres of residential or commercial floor space. Within the Group, a distinction is made between the development of vacancy across the Group's residential units (i.e. excluding commercial floor space and the effects of acquisitions and sales during the financial year), and the development of vacancy for the overall portfolio. The vacancy rate serves as an indicator of the effectiveness of the Group's modernisation and letting activities, and of the successful implementation of neighbourhood development concepts. Vacancy reduction is another driver of value in the development of rental growth. For corporate controlling, vacancy across the residential units is the key indicator for assessing vacancy.

In addition, expenditures on maintenance and modernisation are calculated, reported and reviewed monthly and quarterly as supporting indicators. The measures are subdivided into 'major projects' (e.g. modernisation of entire residential complexes), modernisation of previously vacant apartments, and modernisation when there is a change of tenants. Reviewing the measures serves both to assure the achievement of return targets and the long-term maintenance of the portfolio.

Furthermore, contribution margins are calculated on a monthly and quarterly basis for each region and for the Group as a whole, which also form the basis of the Group's segment reporting. Contribution margin I (segment earnings I) is calculated from the net actual rents and related expenses. Taking into account personnel expenses and other operative costs directly attributable to the LIM regions, contribution margin I is carried over to contribution margin II (segment earnings II). A detailed reconciliation of segment earnings II with EBT as reported in the income statement can be found in the notes to the consolidated financial statements in the section 'Notes to segment reporting'. The contribution margin II or the segment earnings II are also, after deduction of related interest expenses, put in relation to the equity invested (calculated as the book value of the region's real estate assets less related bank loans) for each region. This yields the return on equity for the region, which is used as a measure of efficiency for the capital investment.

**Financial KPIs**

Key indicators for Group controlling are funds from operations (FFO) and net asset value (NAV), which are calculated monthly.

- Funds from Operations (FFO)
  FFO I is calculated based on the Group's consolidated EBT, 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. Within FFO a distinction is made between FFO I (excluding profits from sales) and FFO II (including profits from sales). The Group uses FFO I, which is calculated monthly and compared with the budgeted figures, as a key control parameter: it serves as an indicator of sustainable operative profitability.

- Net Asset Value (NAV)
  NAV is calculated in accordance with the EPRA's 'Best Practice Recommendations'. Accordingly, equity as a measure of net assets is adjusted for the effects of deferred taxes on investment properties and derivative financial instruments and for the fair value of the derivatives themselves, and any hidden reserves in the property, plant and equipment and inventories valued at cost of acquisition or construction are added. If the convertible bonds issued by the Group are 'in the money', i.e. the current market price on the reporting date is above the conversion price applicable at that time, a fully diluted NAV that assumes a notional complete conversion of the convertible bonds is also calculated. For corporate controlling, however, NAV on an undiluted basis is used as the key performance indicator.

Another supporting indicator used is Earnings before taxes (EBT), excluding results from fair value changes in investment properties and valuation of portfolio properties, as well as from the valuation of derivative financial instruments. This is determined at least once a year.

Beyond this, the loan-to-value (LTV) debt ratio, which is the sum of total financial liabilities (bank loans and corporate and convertible bonds) less cash and cash equivalents relative to total real estate assets (including hidden reserves in real estate held as tangible or intangible assets and valued at cost of acquisition or construction), is calculated on a monthly basis and reported to the Management Board as a further supporting indicator.

The Group's current liquidity situation is reviewed daily. Each month, a short- to medium-term liquidity plan is compiled, for a period of twelve months. Once a year, a long-term liquidity plan is drawn up for a period of three years. In each case, the 'available liquidity' (a supporting indicator) is reviewed, i.e. unrestricted cash and bank balances plus any unused credit lines at banks. These measures safeguard the Group's financial stability.

The relevant parameters and key figures for the remuneration of the Management Board are presented in the remuneration report.

## Social conditions and their influence on the residential real estate market

In our view, relevant social developments or megatrends primarily affect demographic change, urbanisation, and digitalisation.

In our view, demographic change in Germany is the foremost influencing factor for the real estate sector: in recent years, the population structure has been dominated by migration (immigration and emigration). Between 2011 and 2016, around 3.2 million more people came to Germany than emigrated. The total population in Germany rose via migration by 416,000 in 2017 as a result of migration, compared with 500,000 in the previous year. According to calculations by the Federal Statistical Office in autumn 2018, the population is expected to remain at least at the current level of just under 83 million over the next five years, and may even rise further. In 2017, 67% of all immigrants came from a European country, more than half of them from an EU Member State. Around 15% of the immigrants came from Asia, and just under 4% from Africa. Immigration from Europe and Asia mainly involves skilled workers and graduates.

This high level of immigration coincides with a shortage of housing, especially in the low-cost sector. The German Economic Institute has calculated how many new buildings would be required to meet the requirements. According to these calculations, about 380,000 residential units would have to be built per year. This is the only way to reconcile housing supply and demand. The German government also is striving for 375,000 new residential units to be built per year. However, the figures published by the Federal Statistical Office of Germany on construction completions are sobering: 300,000 completions are expected for all of 2018 – a figure that is well below the target. A comparison between Empirica's forecasted demand for new construction with actual completions for the period 2015 to 2017 reveals an annual shortfall of approx. 100,000 to 130,000 residential units.

In regard to cities, there is also rising demand for residential real estate from the trend to urbanisation, which is also having a noticeable effect in Eastern Germany. Big cities like Berlin, Leipzig, Jena and Dresden have already emerged as clear winners of the migration to cities in recent years. The same goes for individual state capitals such as Potsdam, Erfurt or Magdeburg. Smaller university towns like Freiberg and Greifswald are attracting a lot of young people who want an urban lifestyle but cannot afford big-city rental prices. Over the past ten years, all of these cities have been above-average beneficiaries of the demand for housing. So the trend towards urbanisation is not a phenomenon that is limited to large cities; smaller and medium-sized cities are also benefiting from this trend.

This imbalance between a high demand (triggered by a growing population) and an insufficient supply of newly built apartments leads to rising rents, especially in the large metropolises at first. Next, as a result of these rising rents, young families and low-income earners often move to the surrounding countryside or relocate to other (even cheaper) cities. As a result, these regions, too, experience increased demand and rents here rise as well. This leads to a practically nation-wide strong increase in demand for housing.

The digitalisation of business processes and products has become a major challenge for residential real estate companies, but also a major opportunity. With regard to internal business processes, efficiency can be increased through increasing digitalisation, i.e. processes are accelerated, and their quality can be improved through system-side controls/monitoring. In tenant communications, digital processes such as tenant apps, often offer a faster and more trackable exchange between tenant and landlord. Digitalisation also opens up opportunities for new products that owners can offer their tenants, such as smart home technology, or through digital analysis of tenant data and tenant enquiries about housing-related services that might be of interest to tenants, such as car-sharing services. Ongoing investment is required to take advantage of these opportunities, so as we see it, it will be primarily large portfolio holders who will be able to advance digital processes and develop new products.

We also believe that regulatory aspects, in particular the resulting risks, are important to the societal conditions that directly influence the residential real estate market. In this connection, please refer to the 'Forecast, opportunities and risk report - Regulatory risks' section below.

## Sustainable corporate development

As a large real estate company, TAG has a special responsibility to society – and so we consider sustainability aspects in our corporate strategy, across our entire value chain. We understand sustainable corporate development as an integrated concept with synergy effects between the various levels of sustainability. By achieving economic stability and long-term yields, we create the conditions for practicing social and environmental responsibility. By the same token, our social and environmental measures have a positive effect on our long-term commercial success. And so, in sum, we meet all of our various stakeholders' key requirements.

Our reporting on this topic is published in a separate sustainability report for a given year. It is based on the standards of the Global Reporting Initiative (GRI) and the European Public Real Estate Association (EPRA). The following aspects represent the Group's focuses in this connection:

**Employees**
Sustainable staff management makes it possible to systematically use and develop our employees' skills and potential. It boosts our employees' motivation and commitment and contributes significantly to the Company's success. Important factors here are an appreciative corporate culture with flat hierarchies, a high sense of responsibility, and constructive exchange. We attach great importance to a diverse workforce and equal opportunities for all employees, regardless of their background, gender, age or physical disabilities.

Also in view of demographic change and the increasing shortage of skilled workers, it is important for us to systematically qualify our employees and retain them in the company. We can offer employees and the company the greatest benefits through individual development opportunities. We support our employees with extensive training offers, and train school leavers in various real estate professions.

**Corporate Citizenship – Community Involvement**
Attractive housing portfolios, residential areas with a high quality of life, and good service are all crucial for the rentability of our portfolios. Regular and service-oriented contact with our local tenants also increases tenant satisfaction and strengthens mutual trust. Strong locations with a well-maintained living environment and common areas, social support, services, and an intact infrastructure as well as leisure facilities increase our long-term rental success. One focus of our community and social efforts is the establishment and operation of a variety of leisure and family centres in the immediate vicinity of our portfolios. In this way we promote interaction and social cohesion, as well as a high degree of identification among our tenants with their neighbourhood.

**Ecological/Environmental measures**
Against the backdrop of climate protection and the energy transition, and the great impact that buildings and homes have on overall energy consumption, a responsible treatment of resources and the environment is indispensable for a large real estate portfolio holder like TAG. Energy savings, improved energy efficiency, and sustainable resource management are therefore considered important aspects in many business processes, especially in maintenance and modernisation (e.g. use of durable materials and recycling) and in procurement processes (e.g. through electronic workflows and digitised files). Further opportunities for saving energy and conserving resources are opened up by our newly established Energy Management business service.

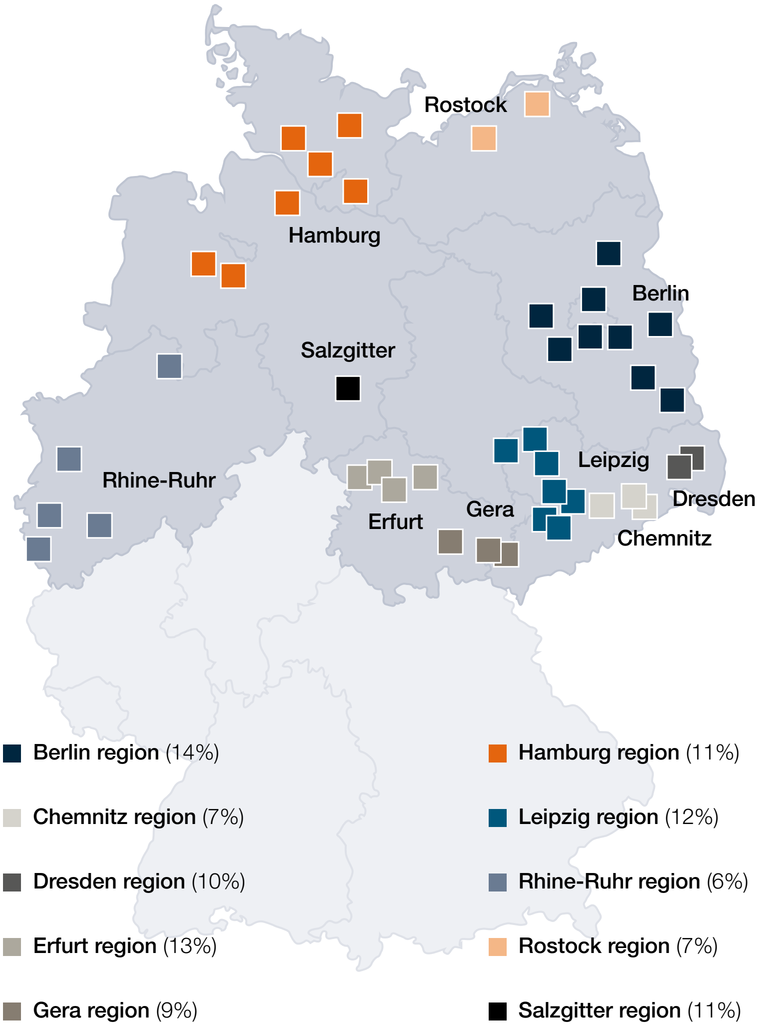
For further details, please see our sustainability report, which is not part of this group management report and can be found on the TAG website at www.tag-ag.com under 'Investor Relations/Financial reports/Sustainability reports'.

## Research & Development

Due to the nature of its business, the Group does not pursue any research or development activities. The Group's business does not depend on patents, licences or brands, although the wordmarks and logos of TAG Immobilien AG and the brand TAG Wohnen are copyrighted.

## Overview of the portfolio and portfolio strategy

At the end of the 2018 financial year, TAG Group's property portfolio comprised approximately 84,400 units. The focus is on the management of attractive yet affordable housing, with great awareness of our social responsibility towards our tenants. The regional focus is mainly on Northern and Eastern Germany.




% acc.: proportional IFRS book value real estate volume

| Portfolio data | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Units | 84,426 | 83,140 |
| Floor space in sqm | 5,132,860 | 5,054,778 |
| Real estate volume in EUR m | 4,815.5 | 4,275.4 |
| Annualised net actual rent in EUR m p.a.(total) | 314.1 | 303.3 |
| Net actual rent in EUR per sqm (total) | 5.39 | 5.31 |
| Net actual rent in EUR per sqm (residential units) | 5.29 | 5.20 |
| Vacancy in % (total) | 5.3 | 5.8 |
| Vacancy rate in % (residential units) | 4.7 | 4.8 |
| L-f-l rental growth in % | 2.3 | 2.0 |
| L-f-l rental growth in % (incl. vacancy reduction) | 2.6 | 3.1 |

TAG concentrates resolutely on regions that exhibit positive economic growth and development. The 'ABBA strategy', i.e. investing in A locations in B cities, and B locations in A cities, is working better than ever. Small and medium-sized cities are also benefitting from the disproportionate demand for housing in cities, where affordable living space in particular is scarce. Many people are moving to the outskirts of big cities or to the centres of medium-sized cities to find attractive yet affordable living conditions.

Even if the increase in rents and purchase prices in B locations or B cities doesn't always match that of Germany's top locations in absolute terms, they are nevertheless very attractive for investors. Ultimately what determines the advantageousness of an investment in the long term is the expected return on investment, i.e. the relationship between the expected increases in rental or purchase price and the purchase price. In our view, B locations and B cities offer the much better yield-risk profile.

Investments are made exclusively in residential properties, including the smaller commercial properties that are usually included in larger residential portfolios. High vacancy rates at the time of purchase are not an impediment to investment, provided that they are not structurally caused. In fact, a continuous reduction in vacancy, as has been achieved steadily in the past, can lead to attractive rental growth with a relatively low outlay.

## BUSINESS REPORT

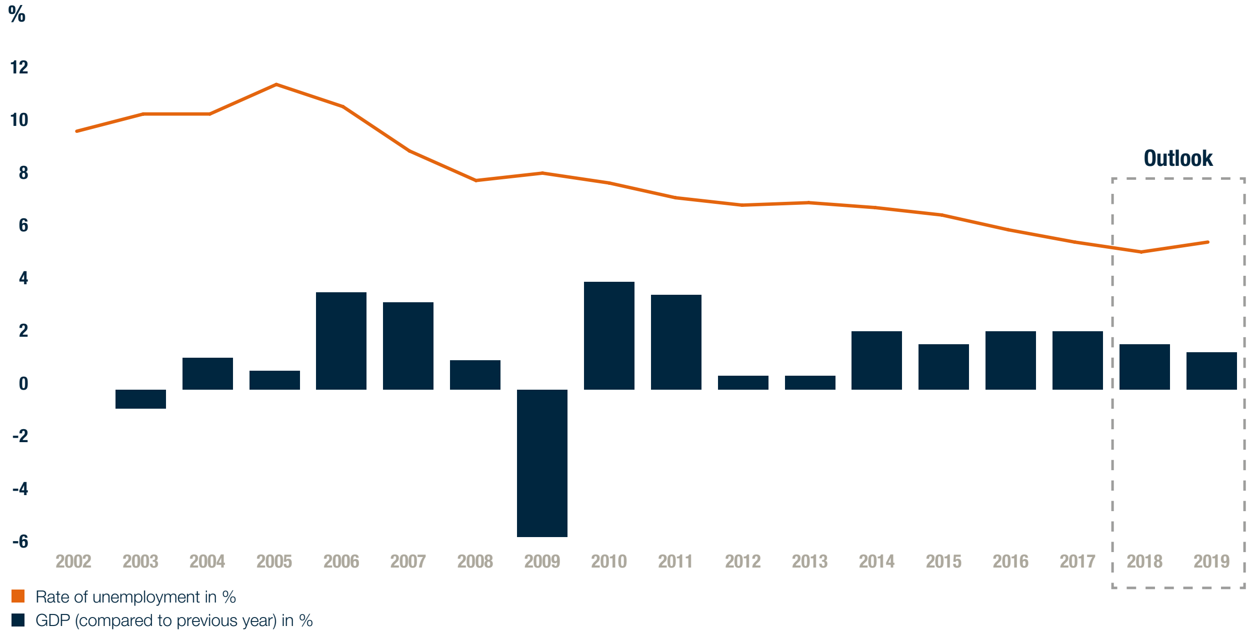
### The overall economy

The German economy showed solid growth in 2018 – gross domestic product (GDP) increased by 1.5%, putting it slightly below the original expectations (e.g. +1.8% autumn forecast by the German Institute for Economic Research, DIW), but GDP continues to show a positive trend. In comparison 2017 showed an increase of 2.2%.

The domestic economy in particular was decisive for the German economy's positive development. Private and government spending (+1.0% and +1.1% respectively) and construction investments (+3.0%) increased. The annual average inflation rate – valued by the change in the consumer price index – was +1.9% in 2018 compared with 2017 (+1.7% year-on-year in December 2018).

All in all, there is much to suggest that the pace of the German economy is returning to normal after years of above-average growth. In December 2018, the German Bundesbank and the DIW forecast an increase in GDP of 1.6% for 2019, while the ifo Institute for Economic Research expects an increase of 1.1%. So its growth continues despite a slowdown in the global economy.

The employment market also reflects this positive development, even though the economic upswing has lost some of its momentum: in December 2018, the average unemployment rate for all of Germany was just 4.9% (previous year 5.3%).




Developments in interest rates over recent years have been beneficial overall for borrowers while putting savers at a disadvantage. Apart from a small break in 2011, the ECB has steadily lowered interest rates in the past few years. The key interest rate, the 'main refinancing rate', has been at 0% since March 2016. On the capital markets, the interest rate on a ten-year federal bond was 0.42% at the beginning of 2018 and 0.25% at the end of the year. The ten-year mid-swap rate, which in commercial real estate financing, supplemented by the lender's respective margin, usually determines the final financing rate to be paid, also showed little change and was 0.81% at the end of 2018 after 0.89% at the beginning of the year.

## State of the German residential real estate market

Germany remains an attractive location and investment market for both residential and commercial real estate. In the past ten years, institutional investors have bought residential and commercial real estate for around half a trillion euros (residential real estate EUR 120 bn, commercial real estate EUR 380 bn).

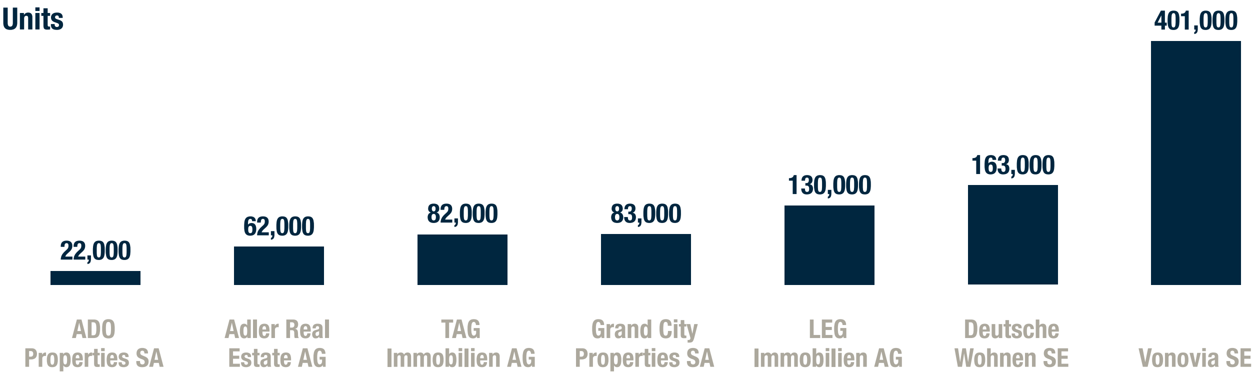
Since 2008, the transaction volume has risen steadily and in 2018 had again nearly reached the peak value of 2015 (EUR 79 bn) with a value (based on all published transactions) of EUR 78 bn. In 2017, too, the transaction volume had been stable at a high level of EUR 73 bn. In the past financial year, transactions in connection with sales in the commercial real estate market again dominated with a share of EUR 60.5 bn or 78% of the total transaction volume in Germany. Meanwhile, at EUR 17.6 bn, the second-best result in the past 15 years was achieved in residential property investments. The transaction volume for residential real estate rose by around 13% compared to the previous year. In terms of buyer groups, German investors were the most active in commercial real estate transactions (60%) as well as residential real estate transactions (80%) in 2018.

## Performance of the German residential property market

The number of residential units that changed ownership in 2018 increased by about 19.0% year-on-year to 138,000 (previous year: 116,000). The average transaction volume for portfolio sales was EUR 31.9 m or 227 residential units, and thus – with small and medium-sized sales being the most common – showed a more balanced and consistent structure compared to previous years, which were regularly dominated by large transactions. Due to the sharp rise in residential property prices in the metropolitan regions, which lead to limited potential returns, investors are increasingly turning to 'B cities'. The residential property markets of these cities predominated in 2018, accounting for around 78% of the residential units traded. The top 7 cities ('A cities' – Berlin, Hamburg, Munich, Cologne, Frankfurt, Düsseldorf, and Stuttgart) accounted for the remaining 22%. In 2019, the transaction volume is expected to be only slightly lower at approximately EUR 17 bn. Even though demand for residential real estate remains high, the supply of larger portfolios is likely to remain low.

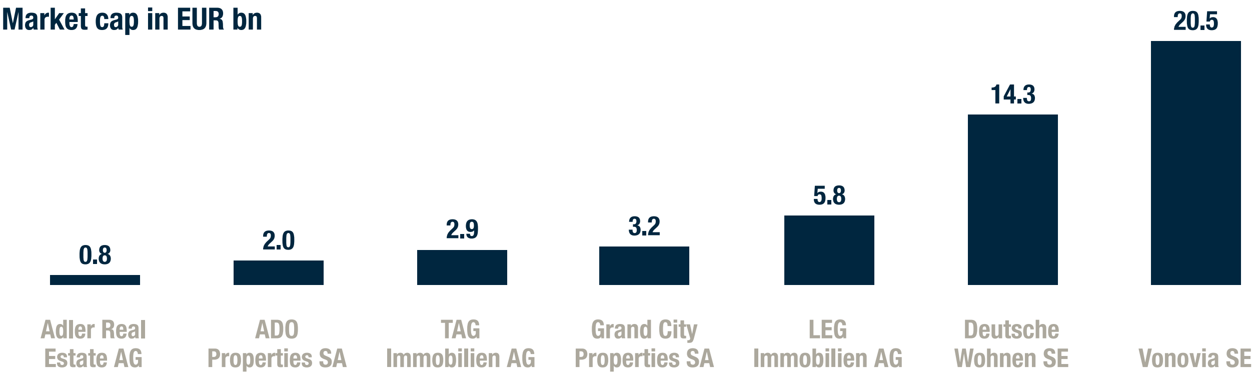
The high rental and purchase price dynamics of recent years has helped institutional investors such as pension funds, insurance companies and investment funds to shape the housing market. The portfolio was increased not only through direct investments and the purchase of apartments and portfolios, but also through indirect investments in special funds and listed companies. More than 900,000 apartments in Germany are held by listed real estate companies, and the total market capitalisation at the end of 2018 was around EUR 50 bn. In the peer group of listed residential real estate corporations, the number of apartments (at the end of the third quarter of 2018) and the market capitalisation (at 31 December 2018 in EUR bn) are as follows:

**Units**




as of 30 September 2018

**Market cap in EUR bn**




as of 31 December 2018

In view of the high demand and insufficient supply, we expect residential rents to continue to rise faster than the inflation rate in the years ahead. Despite the declining yields in recent years, the German residential real estate market will remain attractive as an asset class.

## Development of the individual regions

**Northern Germany (Hamburg and Salzgitter segments)**

Hamburg is one of the most important industrial locations in Germany. As the second-largest city after Berlin, Hamburg is an important economic hub for trade, transport and the aviation industry. Good infrastructure, innovative companies and a skilled workforce are some of the factors contributing to the current growth of its economy. Demand for apartments remains high.

Selected data Hamburg (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ⌀ Purchase price (portfolio) |
|---|---|---|---|---|
| 117.6 (2017) | 1.9 Mio. (2017) | 5.9 % (2018) | 11.64 EUR/m² (2018) | 4,487 EUR/m² (2018) |
| 113.0 (2016) | 1.8 Mio. (2016) | 6.5 % (2017) | 11.24 EUR/m² (2017) | 4,216 EUR/m² (2017) |

Salzgitter is located in south-eastern Lower Saxony. The economic structure is characterised by an above-average proportion of manufacturing, especially the railway, steel and vehicle industries, making Salzgitter one of Lower Saxony's leading industrial locations. International companies that have operations in the region include Salzgitter AG, Volkswagen AG, Alstom, MAN, Robert Bosch Elektronik GmbH, and an IKEA distribution centre.

Selected data Salzgitter (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ⌀ Purchase price (portfolio) |
|---|---|---|---|---|
| 5.1 (2016) | 107,000 (2018) | 8.7 % (2018) | 5.48 EUR/m² (2018) | 783 EUR/m² (2018) |
| 4.3 (2015) | 107,000 (2017) | 9.8 % (2017) | 5.43 EUR/m² (2017) | 677 EUR/m² (2017) |

**Berlin and Brandenburg (Berlin segment)**

Berlin is a major centre for politics, media, culture, and science in Europe and one of Europe's most visited cities. At the end of the first half of 2018, more than six million people were living in the federal states of Berlin and neighbouring Brandenburg. The population is expected to grow by around 110,000 between 2016 and 2020. The city's popularity is steadily driving rents up. In particular, there is a lack of affordable housing in the medium-price and even more so in the lower-price segment. The region's sustained population growth, high purchasing power, and the vacancy rate of 1.1% predict a further increase of rents for the future.

Selected data Berlin (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ⌀ Purchase price (portfolio) |
|---|---|---|---|---|
| 136.6 (2017) | 3.6 Mio. (2017) | 7.6 % (2018) | 11.58 EUR/m² (2018) | 3,624 EUR/m² (2018) |
| 130.5 (2016) | 3.6 Mio. (2016) | 8.4 % (2017) | 10.09 EUR/m² (2017) | 3,073 EUR/m² (2017) |

**Other states in former East Germany (Chemnitz, Dresden, Erfurt, Gera, Leipzig, and Rostock segments)**
A look at the Eastern German housing markets reveals the same trend as in West German markets. The third TAG Housing Market Report East Germany, published in October 2018, documents the positive development in former East Germany. A dynamic labour market throughout the nation with consistently declining unemployment figures is boosting productivity and incomes in all 27 cities surveyed. Commuter traffic and purchasing power increased in most of them. The positive demographic development of recent years has had a positive effect on the number of households and thus on demand for housing, the steadily dwindling vacancy rate and supply rents. Even the smaller and medium-sized cities in the east need not shy away from competition with the larger cities, especially those that are better known in the west.

Chemnitz is the third-largest city in Saxony and one of Germany's leading industrial and technology hubs. Sectors such as the automotive supply industry and mechanical engineering are growth engines for the economy.

Selected data Chemnitz (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ∅ Purchase price (portfolio) |
|---|---|---|---|---|
| 8.5 (2016) | 248,000 (2018) | 6.6 % (2018) | 5.04 EUR/m² (2018) | 833 EUR/m² (2018) |
| 8.1 (2015) | 247,000 (2017) | 7.1 % (2017) | 5.02 EUR/m² (2017) | 768 EUR/m² (2017) |

As the capital of Thuringia, Erfurt offers good infrastructural conditions, which contributes to its attractiveness as a business location, and is home to well-known companies such as Zalando, Siemens and Deutsche Post. Unemployment in the city of Erfurt has decreased by over 25% since 2010.

Selected data Erfurt (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ∅ Purchase price (portfolio) |
|---|---|---|---|---|
| 8.1 (2016) | 214,000 (2018) | 5.5 % (2018) | 7.36 EUR/m² (2018) | 1,698 EUR/m² (2018) |
| 8.0 (2015) | 213,000 (2017) | 6.6 % (2017) | 7.02 EUR/m² (2017) | 1,534 EUR/m² (2017) |

Dresden is one of the leading business hubs in Germany. Its population is growing, and the purchasing power of its households is on the rise. Factors that boost its attractiveness include the university 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. There is now a shortage of apartments in the entire urban area, which is reflected in higher rents.

Selected data Dresden (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ∅ Purchase price (portfolio) |
|---|---|---|---|---|
| 20.7 (2016) | 561,000 (2018) | 5.6 % (2018) | 7.60 EUR/m² (2018) | 1,894 EUR/m² (2018) |
| 20.2 (2015) | 557,000 (2017) | 6.1 % (2017) | 7.30 EUR/m² (2017) | 1,755 EUR/m² (2017) |

Gera's location in the triangle formed by the three states of Thuringia, Saxony, and Saxony-Anhalt is increasingly an advantage in driving the city's development. Modern technology-driven companies – e.g. in the med-tech, microelectronics, software engineering and optics industries – are among the businesses that have settled here. Reasons include low wages and labour costs, reasonable land and real estate prices, and low utility and disposal costs. The steady reduction in unemployment, the positive development of the labour market (+2.8% employment in 2012–2017) and the 3.7% growth in households (2016–2017) indicate a continued positive development.

Selected data Gera (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ⌀ Purchase price (portfolio) |
|---|---|---|---|---|
| 2.6 (2016) | 101,000 (2017) | 8.4 % (2018) | 5.00 EUR/m² (2018) | 685 EUR/m² (2018) |
| 2.5 (2015) | 101,000 (2016) | 9.2 % (2017) | 4.86 EUR/m² (2017) | 607 EUR/m² (2017) |

Leipzig, a university and trade fair city in Saxony, is combining a wide range of activities to continually increase the economic efficiency of the city in the medium term. The city's economic strategy focuses on selected emerging industries: the automotive and supply industries, healthcare and biotechnology, energy and environmental technology, logistics, media, and the creative industries. Economically strong sectors, represented among others by BMW and Porsche in the automotive sector, make the location particularly future-proof. Young people in particular appreciate Leipzig's appeal.

Selected data Leipzig (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ⌀ Purchase price (portfolio) |
|---|---|---|---|---|
| 19.9 (2016) | 602,000 (2018) | 6.1 % (2018) | 6.67 EUR/m² (2018) | 1,593 EUR/m² (2018) |
| 19.3 (2015) | 596,000 (2017) | 7.0 % (2017) | 6.25 EUR/m² (2017) | 1,381 EUR/m² (2017) |

With its location on the Baltic Sea and well-developed infrastructure, Mecklenburg-Western Pomerania's biggest city Rostock is an attractive business location. The Hanseatic city is regarded as a centre for interregional trade, administration, trade shows, culture, education, and services, as well as a growing university town. The newly created innovation centre is intended to further substantiate the economic uptrend.

Selected data Rostock (city)

| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio) | ⌀ Purchase price (portfolio) |
|---|---|---|---|---|
| 7.2 (2016) | 208,000 (2017) | 7.3 % (2018) | 7.51 EUR/m² (2018) | 2,754 EUR/m² (2018) |
| 7.2 (2015) | 208,000 (2016) | 8.2 % (2017) | 6.08 EUR/m² (2017) | 2,174 EUR/m² (2017) |

### North Rhine-Westphalia (Rhine-Ruhr segment)

Its volume of production and services makes North Rhine-Westphalia the leading business hub in the German states. As Germany's core industrial region, it is home to international corporations, but also to many SMEs, as well as big-name retail companies such as Aldi, Metro and Rewe. North Rhine-Westphalia is the most populated state of Germany. The steadily rising population and household figures reflect the state's attractiveness and are particularly evident in the demand for residential real estate and associated rise in purchase prices and rents.

Selected data NRW (federal state)

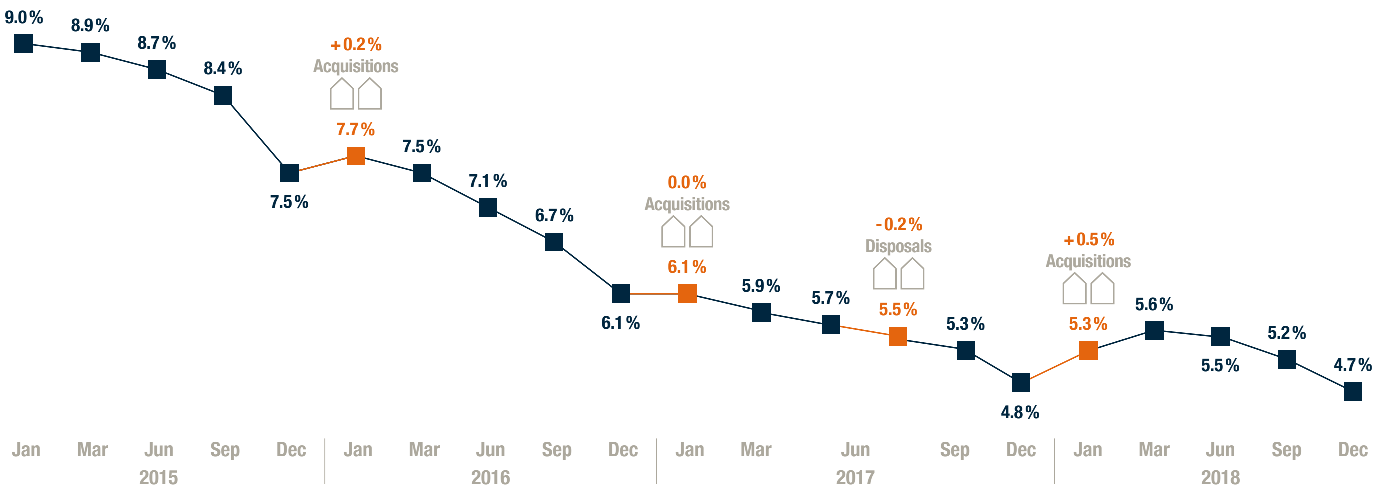
| GDP in EUR bn | Population/ Inhabitants | Unemployment rate | Median quoted rent (portfolio & new construction) | ⌀ Purchase price (portfolio & new construction) |
|---|---|---|---|---|
| 691.5 (2017) | 18 Mio. (2018) | 6.4 % (2018) | 6.82 EUR/m² (2018) | 1,111 EUR/m² (2018) |
| 668.9 (2016) | 18 Mio. (2017) | 7.0 % (2017) | 6.63 EUR/m² (2017) | 1,034 EUR/m² (2017) |

## Operative Business Performance and Portfolio Developments

### Vacancy

Vacancy rates in the Group's residential units fell to 4.7% at the end of the 2018 financial year, down from 5.3% at the beginning of the year. At the end of the previous year, vacancy in the residential units was 4.8%, but this does not take into account the acquisitions in the 2017 financial year, which tended to have a higher vacancy rate and thus increased the vacancy again mathematically at the beginning of the year (then to 5.3%).

The following graphic (unaudited quarterly results) once again illustrates the positive development in vacancy over time in FY 2015 to 2018:



The regions managed by TAG contributed to this result as follows:

| | | |
|---|---|---|
| Berlin | from 6.3 % to 4.4 % | **-1.9 percentage points** |
| Chemnitz | from 10.6 % to 9.6 % | **-1.0 percentage points** |
| Salzgitter | from 5.2 % to 4.5 % | **-0.7 percentage points** |
| Dresden | from 3.0 % to 2.5 % | **-0.5 percentage points** |
| Erfurt | from 3.4 % to 2.9 % | **-0.5 percentage points** |
| Gera | from 8.5 % to 8.1 % | **-0.4 percentage points** |
| Rostock | from 3.3 % to 3.0 % | **-0.3 percentage points** |
| Rhine-Ruhr | from 1.9 % to 1.9 % | **+/-0 percentage points** |
| Leipzig | from 3.8 % to 4.1 % | **+0.3 percentage points** |
| Hamburg | from 3.7 % to 4.2 % | **+0.5 percentage points** |

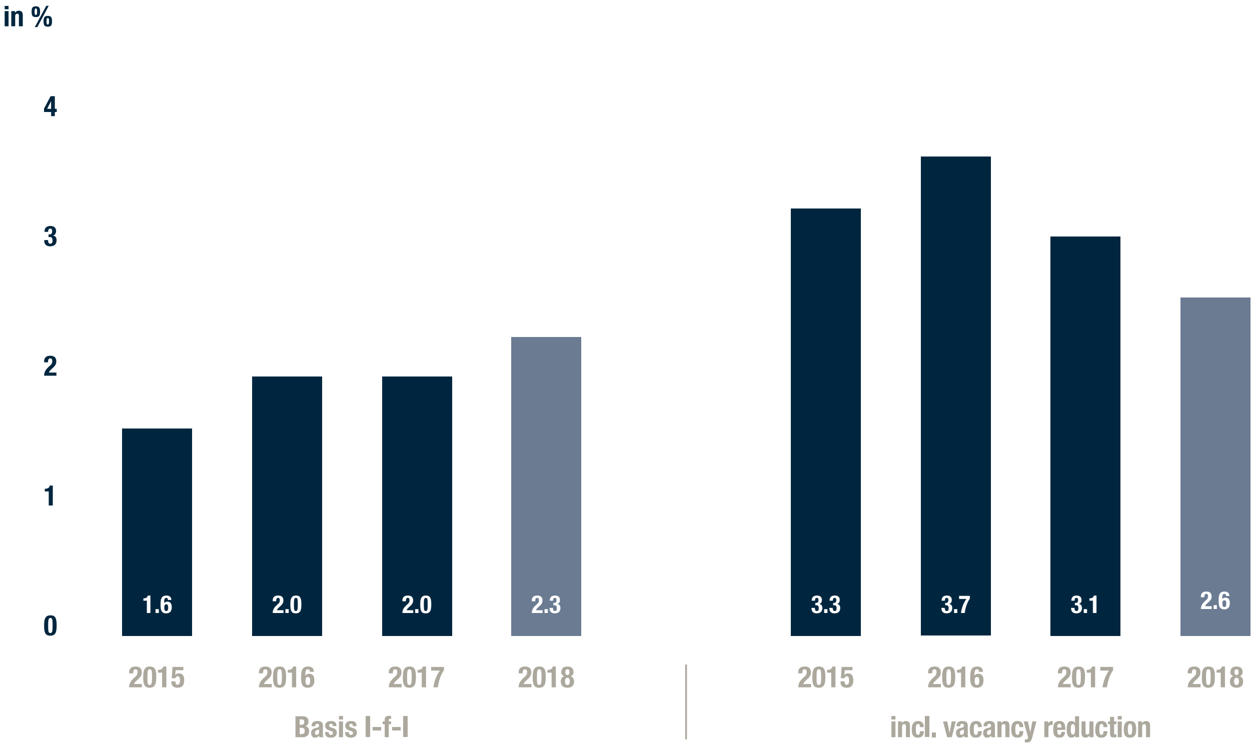
Major vacancy reductions were achieved particularly in the regions of Berlin (vacancy reduction by 1.9 percentage points), Chemnitz (-1.0 percentage points), and Salzgitter (-0.7 percentage points). No region in the TAG real estate portfolio still had double-digit vacancy rates at 31 December 2018.

Across the portfolio, vacancy in December 2018 was 5.3% after 5.8% at the beginning of the year. We thus achieved the forecast we issued last year, which – without major acquisitions or disposals – stipulated a vacancy of between 5.3% and 5.5% across the Group's entire portfolio.

As at 1 January 2018 – i.e. including the acquisitions that became effective on 31 December 2018 and had higher average vacancy rates compared with the rest of the Group's portfolio – vacancy across the residential units was approx. 5.0%,

**Growth in rents**

Growth in rents from the Group's residential units amounted to 2.3% on a like-for-like basis (i.e. not including acquisitions and sales of the previous twelve months), after 2.0% in the previous year. If one includes the effects of the vacancy reduction, overall rental growth on a like-for-like basis amounted to 2.6% (3.1% in FY 2017). Thus, the previous year's forecasts were also achieved in reference to rental growth, for which a like-for-like overall growth in rents of between 2.5% and 3.0% was stipulated, including effects from vacancy reduction. The following chart shows the rental growth in financial years 2015 to 2018:




Average rent in the portfolio's residential units increased from EUR 5.20 per sqm to EUR 5.29 per sqm in 2018. New lettings were made at an average of EUR 5.60 per sqm in FY 2018. This, too, reflects an increase over the previous year (EUR 5.47 per sqm).

**The portfolio in detail**

The following table shows further details of the TAG property portfolio, by region:

| Region | Units | Rentable area sqm | IFRS BV EURm 12/31/2018 | In-place yield | Vacancy Dec. 2018 % | Vacancy Dec. 2017** % | Current net rent EUR/sqm | Reletting rent EUR/sqm | I-f-I rental growth (y-o-y) | I-f-I rental growth*** (y-o-y) | Maintenance EUR/sqm | Capex EUR/sqm |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Berlin | 9,905 | 565,516 | 668.7 | 5.5 | 4.4 | 4.9 | 5.62 | 6.14 | 2.9 | 5.1 | 6.84 | 11.93 |
| Chemnitz | 7,613 | 442,265 | 318.9 | 7.3 | 9.6 | 9.7 | 4.89 | 4.94 | 1.6 | 2.6 | 8.03 | 34.17 |
| Dresden | 6,337 | 411,474 | 479.4 | 5.7 | 2.5 | 3.1 | 5.64 | 5.86 | 2.1 | 2.7 | 5.35 | 4.91 |
| Erfurt | 10,519 | 592,232 | 589.8 | 6.0 | 2.9 | 1.7 | 5.13 | 5.57 | 1.3 | 0.9 | 4.77 | 9.18 |
| Gera | 9,732 | 566,356 | 412.1 | 7.5 | 8.1 | 8.6 | 4.97 | 5.45 | 2.1 | 2.4 | 5.55 | 17.15 |
| Hamburg | 7,072 | 434,917 | 486.2 | 5.8 | 4.2 | 4.0 | 5.67 | 5.93 | 4.0 | 3.1 | 11.42 | 6.32 |
| Leipzig | 10,177 | 606,803 | 534.0 | 6.7 | 4.1 | 3.6 | 5.16 | 5.50 | 2.9 | 2.4 | 5.44 | 5.38 |
| Rhine-Ruhr | 4,186 | 266,405 | 290.3 | 5.8 | 1.9 | 2.9 | 5.38 | 5.58 | 1.4 | 1.6 | 13.87 | 7.23 |
| Rostock | 5,617 | 336,399 | 325.6 | 6.5 | 3.0 | 3.2 | 5.42 | 5.76 | 1.6 | 2.1 | 5.89 | 14.28 |
| Salzgitter | 9,180 | 563,159 | 498.0 | 6.8 | 4.5 | 5.2 | 5.25 | 5.43 | 2.0 | 2.7 | 7.94 | 11.18 |
| **Total residential units** | **80,338** | **4,785,525** | **4,603.1** | **6.3** | **4.7** | **4.8** | **5.29** | **5.60** | **2.3** | **2.6** | **7.11** | **12.13** |
| Acquisitions | 2,705 | 158,890 | 115.4 | 7.1 | 12.9 | 14.4 | 4.97 | | | | | |
| Commercial units within resi. portfolio | 1,214 | 155,172 | | 0.0 | 16.8 | 17.6 | 7.41 | | | | | |
| **Total residential portfolio** | **84,257** | **5,099,587** | **4,718.5** | **6.6** | **5.3** | **5.7** | **5.34** | | | | | |
| Other* | 169 | 33,273 | 97.0 | 4.8 | 5.1 | 9.9 | 12.19 | | | | | |
| **Grand total** | **84,426** | **5,132,860** | **4,815.5** | **6.5** | **5.3** | **5.8** | **5.39** | | | | | |

* including commercial properties and serviced apartments ** excluding acquisitions 2017 *** including effects from vacancy reduction

**Revaluation of the portfolio in the financial year under review**

As in the previous year, in the 2018 financial year two valuations were carried out by CBRE GmbH as an independent appraiser. The appraisals were once again carried out at 30 June and 31 December of the year.

The overall valuation result for the 2018 financial year was EUR 430.0m. Of this, around EUR 117.6m (approx. 27%) is attributable to a better operating performance than projected in the previous valuation, and around EUR 312.4m (approx. 73%) to 'yield compression'.

The following table shows the valuation effects in more detail for the individual regions:

| Region (in EUR m) | 12/31/2018 Fair value (IFRS) | 12/31/2018 Fair value (EUR/sqm) | 12/31/2018 Implied multiple | FY 2018 Valuation result | Share of operational performance/other market developments | Share of Yield compression | 12/31/2017 Fair value (IFRS) | 12/31/2017 Fair value (EUR/sqm) | 12/31/2017 Implied multiple |
|---|---|---|---|---|---|---|---|---|---|
| Berlin | 668.7 | 1,120.2 | 17.3 | 99.6 | 25.1 | 74.5 | 566.2 | 1,002.4 | 15.8 |
| Chemnitz | 318.9 | 696.2 | 13.2 | 14.1 | 6.2 | 7.9 | 278.4 | 606.7 | 11.9 |
| Dresden | 479.4 | 1,130.6 | 17.1 | 39.5 | 9.8 | 29.7 | 431.0 | 1,038.3 | 16.1 |
| Erfurt | 589.8 | 958.5 | 15.8 | 51.9 | 11.3 | 40.6 | 498.1 | 862.6 | 14.1 |
| Gera | 412.1 | 693.5 | 12.9 | 9.0 | 3.1 | 5.9 | 390.0 | 660.7 | 12.5 |
| Hamburg | 486.2 | 1,094.0 | 16.5 | 58.2 | 19.9 | 38.3 | 421.1 | 950.0 | 14.9 |
| Leipzig | 534.0 | 861.6 | 14.4 | 60.3 | 13.8 | 46.5 | 409.5 | 763.1 | 12.8 |
| Rhine-Ruhr | 290.3 | 1,046.5 | 16.3 | 26.3 | 5.0 | 21.3 | 271.5 | 917.3 | 14.5 |
| Rostock | 325.6 | 955.5 | 15.0 | 29.3 | 8.2 | 21.1 | 283.7 | 860.9 | 13.8 |
| Salzgitter | 498.0 | 882.0 | 14.4 | 42.5 | 16.2 | 26.3 | 449.2 | 795.6 | 13.4 |
| **Total residential units** | **4,603.1** | **932.6** | **15.3** | **430.8** | **118.7** | **312.0** | **3,998.8** | **837.2** | **14.0** |
| Acquisitions | 115.4 | 704.0 | 13.3 | -4.2 | 0.0 | -4.2 | 182.0 | 761.4 | 15.0 |
| **Total residential units** | 4,718.5 | 925.3 | 15.2 | 426.6 | 118.7 | 307.8 | 4,180.8 | 833.6 | 14.0 |
| **Other** | **97.0** | **2,915.6** | **21.0** | **3.4** | **-1.1** | **4.6** | **94.7** | **2,415.6** | **17.5** |
| **Grand total*** | **4,815.5** | **938.2** | **15.3** | **430.0** | **117.6** | **312.4** | **4,275.4** | **845.8** | **14.1** |

The valuation multiplier of the portfolio (as a relation of the IFRS book to net actual rent) increased from 14.1 at the end of 2017 to 15.3 at 31 December 2018. This corresponds to a gross initial yield of 6.5% (previous year: 7.1%). In price per square metre, the total portfolio now has a value of around EUR 940.00 after around EUR 845.00 at 31 December 2017.

**Acquisitions in the 2018 financial year**

In the 2018 financial year, 2,727 (previous year: 4,946) residential units were acquired for a total purchase price of EUR 111.9m. On average, a purchase multiplier of 12.8 times (previous year: 12.2 times) the current annual net rent was paid, which corresponds to an annual gross initial interest rate of 7.8% (previous year: 8.2%). Vacancy in the acquired portfolios averaged 12.7% (previous year: 13.8%), and therefore again offers development opportunities for active asset management within the Group.

The acquisitions recorded during the financial year under review are summed up in the following table:

| Signing | Mecklenburg-Western Pomerania Jun-2018 | Thuringia Jul-2018 | Saxony Sep-2018 | Mecklenburg-Western Pomerania/Brandenburg Sep-2018 | Other Nov/Dec-2018 | Total 2018 |
|---|---|---|---|---|---|---|
| Units | 117 | 80 | 73 | 1,266 | 1,191 | 2,727 |
| Current net cold rent EUR/sqm/month | 4.66 | 4.71 | 4.44 | 4.94 | 5.35 | 5.07 |
| Vacancy in % | 1.8 | 22.3 | 8.0 | 6.5 | 19.9 | 12.7 |
| Purchase price in EUR m | 4.0 | 1.5 | 3.2 | confidental | confidental | 111.9 |
| Current net cold rent EUR m p. a. | 0.33 | 0.18 | 0.23 | 4.24 | 3.72 | 8.7 |
| Location | Neubrandenburg | Stadtilm | Riesa | Schwerin, Angermünde, other | Schwerin, Dessau, Neubrandenburg | - |
| Closing | Sep-2018 | Sep-2018 | Dec-2018 | Dec-2018 | Nov./Dec-2018 | - |
| Multiples | 12.2x | 8.3x | 13.9x | confidental | confidental | 12.8x |

**Sales in the 2018 financial year**

TAG is primarily a long-term portfolio holder. However, sales of smaller residential portfolios are also part of our strategy, whether to optimise the overall portfolio or to capitalise on favourable market opportunities. At the same time, a high degree of capital discipline is becoming increasingly important, especially in the current market environment. Why? Because in some segments and regions, purchase prices have already reached levels where long-term-oriented management is no longer attractive in relation to the equity capital costs. That is why we seize sales opportunities in locations where purchase prices for residential properties are growing much faster than rents – though only after a meticulous, expert review of each project, of course. The equity released by sales enables us to reinvest in properties in TAG's core regions with a higher initial yield. This is the principle of capital recycling.

In 2018, the sale of non-core assets also formed a primary focus of sales. These properties are not part of TAG's core portfolio due to their geographical location, type of use, or structural condition.

A total of 1,614 (previous year: 1,951) units were sold in the past financial year at a total purchase price of EUR 66.2 m (previous year: EUR 129.7 m). The average factor based on current annual net cold rent was 12.7 times (previous year: 18.7 times), which corresponds to an annual gross initial yield of 7.9% (previous year: 5.3%). The net cash proceed, i.e. the purchase price remaining after deduction of the loans to be repaid, amounted to around EUR 53.5 m in the 2018 financial year (previous year: around EUR 98.6 m).

The following table provides an overview of the sales recorded in the 2018 financial year:

| Signing | North Rhine-Westphalia /Lower Saxony Jun-2018 | Brandenburg/Saxony/ Saxony-Anhalt December 2018 | Ongoing disposals 2018 | Total 2018 |
|---|---:|---:|---:|---:|
| Units | 461 | 719 | 434 | 1,614 |
| Current net cold rent EUR/sqm/month | 5.08 | 4.47 | 4.34 | 4.59 |
| Vacancy in % | 13.2 | 8.8 | 55.1 | 27.8 |
| Purchase price in EUR m | confidental | confidental | 17.3 | 66.2 |
| Current net cold rent EUR m p. a. | 1.42 | 2.57 | 1.21 | 5.20 |
| Net cash proceeds EUR m | 13.0 | 23.7 | 16.8 | 53.5 |
| Book profit in EUR m | 0.0 | 0.0 | 1.0 | 1.0 |
| Location | diverse | diverse | diverse | diverse |
| Closing | Sep/Oct-2018 | Jun-2019 | 2018/2019 | |
| Multiples | confidental | confidental | 14.3x | 12.7x |

## Significant refinancing activities in the past financial year

**Issuance of new corporate bonds with a total volume of EUR 250 m / Early repurchase of the EUR 125 m corporate bond 2014/2020**

In June 2018, TAG issued a private placement in the form of two corporate bonds for institutional investors. The first, five-year corporate bond 2018/2023 has a volume of EUR 125 m and a coupon of 1.25% p.a. With an issue price of 99.395%, the effective annual interest rate is 1.38%. The second EUR 125 m corporate bond 2018/2025 has a seven-year term and an annual interest rate of 1.75%. Issued at a price of 99.615%, its effective interest rate is 1.81% p.a. Both corporate bonds are unsecured, non-subordinated and were admitted to trading on the Open Market of the Frankfurt Stock Exchange.

At the same time, in June 2018 the EUR 125 m 2014/2020 corporate bond, which bears interest at 3.75% p.a. and matures on 25 June 2020, was repurchased prematurely and in full, paying out the coupons still outstanding. The early repayment fee from the early repurchase amounted to EUR 9.5 m.

The remaining proceeds from the 2018/2023 and 2018/2025 corporate bonds after the repurchase of the 2014/2020 corporate bond was used for general corporate purposes, including and in particular to refinance short-term bank loans.

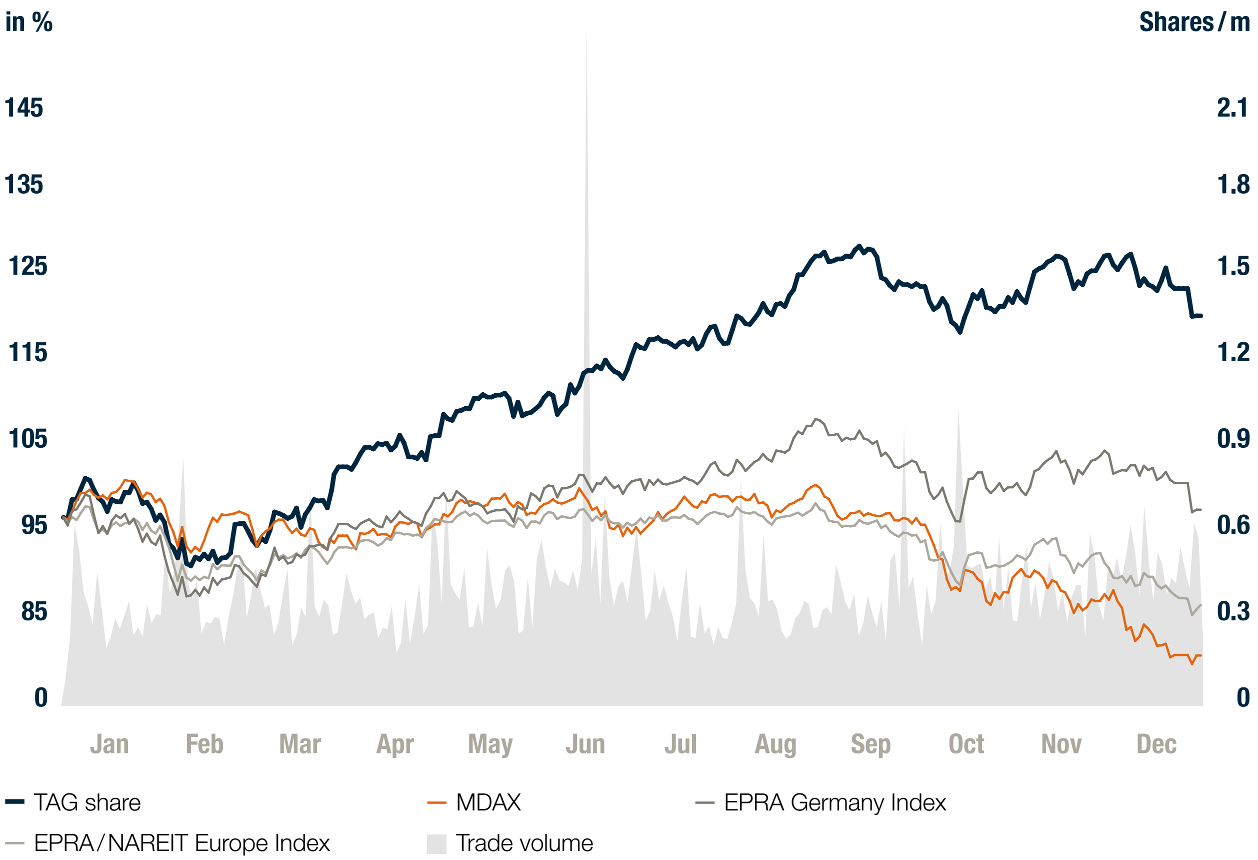
**Repayment of the 2013/2018 corporate bond in the amount of EUR 191 m in August 2018**

The outstanding volume of the 5.125% p.a. corporate bond 2013/2018 in the amount of EUR 191m was repaid on 7 August 2018. To optimise the capital and financing structure, the creditors of this bond (with an original volume of EUR 310 m) had already been offered an early repurchase of the securities in August 2017. That offer was accepted last year in a nominal volume of EUR 119 m.

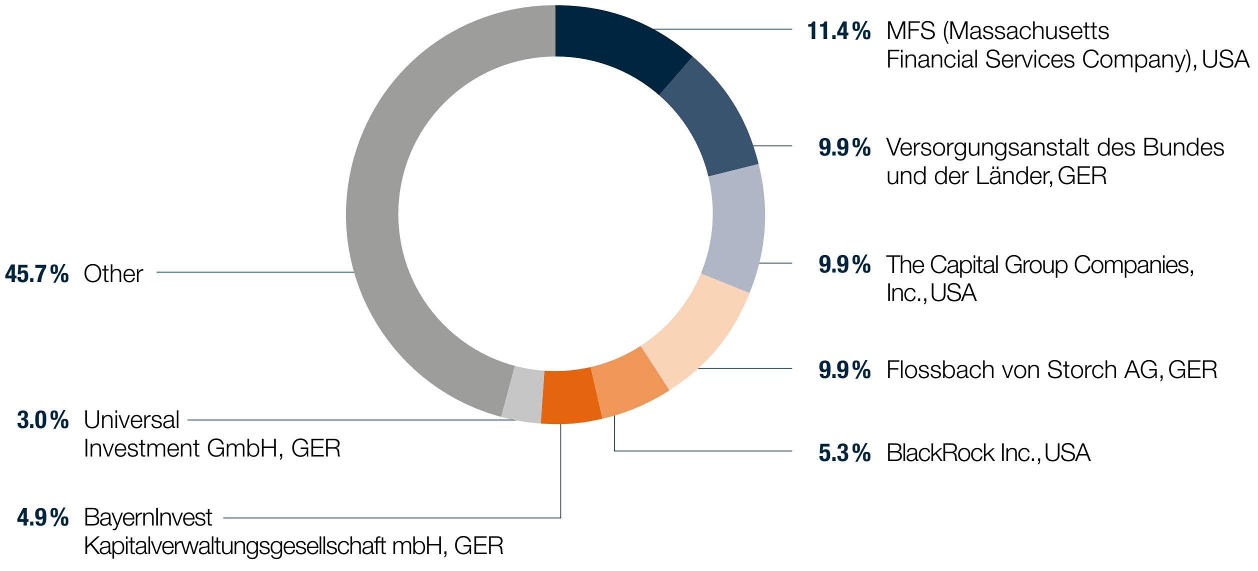
## The TAG share and the capital market

The price of the MDAX-listed TAG share, which is listed in the MDAX, once again did very well in the 2018 financial year. With a closing price of EUR 19.91 at the end of the year (after EUR 15.84 at the end of 2017), the share price rose by 26% in the year under review (previous year: 26%). Additionally taking into account the dividend of EUR 0.65 per share paid out in May 2018 (previous year: EUR 0.57), the overall performance for 2018 is +30% (previous year: +31%).

This put the share well above the European and German benchmark indices: The EPRA index, comprised of various European real estate companies listed on international stock exchanges, recorded an 11% decline (previous year: 9% increase). At the national level, the MDAX declined by 18% after an 18% rise in the previous year, while the EPRA Germany, the index that groups the key German real estate stocks, rose by a mere 1% (previous year: +25%).



TAG's market capitalisation was EUR 2.9bn on 31 December 2018, compared to EUR 2.3bn on 31 December 2017. The share capital and number of shares at 31 December 2018 were EUR 146,498,765.00 and 146,498,765 shares, the same as in the previous year. Free float at the reporting date was 99.88% of the share capital; 0.12% of the share capital (177,115 shares at 31 December 2018 after 60,000 shares at 31 December 2017) are held by TAG as treasury shares for purposes of Management Board and employee compensation. As before, national and international investors with a predominantly long-term investment strategy make up the majority of TAG shareholders, as the following diagram shows:




The highest closing price of the TAG share in 2018 was EUR 21.32 on 12 September 2018, the lowest was EUR 14.86 on 9 February 2018. The average daily trading volume on XETRA in 2018 was approximately 446,000 shares.

TAG lets its shareholders participate substantially in the company's success by paying an attractive dividend. At this year's Annual General Meeting, which took place on 23 May 2018 in Hamburg, a dividend of EUR 0.65 per share, after EUR 0.57 per share for the 2017 financial year, was approved and subsequently paid out. To continue establishing the share as an attractive dividend stock in the future, we plan to distribute a once more increased dividend of EUR 0.75 per share for the 2018 financial year, which corresponds to a payout ratio of 75% of FFO I.

# Results of operations, financial position and net asset position

## Results of operations

**Rental revenues and net rental income**

The positive development of rental growth and vacancy reduction is also reflected in the rise in rental income. Besides this, the portfolio taken over at the end of FY 2017 and over the course of FY 2018 contributed to the rise in rental income. In all, net actual rent increased from EUR 293.0m to EUR 302.2m (+3.1%). Including the additional income to be reported under rental revenues (mainly third-party operating and ancillary costs), total rental revenues remained more or less constant at EUR 400.4m after EUR 399.3m in the previous year.

As a result of the increased net actual rent, the Group's rental profit – i.e. revenues net of expenses for property management from continuing operations – also improved from EUR 236.6m in the previous year to EUR 246.1m in 2018.

In the year under review, the highest rental income by volume was generated in the Berlin (region) segment, with EUR 38.2m (previous year: EUR 37.7 m), and the lowest in absolute terms the Rhine-Ruhr and Rostock regions with EUR 18.8m (previous year: EUR 21.5m) and EUR 21.6m (previous year: 20.5m), respectively. After deducting maintenance costs and directly allocable staff and materials costs, the segment results amounted to EUR 24.3m (previous year: EUR 26.7 m) in the Berlin region, and to EUR 11.0m and EUR 15.1m (previous year: EUR 13.6m and 14.1m) in the Rhine-Ruhr and Rostock regions.

**Results from sales of investment properties and properties held as inventories**

At EUR 84.4m, revenues from the sale of inventory and investment properties were slightly below the previous year's EUR 100.3m. The major sales of financial year 2018 involved, besides the ongoing smaller sales of individual flats and apartment houses, a larger portfolio in the Rhine-Ruhr region.

Besides the book profits, the sales results also include commission expenses of EUR 0.7m (previous year: EUR 1.1m) for ongoing sales; allocations to accruals for compensation risks and litigation costs from building projects and sales from previous years of EUR 0.3m (previous year: EUR 1.0 m); and other selling costs, e.g. redemption fees for obligations to restore, and registry costs, of EUR 0.1m (previous year: EUR 0.2m).

**Revenues from services and net service income**

The revenues from services, totalling EUR 44.8m (previous year: EUR 34.0m), relate to the business fields of energy management, multimedia, small repair services, in-house caretaker and maintenance services, and homeowner association management. Of this, EUR 1.5m (previous year: EUR 1.0m) relates to proportionately attributable property tax and insurance charges. After deducting the directly attributable purchase and material costs, the net service income amounts to EUR 17.7m (previous year: EUR 14.9m).

**Other operating income**

Other operating income increased to EUR 9.6m in FY 2018 (previous year: EUR 5.4m), mainly attributable to reversals of provisions (in particular EUR 6.2m from the partial reversal of a provision of originally EUR 8.5m formed as of 31 December 2017 for real estate transfer tax risks from transactions in 2011 and 2012; cf. also the 'Forecast, opportunities and risk report – Tax risks' section below), and other income for other accounting periods.

**Revaluations**

The revaluation (fair value change) of investment properties and effects from the valuation of inventory properties resulted in a once again very positive overall valuation result of EUR 430.0m in 2018 (previous year: EUR 293.0m; cf. also the 'Operative Business Performance and Portfolio developments – Revaluation of the Portfolio in the financial year' under review).

**Personnel expenses**

Mainly as part of the Group's continued expansion of its craftsman and caretaker services, personnel expenses in FY 2018 increased to EUR 43.7m (previous year: EUR 41.4m).

In this connection, a total of EUR 16.4m (previous year: EUR 16.4m) in personnel expenses is allocated to individual segments. No significant differences were seen in the personnel expenses of the individual segments. The Gera region again had the highest personnel expenses, at EUR 2.5m (previous year: EUR 2.5m).

**Other operating expenses**

At EUR 17.1m, other operating expenses were above the previous year's level of EUR 25.8m. They mainly refer to IT costs, legal, consulting and audit costs, rental costs for leased business premises, car and travel expenses, and costs of communications. In the previous year, the item included a one-off effect of EUR 8.5m as the above-mentioned provision for tax risks relating to potential liabilities from property transfer taxes, most of which could be reversed again by 31 December 2018 .

Of this, a total of EUR 2.4m (previous year: EUR 2.4m) in directly allocable expenditure is assigned to the individual segments. There were no significant differences between the individual segments, and the Salzgitter region had the highest expenses at EUR 0.7m (previous year: EUR 0.5m).

**Depreciation/amortisation of intangible assets and property, plant and equipment**

The amortisation of intangible assets and property, plant and equipment of EUR 4.3m (previous year: EUR 3.8 m) relate exclusively to scheduled 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, and to business equipment.

**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 -82.4m. Eliminating non-recurring effects in form of prepayment penalties in connection with sales, and the early repayment of corporate bonds, as well as non-cash gains or losses from derivatives and convertible bonds, leads to a P&L cash financial result excluding special items of EUR -54.6m for the 2018 financial year (after EUR -67.0m in FY 2017); this amount is included in the calculation of the FFO.

This development clearly shows the further, continual improvement in financing costs achieved in 2018. The average interest rate on bank loans was reduced to 2.19% on 31 December 2018 (previous year: 2.24%); the total cost of borrowing at the reporting date was 1.92% after 2.34% at the end of the previous year.

At EUR 1.8m, 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 2.6m).

**EBT**

The Group had originally forecast earnings before taxes (EBT) of EUR 135.0m to EUR 137.0m or EUR 0.93 per share for the 2018 financial year (excluding fair value changes in investment properties and valuation of portfolio properties, and also excluding results from derivative financial instruments). At 30 June 2018, this forecast was reduced to between EUR 130m and EUR132m, or EUR 0.89 per share, due to non-recurring expenses from the early refinancing of a corporate bond.

In the 2018 financial year, TAG generated EBT – calculated in this way – of EUR 143.4m (previous year: EUR 106.6m), or EUR 0.98 (previous year: EUR 0.73) per share on a fully diluted basis. The main reason for the EBT forecast being exceeded was the partial release in the fourth quarter of 2018, in the amount of EUR 6.2m, of a provision formed in the previous year for property transfer tax risks.

**Taxes on income**

Taxes on income and earnings amounted to EUR 54.0m in 2018, compared with EUR 82.8m in 2017. The proportion of actual tax expenses in 2018 was EUR 4.0m (previous year: EUR 3.1 m), the remaining expenses of EUR 50.0m (previous year: 79.7m) relate to non-cash deferred taxes, primarily from the valuation of investment properties and from the activation of or value adjustments to deferred taxes on tax loss carry-forwards.

**Consolidated net profit**

Overall, in 2017 financial year TAG achieved consolidated net profit of EUR 488.2m (previous year: 313.7m). Besides the higher operating result, the main reason for the significant EUR 174.5m increase in consolidated net profit were the EUR 137.0m increase in the valuation result and a EUR 30.0m reduction in deferred tax expenses.

**Adjusted EBITDA**

For the 2018 financial year, this results in the following adjusted EBITDA and adjusted EBITDA margin as the ratio of adjusted EBITDA to net actual rent (not including results of sales):

| in EUR m | 2018 | 2017 |
|---|---|---|
| **EBIT** | **638.2** | **478.9** |
| Revaluations | -430.0 | -293.0 |
| Depreciation | 4.3 | 3.9 |
| One-off's (provisions for real estate transfer tax risks) | -6.2 | 8.5 |
| Valuation result | 0.1 | 0.0 |
| **EBITDA (adjusted)** | **206.4** | **198.3** |
| Rental income (net rent) | 302.2 | 293.0 |
| **EBITDA-Marge (adjusted)** | **68.3 %** | **67.7 %** |

The increase in adjusted EBITDA and the improved EBITDA margin can mainly be attributed to the rise in rental income, against a relatively lower cost ratio. The special effects relate to a reversal of provisions of EUR 6.2m (previous year: addition to provisions of EUR 8.5m) for potential real estate transfer tax risks from acquisitions in FY 2011 and 2012.

**Funds from Operations (FFO)**

FFO I is calculated based on the Group's consolidated EBT, adjusted for non-cash items, such as evaluation results, depreciation, amortisation (without adjustment for impairment of rent receivables), non-cash interest expense and without regularly recurring special effects, and then deducting current tax income. FFO I also does not include proceeds from property 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 additionally takes into account the balance sheet profit from property sales. The number of shares outstanding was calculated as a weighted average.

The following table shows the calculation of FFO I, adjusted EBITDA, AFFO and FFO II in the financial year under review and as compared to the same period of the previous year:

| in EUR m | FY 2018 | FY 2017 | Q4 2018 | Q3 2018 |
|---|---|---|---|---|
| **Net income** | **488.2** | **313.7** | **239.6** | **30.2** |
| Taxes | 54.0 | 82.8 | -4.4 | 7.3 |
| Financial result | 96.0 | 82.4 | 20.7 | 13.6 |
| **EBIT** | **638.2** | **478.9** | **256.0** | **51.1** |
| Adjustments | | | | |
| Valuation result | -430.0 | -293.0 | -200.2 | 0.2 |
| Depreciation | 4.3 | 3.9 | 1.2 | 1.1 |
| On-off's (real estate transfer tax) | -6.2 | 8.5 | -6.2 | 0.0 |
| Net revenues from sales | 0.1 | 0.0 | 0.4 | -0.1 |
| **EBITDA (adjusted)** | **206.4** | **198.3** | **51.1** | **52.3** |
| Net financial result (cash, after one-off's) | -54.6 | -67.0 | -12.1 | -13.0 |
| Cash Taxes | -4.0 | -3.1 | -0.5 | -1.6 |
| Dividend payments to minorities | -1.3 | -0.8 | -0.7 | -0.2 |
| **FFO I** | **146.5** | **127.4** | **37.8** | **37.5** |
| Capitalised maintenance | -15.7 | -12.0 | -5.8 | -5.3 |
| **AFFO before modernisation capex** | **130.9** | **115.4** | **32.0** | **32.2** |
| Modernisation capex | -42.5 | -30.8 | -10.0 | -9.5 |
| **AFFO** | **88.4** | **84.6** | **22.0** | **22.7** |
| Net revenues from sales | -0.1 | 0.0 | -0.4 | 0.1 |
| **FFO II (FFO I + net revenues from sales)** | **146.4** | **127.4** | **37.4** | **37.6** |
| Weighted average number of shares outstanding (in 000) | 146,341 | 145,709* | 146,322 | 146,322 |
| **FFO I per share (in EUR)** | **1.00** | **0.87** | **0.26** | **0.26** |
| **AFFO per share (in EUR)** | **0.60** | **0.58** | **0.15** | **0.16** |
| Weighted average number of shares fully diluted (in 000) | 161,016* | - | 160,998* | 160,998* |
| **FFO I per share (in EUR), fully diluted** | **0.92** | **-** | **0.24** | **0.24** |
| **AFFO per share (in EUR), fully diluted** | **0.56** | **-** | **0.14** | **0.14** |

* including potential shares from convertible bond 2017/2022 (trading 'in the money' at reporting date) and management compensation

FFO I increased significantly year-on-year in 2018, both in absolute terms (from EUR 127.4 m to EUR 146.5m) and on a per-share basis (from EUR 0.87 to EUR 1.00, without dilution effects). The development of FFO I in the 2018 financial year, with EUR 35.1 m in Q1, EUR 36.1 m in Q2, EUR 37.5 m in Q3 and finally EUR 37.8 m in Q4 (unaudited quarterly figures in each case), illustrates the continuously positive development of TAG's operating business.

In the previous year, the Group had originally forecast an FFO I of EUR 0.93 per share for FY 2018, which corresponds in absolute terms to an FFO I of EUR 135 m to EUR 137 m. This forecast was raised to EUR 0.97 per share as of 30 June 2018, or EUR 141 m to EUR 143 m. Even this raised forecast was exceeded by around 3%, with FFO I at EUR 146.5 m and FFO I at EUR 1.00 per share for the 2018 financial year. The main reasons for this were a better-than-expected service result at the end of the year and income taxes that were lower than most recently calculated.

## Assets position

**Assets**
Assets at 31 December 2018 totalled EUR 5.0 bn after EUR 4.6 bn at 31 December 2017. In addition to investment properties of EUR 4,666.7 m (previous year: EUR 4,166.0m), the Group's total real estate assets also include properties reported under property, plant and equipment totalling EUR 9.5 m (previous year: EUR 9.8 m) as well as inventories of EUR 52.3 m (previous year: EUR 48.1 m). Beyond this, real estate of EUR 87.0 m (previous year: EUR 51.5 m) is reported under non-current assets held for sale. At 31 December 2018, total real estate assets amounted to EUR 4,815.5 m, as compared to EUR 4,275.4 m at the end of the previous year.

Cash and cash equivalents at 31 December 2018 totalled EUR 91.7 m compared to EUR 263.7 m at 31 December 2017.

**Investments and Capex reporting**
In the 2018 financial year, TAG further considerably expanded its residential real estate portfolio with acquisitions, and signed contracts for the acquisition of approximately 2,700 units (previous year: approximately 5,000) for a total purchase price of EUR 111.9 m (previous year: EUR 171.5m).

Beyond this, in 2018 TAG invested around EUR 92.4 m (previous year: EUR 71.9m) in its residential portfolio for routine maintenance and for modernisation/renovation. A total of EUR 34.3 m was spent on maintenance recognised as expenses (previous year: 29.1m), and EUR 58.1 m on capitalisable investment (previous year: EUR 42.8m), broken down as follows:

| in EUR m | 2018 | 2017 |
|---|---|---|
| Large-scale measures (e.g. modernisation of entire residential complexes) | 26.9 | 14.7 |
| Modernisation of apartments | | |
| Previously vacant apartments | 15.5 | 14.8 |
| Change of tenants | 15.7 | 12.0 |
| **Total expenditure on modernisation residential portfolio** | **58.1** | **41.5** |

Total investments (ongoing maintenance recognised in profit and loss and capitalised renovation and modernisation) in the Group's residential units amounted to EUR 19.24 per sqm in 2018, after EUR 15.12 per sqm in the previous year, and to EUR 18.01 per sqm across the whole portfolio (previous year: EUR 14.23 per sqm).

Broken down into acquisitions, project developments and 'existing residential portfolio without the acquisitions of the year', total refurbishment expenses are as follows:

| in EUR m | 2018 | 2017 |
|---|---|---|
| Acquisitions in the financial year | 0.0 | 0.8 |
| Project developments | 11.4 | 1.3 |
| Residential portfolio without the acquisitions of the financial year (like-for-like portfolio) | 58.1 | 40.7 |
| **Total refurbishment expenses** | **69.5** | **42.8** |

Expenses for project developments relate primarily to a former commercial property in Munich, which is being converted into student dorms and micro-apartments.

A detailed breakdown of ongoing maintenance expenditure and renovation, and modernisation measures per sqm for the individual regions can be found in the portfolio table in the 'Business performance – The portfolio in detail' section above.

The Group's segment reporting shows maintenance expenses and investment costs totalling EUR 69.3 m (previous year: EUR 58.5m). This amount, which follows the internal reporting methodology, does not include some items that are capitalised in IFRS accounting, such as in the area of apartment modernisation. According to this system, the highest investments were made in the Berlin region with EUR 10.7 m (previous year: EUR 6.8m); in the previous year, this figure was EUR 9.7 m and related to the Salzgitter region (2018: EUR 8.0m).

## Financial position

### Equity

In financial year 2018, the equity base was increased by EUR 488.2 m (previous year: EUR 313.7 m) as a result of ongoing Group income. In May 2018, a dividend payment in the amount of EUR 95.1 m (previous year: EUR 83.5 m) was made for the 2017 financial year. As of the balance sheet date, Group equity totalled EUR 2,048.3 m (31 December 2017: EUR 1,646.6 m). The equity ratio at the end of the 2018 financial year was 40.7%, compared with 35.5% at the end of the previous year.

### Net Asset Value (NAV)

The following table shows the calculation of NAV for the entire portfolio:

| in EUR m | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Equity (without minorities) | 2,006.5 | 1,625.9 |
| Deferred taxes on investment properties and financial derivatives | 425.2 | 362.3 |
| Fair value of fiancial derivatives | 42.0 | 8.4 |
| Difference between fair value and book value for properties valued at cost | 60.0 | 24.8 |
| **EPRA NAV** | **2,533.6** | **2,021.4** |
| Number of share outstanding (in 000) | 146.322 | 146.439 |
| **EPRA NAV per share (EUR)** | **17.32** | **13.80** |
| Number of shares fully diluted (in 000) | 161.023 | - |
| **EPRA NAV per share (EUR), diluted** | **17.33** | **-** |

The Group had forecast NAV (excluding changes in the fair value of investment properties and from the valuation of investment properties and excluding possible dilution effects from convertible bonds) of EUR 14.00 to EUR 14.10 per share for the 2018 financial year. This forecast, too, was exceeded with a NAV of EUR 14.13 per share adjusted for these fair value changes. This was mainly due to the good operating results and a decline in financing costs that was stronger than expected.

**Financing and liquidity**
The loan-to-value (LTV) ratio at the reporting date is calculated as follows:

| in EUR m | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Non-current and current liabilities to banks | 1,855.5 | 1,935.4 |
| Non-current and current liabilities from corporate bonds | 285.8 | 322.2 |
| Non-current and current liabilities from convertible bonds | 257.5 | 256.2 |
| Cash and cash equivalents | -91.7 | -263.7 |
| **Net financial debt** | **2,307.1** | **2,250.1** |
| Book value of investment properties | 4,666.7 | 4,166.0 |
| Book value of property reported under tangible assets | 9.5 | 9.8 |
| Book value of property held as inventory | 52.3 | 48.1 |
| Book value of property reported under non-current assets held for sale | 87.0 | 51.5 |
| **Real estate volume** | **4,815.5** | **4,275.4** |
| Difference between fair value and book value for properties valued at cost | 60.0 | 24.8 |
| Book value of property for which purchase prices have already been paid in advance | -0.2 | -0.3 |
| **Relevant real estate volume for LTV calculation** | **4,875.3** | **4,299.9** |
| **LTV** | **47.3 %** | **52.3 %** |

The TAG Group's degree of indebtedness was reduced to 47.3% as of 31 December 2018 (previous year: 52.3%). The very positive real estate valuation results were the main reason for this significant reduction by 5.0 percentage points.

TAG bases its funding on four separate pillars. In addition to bank loans secured by land / property in its subsidiaries, the Company also uses capital market-based financing, such as corporate bonds, convertible bonds and, albeit to a lesser extent, usually to a maximum of EUR 50m, short-term bearer bonds with maturities of generally one to six months as a special form of corporate bond ('Commercial Papers'). TAG and its subsidiaries can also draw on credit lines at banks.

The key data of the two corporate bonds outstanding at the reporting date is as follows:

| Corporate bond WKN A2LQP69 | Corporate bond WKN A2LQP77 |
|---|---|
| Volume: EUR 125m | Volume: EUR 125m |
| Nominal value per bond: EUR 100,000.00 | Nominal value per bond: EUR 100,000.00 |
| Maturity: 5 years to 19 Jun 2023 | Maturity: 7 years to 19 Jun 2025 |
| Interest rate: 1.25 % | Interest rate: 1.75 % |
| Issue price: 99.395 % | Issue price: 99.615 % |

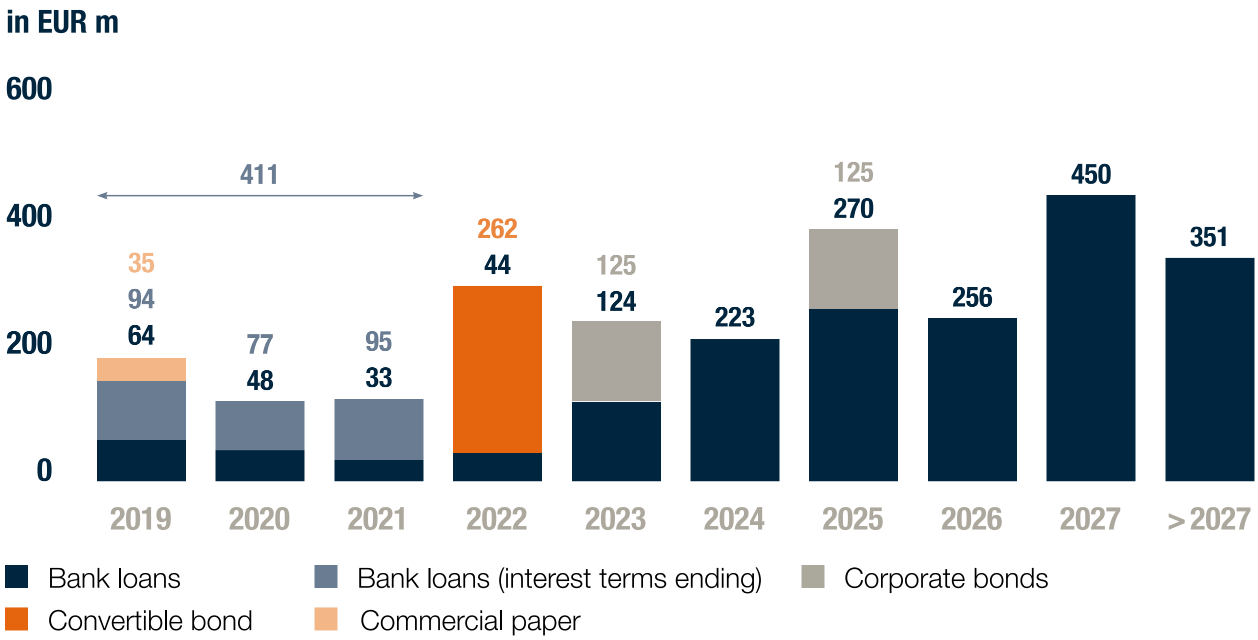
The key data of the commercial papers at the reporting date is as follows:

| Commercial Paper WKN A2TS2A, A2TS19, 12TS2C |
|---|
| Volume: EUR 35 m |
| Nominal value per paper: EUR 100,000.00 |
| Maturity: short term (Feb – May 2019) |
| Interest rate: 0.05% – 0.08% |
| Issue price: 99.96% – 99.99% |

In addition, a convertible bond in the amount of EUR 262.0 m was placed in August 2017. The key data is shown below:

| Convertible bond WKN A2GS3Y |
|---|
| Volume: EUR 262 m |
| Nominal value per bond: EUR 100,000.00 |
| Maturity: 5 years to 1 Sep 2022 |
| Interest rate: 0.625% |
| Issue price: 100% |
| Conversion price: EUR 17.8522 |

The following table shows the maturity of all liabilities as of 31 December 2018:




A total of EUR 411 m (2019: EUR 158m; 2020: EUR 125m; 2021: EUR 128m) in fixed-interest bank loans will become due in the next three financial years, or can be refinanced with no prepayment penalty upon maturity because the fixed-interest rate stipulated in the contract expires. The average interest rate of these bank loans is 2.9% (loans expiring in 2019), 3.7% (loans expiring in 2020), 3.7% (loans expiring in 2020), and 2.7% (loans expiring in 2021).

The average term of all bank loans was 9.3 (previous year: 10.3) years as of the balance sheet date; the average term of all financial liabilities was 8.1 (previous year: 8.6) years. The average interest rate on bank loans as at 31 December 2018 was 2.19% (previous year: 2.24%), and that on total financial liabilities was 1.92% (previous year: 2.34%). 98% (previous year: 98%) of total financial liabilities have fixed interest rates.

The Management Board expects that all loans maturing in 2019, all of which are in euros, will be renewed as scheduled.

The following provides an abbreviated view of the development of cashflow in the past financial year, based on the presentation in the consolidated cashflow statement:

| in EUR m | 2018 | 2017 |
|---|---|---|
| Cashflow from operating activities | 159.6 | 124.5 |
| Cashflow from investment activities | -111.7 | -140.9 |
| Cashflow from financing activities | -208.1 | 198.6 |
| Cash and cash equivalents at the beginning of the period | 249.2 | 67.0 |
| **Cash and cash equivalents at the end of the period** | **89.0** | **249.2** |

The main value drivers in operating cashflow are higher rental income and lower financing costs. The area of investments especially reflects the acquisitions and modernisation activities of the past financial year. Cashflow from financing activities mainly includes the results from the placement and repurchase of corporate bonds as well as the assumption/drawing down and repayment of bank loans.

As of the balance sheet date, the Group had the following freely available cash and cash equivalents, which are also shown in this amount in the consolidated cashflow statement:

| in EUR m | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Cash and cash equivalents according to consolidated balance sheet | 91.7 | 263.7 |
| Cash and cash equivalents not available at balance sheet date | -2.7 | -14.5 |
| Cash and cash equivalents as per consolidated cashflow statement | **89.0** | **249.2** |

Above and beyond this, TAG has available credit lines totalling EUR 106.5 m at various banks (previous year: EUR 72.5m). As of 31 December 2018, EUR 0.0 m had been drawn down (previous year: EUR 0.0m).

## Overall assessment of the economic situation

As in the previous year, in FY 2018 TAG was again able to achieve excellent results in its key operational indicators, rental growth and vacancy reduction. In addition, the residential portfolio was expanded significantly thanks to the successful acquisitions in FY 2018. In terms of FFO I, it was EUR 146.5m, well above the previous year's level of EUR 127.4m; FFO I per share rose to EUR 1.00 after EUR 0.87 in 2017. At EUR 17.32, NAV per share was well above the level of EUR 13.80 at 31 December 2017.

The earnings and asset position thus continues to be positive and rising. TAG has sufficient liquidity and is financed for the long term.

## Proposed dividend

Based on this positive development, TAG's Management Board intends to propose to the Annual General Meeting, subject to the requisite approval of the Supervisory, an increased dividend of EUR 0.75 per share for the 2018 financial year (previous year: EUR 0.65 per share).

## HR report

The average number of employees at TAG is shown in the following table:

| Employees | 2018 | 2017 |
|---|---:|---:|
| Employees in operations | 517 | 509 |
| Administration and central functions | 108 | 105 |
| Caretakers | 310 | 297 |
| Craftsmen | 58 | 50 |
| **Total** | **993** | **961** |

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

## MATERIAL EVENTS AFTER THE REPORTING DATE

There were no material events after the reporting date.

# FORECAST, OPPORTUNITIES AND RISK REPORT

## Forecast

**Projected economic conditions**

The German economy showed solid growth in 2018 – gross domestic product (GDP) increased by 1.5%, putting it slightly below the original expectations (e.g. +1.8% autumn forecast by the German Institute for Economic Research, DIW), but GDP continues to show a positive trend. All in all, there is much to suggest that the pace of the German economy is returning to normal after years of above-average growth. In December 2018, the German Bundesbank and the DIW forecast an increase in GDP of 1.6% for 2019, while the ifo Institute for Economic Research expects an increase of 1.1%. So its growth continues despite a slowdown in the global economy.

In terms of rents, we expect the positive trend of past financial years to continue in 2019, i.e. continued very strong demand for reasonably priced residential space in the regions we serve.

We also believe that there is no end in sight yet to the very low level of interest rates. In view of the debt levels of some Southern European countries and possible macroeconomic risks due to the upcoming ‚BREXIT' and ongoing trade disputes, both the European Central Bank and the capital market will, in our opinion, not be taking any short-term steps leading to a significant rise in interest rates. This also applies to the financing margins, especially in the area of bank loans, where we do not expect any significant increases either.

**Forecast for the 2019 financial year**

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 more than 84,000 units has reached a size that allows us to effectively manage our portfolio. For this reason, in future we will continue to focus even more on optimising the portfolio and effectively increasing our cashflows. Consequently, this means that we will 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. However, as always, our strategy when purchasing portfolios is determined by stringent capital discipline. At the same time, we will continue to take advantage of selective sales opportunities if they improve the profitability of the portfolio as a whole.

Based on the good operating performance and the further reduction in financing costs, we predict the following for the 2019 financial year, in each case excluding the results from changes in the fair value of investment properties and from the valuation of investment properties and the valuation of financial derivatives, and on an undiluted basis:

- FFO (FFO I, i.e. without sales), of EUR 154m to EUR 156m (2018: EUR 146.5m), or EUR 1.06 (2018: EUR 1.00) per share;
- EBT of between EUR 155m and EUR 157m (2018: EUR 143.4m), or EUR 1.07 (2016: EUR 0.98) per share; and
- NAV per share of EUR 17.50 to EUR 17.60 (31 December 2018: EUR 17.82), assuming a dividend pay-out of EUR 0.75 (previous year: EUR 0.65) per share.

The increase in FFO by approximately EUR 8m expected for the 2019 financial year is mainly based on the assumption of

- higher rental income (approx. EUR +5m, mainly due to rising rents),
- an improved result from services (approx. EUR +2m),
- higher personnel expenses
  (approx. EUR -4m, also due to the further internalisation of services formerly provided by third parties),
- lower financing costs (approx. EUR +9m)
- and higher actual taxes on income (approx. EUR -4m)

The forecast also assumes that around 500 apartments from the ongoing small-scale sales business and around 1,600 units that are not part of the strategic core portfolio (non-core assets) will be sold in the course of the 2019 financial year, resulting in an FFO reduction (predominantly in the form of a reduced rental result) of around EUR 3m that has already been taken into account in the above forecast. Further acquisitions, on the other hand, are not assumed for the purposes of the forecast.

The dividend per share for the 2019 financial year is to rise to EUR 0.80 (for 2018: EUR 0.75); like in the previous year, this corresponds to a payout ratio of 75% of the planned FFO I.

We expect vacancy across the Group's residential units, again excluding any further major acquisitions and sales, to decrease further to between 4.4% and 4.7% (1 January 2019 including the acquisitions that became effective at 31 December 2018: 5.0%). As for rent, we expect to see like-for-like annual growth of around 2.5% to 3.0% (2018: 2.6%), including the effects of vacancy reduction.

We therefore expect the very positive economic performance of previous years to continue in 2019. From our point of view, there are significant forecast uncertainties with regard to effects from additional purchases and sales not included in the FFO forecast. Future acquisitions of property portfolios would tend to lead to an increase in the FFO forecast, while more substantial disposals would lead to a reduction in the FFO expected for 2019.

By their very nature, forward-looking statements are also subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties are tied to factors that TAG cannot control, influence or accurately assess. This is the case, for example, when it comes to future market and economic conditions, the behaviour of other market participants, the ability to successfully integrate acquired companies and realise expected synergy effects, and government tax legislation procedures.

## 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 assets, and support the TAG Group's continued successful development. 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 Management Board of TAG 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.

The Management Board is responsible for liquidity risk management, and has established an appropriate model for managing short-, medium- and long-term finance and liquidity requirements. The Group controls liquidity risks by maintaining reasonable reserves and credit lines at banks, and by continually monitoring forecast and actual cashflows and reconciling the maturities of financial assets and liabilities.

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.

## Individual risks with regard to their future development

**Overview**
The various individual risks considered by the Management Board to be of material importance to TAG are summarised as follows:

- Market risks
  - Economic and sector risks
  - Regulatory and political risks
- Performance risks
  - Rental risks
  - Portfolio valuation risks
- Financial risks
  - Liquidity risks
  - Interest risks
- Other risks
  - Legal risks
  - Tax 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 special depreciation, income tax and real estate transfer tax exemptions, as well as gift and inheritance tax benefits, influence the demand for real estate.

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 and hence cannot realise planned acquisitions.

With regard to future maintenance, construction and modernisation measures, there is a risk that in many cases the craftsmen and construction industry currently lacks sufficient capacity to swiftly fulfil the orders. In the context of TAG's planned maintenance and modernisation measures, this may lead to delays and, as a result of high demand, to unscheduled price increases.

TAG's business focus on specific regions within Germany can also lead to a dependency on regional market developments and expansion risks. This applies in particular to the Eastern German states, where the majority of TAG's real estate assets/holdings are located.

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.

The economic and sector / environment and industry risks described are regarded as low. Even though we believe that the likelihood of the risk of delays and higher prices due to capacity bottlenecks in maintenance and modernisation measures is high, TAG's activities in this area are not very extensive compared with the industry as a whole. Besides, this risk has already been countered for several years by the further expansion of the Group's in-house craftsman services. If the risks in question were to occur, this would mean that the expected development described in the forecast report presented above (section 'Forecast for the 2019 financial year'), in particular FFO I and EBT, would not be achieved.

**Regulatory risks**

TAG is exposed to general risks arising from changes in the regulatory or legislative environment. Besides tax legislation, such regulatory changes may affect general tenancy laws in particular, but also construction, employment, and environmental law.

In particular with regard to future tenancy law, there is currently a risk of significant adverse changes for landlords, some of which have already been implemented into law. At the end of 2018, for example, in addition to increased information requirements for the landlord with regard to 'rent control' within the meaning of Section 556d of the German Civil Code (BGB), further restrictions were resolved with regard to the modernisation levy in accordance with Section 559 of the German Civil Code (BGB). These restrictions provide for a reduction in the percentage of modernisation costs to be borne by the tenant from previously 11% to currently 8%, as well as certain cap limits on the subsequent/resulting rent increases. Furthermore, an extension of the reference periods for qualified rent indexes in accordance with section 558d BGB from four to six years is currently being discussed, which in the current situation of annually rising rents would lead to an increased inclusion of older rental agreements with lower rents in these rent indexes, so that the resulting new rent would be lower or new rental contracts would lead to rent increases at a later date.

This risk of adverse changes in tenancy law is classified as low. Although here too the probability of occurrence is high, the economic impact for TAG is not significant, as far as can be seen at present, since the Group's investment focus is neither on rent increases through modernisation levies nor on sharp rent increases in metropolitan areas, which are particularly dependent on 'rent control' and the development of the rent indexes. All other regulatory and political risks are considered to be low. Such developments could have an adverse effect on the expectations presented in the forecast report, especially regarding the development of rents and hence of FFO I and EBT.

**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. An increase in vacancy may result from lower demand for housing in the future, for example if the number of households decreases in individual regions, be it due to demographic developments or as a result of relocations or job cuts by the region's major employers.

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 vacancy 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 continually and can help to avert defaults with minimum delay.

Although there are always individual risks of default, we consider it to be marginal on the whole. In total, impairment losses including the separately reported impairment losses in net income from services of EUR 4.4m (previous year: EUR 6.2m) were recognised on rent receivables in the 2018 financial year. Based on the net actual rent of EUR 302.2m (previous year: EUR 293.0m), this corresponds to a bad debt ratio of 1.5% (previous year: 2.0%).

Future rental/letting risks also depend on population trends. In terms of their probability of occurrence, they are classified as low due to the fact that the high demand for residential space is expected to continue. An increase in the vacancy rate would have a negative impact on rents and hence especially on FFO I and EBT. In such a situation, it would not be possible to meet the expectations set out in the forecast for the 2019 financial year.

**Portfolio appraisal risks**

The market value (fair value) of the real estate shown in the consolidated financial statements is based on calculations that are currently performed twice a year by independent, accredited appraisers. These market values depend on various factors, some of which are objective – such as macroeconomic conditions, or prevailing interest rates – as well as other discretionary exogenous factors such as rental levels and vacancies. In addition, encumbrances in the existing portfolio, such as lead pipes, can influence the appraisal.

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 assumptions used in valuing the properties are made by the independent appraiser based on their professional experience and are subject to uncertainty. Please refer to the section 'Notes on the Balance Sheet - Investment Properties' in the Notes to the Consolidated Financial Statements for information on the effects of possible fluctuations in the valuation parameters, not taking into account potential interdependencies between the individual parameters.

Even if we do not expect this, at least not for the forecast period 2019, rising interest rates may also result in value declines in the portfolio's valuation, as in such a situation, investors' return expectations and thus the capitalisation interest rates used in the valuation model should also rise, at least in the medium term. Corresponding losses in value in the portfolio valuation may result in a decline in rents or an increase in vacancies.

Portfolio valuation risks, however, are classified by us as low due to the continued strong demand for apartments, in conjunction with insufficient new construction activities and the further increase in rents expected as a result. If balance sheet losses occur, they do not affect liquidity and in many cases (e.g. with regard to the corporate bonds and convertible bonds issued by TAG) do not impair compliance with credit agreement conditions. However, the expectations described with regard to the development of NAV would possibly not be met.

**Liquidity risks**
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 counter-party risk and selecting investment-grade financial institutions.

For liquidity planning and liquidity management, both short- and medium-term, the following instruments are used for reporting to the Management Board, and the current business transactions are mirrored with the planning data: a daily liquidity report summarising all accounts; monthly liquidity planning for the next twelve months; and medium-term liquidity planning for the next three years.

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 EUR 1,425.5m (previous year: EUR 1,503.7m), for which the banks have specified financial covenants regarding capital service ratios and equity/debt ratios. If any of these covenants are breached, premature loan repayments may become necessary. As of the reporting date, 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 corporate 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 corporate bonds – as well as the loans referred to in the section entitled 'Disclosures in accordance with Section 315 A (1) of the German Commercial Code – Conditions for a change of control following a take-over offer' below – may be subject to a right of premature termination.

The liquidity risks are deemed to be low. TAG has sufficient liquid assets and unused credit lines with banks. In addition, most of the acquisitions of the 2017 and 2018 financial years have not yet been refinanced, so that additional liquidity could be raised by taking out new bank loans if required.

**Interest rate risks**
The Group's activities are subject to risks arising from changes in interest rates. The vast majority of bank loans are concluded only with fixed interest, either through a directly agreed fixed interest rate, or through a variable interest rate that is then converted into a fixed interest rate using a derivative financial instrument (usually interest rate swaps). At the reporting date, bank loans with a fixed interest rate accounted for 98% of the total lending volume (previous year: 98%). As in the previous year, all corporate or convertible bonds have fixed interest rates.

Against this backdrop, an interest rate risk exists mainly with regard to the future refinancing of expiring loans, and with new loans from further acquisitions. Rising financing costs, particularly in the field of long-term financing that is relevant to TAG, would negatively impact the profitability of acquisitions, and TAG's future results and cashflows.

The Group enters into long-term fixed-rate loans in order to minimise interest rate risks. Beyond this, derivatives concluded in the past (mainly interest rate swaps) in the amount of EUR 0.0 m (previous year: 23.1 m) are used to minimise the interest rate risk as interest rates rise. These were completely redeemed in the course of the 2018 financial year, so that there were no longer any interest rate derivatives as of the reporting date.

Interest rate risks are classified as low in the financing area. This applies in particular given the Group's long-term financial liabilities at fixed interest rates, which have an average term of 8.1 (previous year: 8.6) years as of the balance sheet date and of which 98% (previous year: 98%) have fixed interest rates.

**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 judicature 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 courts, 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 or 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.

The legal risks are assessed as high, especially with regard to the probability of their occurrence. In this context, provisions of EUR 4.3 m (previous year: EUR 4.0 m) were formed as of the balance sheet date, which could lead to outflows of liquidity should a given risk materialise. Beyond this, the occurrence of these risks would have a negative impact on EBT and NAV and the expectations presented with regard to these key figures might not be met if the actual amount/utilisation exceeds the provisions formed.

**Tax risks**
- Income 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 particular, restrictions on 'interest barriers' and the provisions of the 'prerogative of extended trade tax reduction' regularly become very relevant. Due to legal uncertainties in connection with determining of the equity ratio for interest barrier purposes, it cannot be ruled out, for example, that the tax authority denies at least a partial deduction of operating expenses from interest expenses. The use of the trade tax reduction for income from long-term real estate leasing, which is also relevant for many Group companies, is subject to restrictive conditions, some of which are also subject to legal uncertainties and which, in the event of divergent treatment by the tax authority, would lead to a trade tax liability for the relevant income. 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 transfer-tax-free share deals, i.e. acquisitions of real estate property companies through appropriate structures, are significant for the Group's tax burden.

Provisions amounting to EUR 4.0m (previous year: EUR 4.0m) have been formed as of the balance sheet date for the above-mentioned risks, which are classified as medium, and which could lead to corresponding outflows of liquidity if a given risk materialises and, if the provisions formed prove to be insufficient, could jeopardise the attainability of the FFO I, EBT and NAV forecasts.

- Property transfer tax risks
  In the 2011 and 2012 financial years, TAG carried out several transactions to acquire real estate companies in corporate law structures that were intended to make the respective acquisition of shares exempt from property transfer tax. The acquisition of shares was carried out with the involvement of an intermediary partnership. At the time the transactions were carried out, the property transfer tax exemption on these transactions was derived from the legal provisions and jurisprudence published at that time, and from a proclamation issued on this by the tax administration, and was coordinated with the fiscal authorities in a number of cases.

  With a judgment of September 2017, published at the beginning of the 2018 financial year, the Federal Finance Court (BFH) had changed its legal opinion on the property transfer tax exemption for transactions with such corporate structures. Specifically, it dealt with the question of the property transfer tax attribution of shares held by intermediary partnerships. Due to the legal uncertainty engendered by the new BFH ruling, it cannot be ruled out that for certain acquisitions of shares made in the financial years 2011 and 2012, the risk of a retrospective property transfer tax burden exists – regardless of any possible protection provided by legitimate expectations based on the previous legal situation, and any statute of limitations that may have already become effective due to notifications to the tax authorities. As a result, a provision of EUR 8.5m was formed as of 31 December 2017 for transactions in the years 2011 and 2012 for which the timing of the limitation period could be in doubt. As of December 31, 2018, the provision for the transactions carried out in 2011 was reversed on a pro rata basis in the amount of EUR 6.2m due to the fact that the statute of limitations has now finally expired, so that a provision of EUR 2.3m for the transactions carried out in 2012 was still recognised as of the reporting date.

  Although the Company believes that the property transfer tax risks have been adequately covered by these provisions, it is possible that additional tax burdens could arise beyond the amount of the provision, due to the currently unclear legal situation and a currently unforeseeable practice of the tax authorities. This applies to transactions with a possible retroactive property tax burden of around EUR 20m. In these cases, TAG is of the opinion that the statute of limitations has now expired following notification of the transactions. However, as the occurrence of the limitation period has not yet been officially verified or established, an outflow of resources is not entirely unlikely.

  This real estate transfer tax risk is classified as medium overall. If the risk were to occur, there would be a corresponding outflow of liquidity. Moreover, the availability of the forecasts for EBT and NAV could be jeopardised if the provision formed turns out to be insufficient.

## Opportunities for future development

TAG's portfolio is spread across various locations where growth potential still exists and can be realised. Thanks to the Group's decentralised structure with its headquarters in Hamburg and key offices in the currently ten LIM regions, TAG can identify market trends at an early stage and address them more quickly than competitors are able to. A good variety of apartment sizes and micro-locations within the regions, along with modern, efficient tenant relationship management, enable a consistent generation of attractive returns and rising cashflows from the portfolio. Moreover, TAG group's core competency is active asset and property management, which in the past has been instrumental in reducing vacancies, thereby 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. The Group is financed long-term. 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.

Concrete opportunities for future development exist in particular if the current high demand for residential real estate in small and medium-sized cities and in the vicinity of large metropolises continues in the years to come. Given the positive demographic developments of late, including in many Eastern German cities, and the low number of new construction projects, the prospects for this are good. In our view, this will continue to contribute to rising rents and falling vacancy rates in the future.

With regard to the forecasts already presented, this means there is a chance that we may surpass the planned rental and vacancy values for the 2019 financial year, and thus also the FFO I and EBT. In addition, higher rents and continued low interest rates could have a positive impact on property valuation and thus on the planned NAV.

Real estate valuation effects and portfolio acquisitions are not taken into account in TAG's corporate planning. So valuation effects and portfolio acquisitions lead to chances that the forecasts will be exceeded.

## 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.

## 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 – the Accounting department at the Group's Hamburg headquarters bears the final responsibility.

All of the Group's key processes are defined and documented in a uniform process manual. These processes include preventive, monitoring and detection security and control measures. These would include measures such as IT-supported and manual approval processes, functional separation, access restrictions, and authorisation concepts in the IT landscape.

In the financial year under review as in the previous year, 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 derivative financial instruments, are also calculated with the assistance of external experts, as are pension provisions. The results of the expert opinions are analysed in-house and their quality assured before they are included in the financial statements.

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.

Within Group Accounting, the internal monitoring system is supplemented by a Quality Assurance department. It reviews the completeness and accuracy of information, e.g. in the preparation of quarterly and annual financial statements, the assessment of facts, and the performance of process and plausibility analyses.

Based on an audit plan, process-independent audits are continually carried out by the Internal Audit department, which reports directly to the Management Board. Internal Audit uses a systematic, purposeful approach to assess the effectiveness of the risk management system, and the management and monitoring system, including controls. In particular, its tasks include investigating, assessing and monitoring the adequacy and effectiveness of the internal monitoring system, including the accounting system.

## DISCLOSURES IN ACCORDANCE WITH SECTION 315A (1) 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 2018:

**Composition of share capital**

The Company's share capital stands at 146,498,765.00 as of the reporting date, unchanged from the previous year. As in the previous year, it is divided into 146,498,765 shares. 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 the currently 177,115 treasury shares (previous year: 60,000) that are earmarked for issue as employee shares and for long-term variable remuneration of the Management Board. 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 only one direct or indirect holding of more than 10% of its voting rights at the reporting date, based on reports submitted to it pursuant to the German Securities Trading Act (WpHG), i.e. that of the MFS Massachusetts Financial Services Company, Boston, USA. 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 has not exercised this power to date. 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 be 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 23 May 2018, 'Authorised Capital 2018' 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 29 m by issuing up to 29 m no-par value ordinary shares on a cash and/or non-cash basis, once or on repeated occasions, on or before 22 May 2023. The Management Board has not utilised this authorisation to date.

By resolution of the Annual General Meeting on 23 May 2018, the Conditional Capital 2017/I approved by the Annual General Meeting on 16 May 2017 was redefined as Conditional Capital 2018/I. The Management Board was authorised to conditionally increase the Company's share capital by up to EUR 29,000,000.00 by issuing up to 29,000,000 new shares. The conditional capital increase serves to grant shares to holders of convertible bonds and/or options that are issued by the Company or by a direct or indirect holding of the Company pursuant to the authorisations by the Annual General Meetings of 14 June 2013, 19 June 2015, 16 May 2017, and of 23 May 2018. In each case, the new shares shall be issued at a conversion or option price to be determined in accordance with the aforementioned authorising resolutions. The conditional capital increase shall only be carried out to the extent that use is made of conversion or option rights, or corresponding obligations are to be fulfilled, and unless other forms of fulfilment are used to service them.

The ordinary general meeting on 17 June 2016 issued a new authorisation to acquire treasury 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 16 June 2021. The Company may not utilise this authorisation for the purpose of trading in treasury shares. This authorisation may not be used by the Company for the purpose of trading in treasury shares. In addition to the usual, legally mandated use options, it also includes the authorisation to assign and transfer the shares to members of the Management Board as part of their variable remuneration.

The Company made use of this authorisation in financial years 2016 and 2017 and acquired a total of 177,115 TAG shares via the stock exchange. Reference is made here to the disclosures to be made in this regard, pursuant to Section 160 (1) No. 2 of the German Stock Corporation Act (AktG), which can be found in the Notes to the annual financial statements of TAG Immobilien AG prepared in accordance with the German Commercial Code (HGB).

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

TAG has lines of credit totalling EUR 16.5 m (previous year: EUR 16.5 m), 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 two corporate bonds totalling EUR 250 issued in June 2018 with maturities of five and seven 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 the case of the EUR 262.0 m convertible bond issued in September 2017, there are special conversion options, or adjustments to the conversion price for bondholders, in the event of a change of control.

The agreements made in connection with a transfer of 5.07% each (10.14% in total) of the shares in a subsidiary to two co-investors in the years 2016 and 2018 also stipulate provisions for a change of control in TAG's shareholder structure. In this case, the co-investor is entitled to rights of disposal and may terminate their investment in the subsidiary prematurely, with TAG liable for compensating for any losses in value.

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**

Apart from the special termination right of the Management Board members already mentioned in the previous paragraph, there are no compensation agreements that have been concluded with the members of the Management Board or employees in the event of a takeover bid.

## CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH SECTION 315D HGB (GERMAN COMMERCIAL CODE)

The Corporate Governance Statement in accordance with the provisions of Section 315d HGB, which is not part of this group management report, is posted on the TAG website at www.tag-ag.com under 'Investor Relations/Corporate Governance/Declaration of Corporate Governance'.

## REPORT ON THE COMPANY'S REMUNERATION SYSTEM IN ACCORDANCE WITH SECTION 315A (2) OF THE GERMAN COMMERCIAL CODE (REMUNERATION REPORT)

### Remuneration scheme for the Supervisory Board

For each full financial year of their membership on the Supervisory Board, members of the Supervisory Board receive fixed compensation in the amount of EUR 20,000.00 plus the premiums for appropriate D&O insurance. The Chairman's Deputy receives 1.5 times this fixed fee, and the Chairman of the Supervisory Board receives a fixed fee in the amount of TEUR 175 for each financial year.

In addition, members of the Audit Committee receive separate compensation. The Chair receives EUR 75,000.00, and each member, except the Chair of the Supervisory Board, receives TEUR 5. Unless the fees are waived as in the past, the members of the HR Committee receive an attendance fee of EUR 500.00 per meeting.

No variable remuneration based on the Company's success or other criteria is granted.

The remuneration paid to the Supervisory Board in the year under review came to TEUR 365 (previous year TEUR 365), plus expenses and VAT, and breaks down as follows:

| Supervisory Board Member | 2018 in TEUR | 2017 in TEUR |
|---|---|---|
| Rolf Elgeti | 175 | 175 |
| Lothar Lanz | 105 | 105 |
| Dr Philipp K. Wagner | 20 | 20 |
| Dr Hans-Jürgen Ahlbrecht | 10 | 25 |
| Prof Dr rer pol Kristin Wellner | 12 | 0 |
| Harald Kintzel | 23 | 20 |
| Marco Schellenberg | 20 | 20 |
| **Total** | **365** | **365** |

## Remuneration scheme for the Management Board

**Basic remuneration system**

The members of the TAG Management Board receive a basic remuneration that is not contingent on performance, as well as a variable remuneration, which is paid out partly in cash and partly in the form of TAG shares.

The non-performance-based remuneration takes the form of a fixed annual salary paid out in twelve equal monthly instalments. Some members of the Management Board use a company car, which is taxed accordingly as a non-cash benefit. The members of the Management Board also 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 contracts with the members of the Management Board do not provide for any pension entitlements. Some Management Board members still have pension entitlements from a time before they began to work for the TAG Group. While these are non-forfeitable, they do not entail any new claims since then.

Members of the 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 other companies in the Group. Variable remuneration is determined solely at TAG Immobilien AG level and charged to TAG Immobilien AG. All ancillary activities are subject to approval.

Upon the ordinary termination of office of any member of the Management Board, such member is entitled to payment of any part of the variable remuneration not yet paid out to them, or to any share-based compensation not yet allocated to them. 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 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. If the remaining term is shorter at the time of termination of the Management Board contract, the Management Board contracts contain provisions that provide either as a gross compensation the amount that is the gross salary for the remainder of the remaining term, or a gross settlement that is reduced pro rata temporis over the last 24 months based on a full gross annual salary. 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.

**Details of the variable remuneration**
The variable remuneration scheme in force since the 2018 financial year differentiates between the

- Short Term Incentive Plan (STIP), which is based on the development of financial KPIs and is intended as an immediately payable cash compensation, and the
- Long Term Incentive Plan (LTIP), which is assessed on total shareholder return (TSR, as the sum of the share price increase plus dividends paid in the given financial year) in a three-year period and is paid in TAG shares.

The STIP is determined on the basis of the following criteria:

- Increase in EPRA NAV per share in the financial year (after elimination of the dividend paid in the financial year); each EUR 0.01 increase in the NAV per share is multiplied by EUR 750.00)
- Increase in FFO I per share in the financial year (each EUR 0.01 increase in the FFO I per share is multiplied by EUR 7,500.00)
- Increase in EBT per share in the financial year, not taking into account the results from the revaluation of the investment properties and from the revaluation of derivative financial instruments into account (each EUR 0.01 increase in the EBT per share is multiplied by EUR 3,000.00)

The STIP cash remuneration is paid out in full following the Supervisory Board's resolution on the variable remuneration of the financial year in question, and is capped at TEUR 125 p. a. This is also the target figure for the STIP, which corresponds to an average increase of around 6.5% in the above criteria for determining the variable remuneration according to the STIP in a year-on-year comparison between 2017 and 2018.

The multi-year variable compensation (LTIP), on the other hand, is granted in TAG shares, the number of which is assessed based on the TSR over a three-year period. The TSR performance is assessed on the one hand based on the performance of the TAG share in a three-year period that begins anew each year, and on the other hand relative to the performance of a selected group of competitors (peer group) during this period.

The basis for calculating the share price performance is the volume-weighted average price (VWAP) of the TAG share over a period of two months prior to the reporting date of the financial year at the beginning and the end of a three-year period. To ensure that the valuation basis relates to the future, the target TSR for the three-year performance period is set at 30%:

- If the actual TSR corresponds to the target TSR, the LTIP amounts to TEUR 150 p. a.
- If the actual TSR is above or below the target TSR, the amount is calculated or adjusted linearly in accordance with the target TSR (an actual TSR of 20%, for example, results in an LTIP of 20/30 x TEUR 150 = TEUR 100).
- If the actual TSR is negative, the LTIP is TEUR 0.

The actual TSR is compared with the result of the peer group and, if the actual TSR is at least 2% better or 2% worse, this is taken into account by making allowances or deductions. If the actual TSR is better than the performance of the peer group, a supplement of 25% is applied, and in the case of a poorer performance a deduction of 25% is applied. The peer group is made up of listed real estate companies that, as portfolio holders, have substantial residential real estate in Germany. The peer group currently comprises the following companies: Vonovia SE, Deutsche Wohnen SE, LEG Immobilien AG, Grand City Properties S.A., ADO Properties S.A. and Adler Real Estate AG. The companies are weighted equally.

The variable share-based remuneration in the form of the LTIP is capped at TEUR 300 p.a. The assignment of the TAG shares that the Management Board is entitled to through the LTIP takes place after the end of the respective three-year period following the Supervisory Board's resolution of the variable remuneration. The basis for calculating the number of TAG shares to be transferred is the VWAP of the TAG share over a period of two months prior to the end of the respective financial year.

In principle, it is not possible to change the parameters relevant to variable remuneration. With regard to the STIP, the Supervisory Board can only change the weighting of the criteria in exceptional cases, if these criteria do not reflect the normal and actual performance of the company and the performance of all or individual criteria is based on causes that are neither foreseeable nor can lie within the area of responsibility of the Management Board members. In exceptional cases, the Supervisory Board may also resolve something different with regard to special situations and/or special performance of the individual Management Board member. The LTIP can only be amended in that the Supervisory Board can change the composition of the peer group if comparability no longer exists due to takeovers or changes in the business models, or if the companies relocate their focus abroad or if the inclusion of a competitor would no longer be appropriate or expedient for other reasons.

**Remuneration paid to the Management Board in the financial year under review**

Remuneration accruing to the Management Board in the year under review (benefits granted) came to TEUR 1,861 (previous year: TEUR 2,045). The amounts paid to the members of the Management Board in the year under review, some of which include remuneration earned in earlier years as well, amount to TEUR 2,132 (previous year: TEUR 1,814). The remuneration is distributed as follows among the individual members of the Management Board:

| in TEUR | Claudia Hoyer COO | | | | Martin Thiel CFO | | | | Dr Harboe Vaagt CLO | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 (Actual) | 2018 (Actual) | 2018 (Min.) | 2018 (Max.) | 2017 (Actual) | 2018 (Actual) | 2018 (Min.) | 2018 (Max.) | 2017 (Actual) | 2018 (Actual) | 2018 (Min.) | 2018 (Max.) |
| **Granted** | | | | | | | | | | | | |
| Fixed remuneration | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 |
| Ancillary benefits | 14 | 16 | 16 | 16 | 7 | 7 | 7 | 7 | 14 | 14 | 14 | 14 |
| **Total** | **434** | **436** | **436** | **436** | **427** | **427** | **427** | **427** | **434** | **434** | **434** | **434** |
| One-year variable remuneration | 75 | 125 | 0 | 125 | 75 | 125 | 0 | 125 | 75 | 125 | 0 | 125 |
| Multi-year variable remuneration | 175 | 63 | 0 | 300 | 175 | 63 | 0 | 300 | 175 | 63 | 0 | 300 |
| **Total** | **250** | **188** | **0** | **425** | **250** | **188** | **0** | **425** | **250** | **188** | **0** | **425** |
| **Total remuneration** | **684** | **624** | **436** | **861** | **677** | **615** | **427** | **852** | **684** | **622** | **434** | **859** |
| **Inflow** | | | | | | | | | | | | |
| Fixed remuneration | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 | 420 |
| Ancillary benefits | 14 | 16 | 16 | 16 | 7 | 7 | 7 | 7 | 14 | 13 | 13 | 13 |
| **Total** | **434** | **436** | **436** | **436** | **427** | **427** | **427** | **427** | **434** | **433** | **433** | **433** |
| One-year variable remuneration | 75 | 75 | 0 | 75 | 75 | 75 | 0 | 75 | 75 | 75 | 0 | 75 |
| Multi-year variable remuneration | 118 | 210 | 0 | 210 | 58 | 191 | 0 | 191 | 118 | 210 | 0 | 210 |
| **Total** | **193** | **285** | **0** | **285** | **133** | **266** | **0** | **266** | **193** | **285** | **0** | **285** |
| **Total remuneration** | **627** | **721** | **436** | **721** | **560** | **693** | **427** | **693** | **627** | **718** | **433** | **718** |

Hamburg, 19 February 2019

**Claudia Hoyer**
**COO**

**Martin Thiel**
**CFO**

**Dr Harboe Vaagt**
**CLO**

# CONSOLIDATED BALANCE SHEET

| Assets in TEUR | Notes | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | (1) | 4,666,673 | 4,166,008 |
| Intangible assets | (2) | 980 | 1,825 |
| Property, plant and equipment | (3) | 26,366 | 23,992 |
| Other financial assets | (4) | 8,162 | 6,537 |
| Deferred taxes | (5) | 69,952 | 45,434 |
| | | **4,772,133** | **4,243,796** |
| **Current assets** | | | |
| Property held as inventory | (6) | 52,296 | 48,149 |
| Other inventories | (6) | 253 | 318 |
| Trade receivables | (7) | 14,177 | 8,716 |
| Income tax receivables | (5) | 4,706 | 7,066 |
| Other current assets | (8) | 11,065 | 11,324 |
| Cash and cash equivalents | (9) | 91,718 | 263,669 |
| | | **174,215** | **339,242** |
| **Non-current assets held for sale** | (10) | **86,995** | **51,502** |
| | | **5,033,343** | **4,634,540** |

| Equity and liabilities in TEUR | Notes | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| **Equity** | (11) | | |
| Subscribed capital | | 146,322 | 146,439 |
| Share premium | | 773,417 | 779,689 |
| Other reserves | | 1,035 | -66 |
| Retained earnings | | 1,085,705 | 699,848 |
| Attributable to the equity holders of the parent company | | 2,006,479 | 1,625,910 |
| Attributable to non-controlling interests | | 41,847 | 20,738 |
| | | **2,048,326** | **1,646,648** |
| **Non-current liabilities** | | | |
| Liabilities to banks | (12) | 1,730,272 | 1,858,037 |
| Liabilities from corporate bonds | (12) | 248,771 | 124,930 |
| Liabilities from convertible bonds | (12) | 256,981 | 255,628 |
| Derivative financial instruments | (12) | 42,005 | 8,030 |
| Retirement benefit provisions | (13) | 5,505 | 5,942 |
| Other non-current liabilities | (14) | 10,850 | 6,648 |
| Deferred taxes | (5) | 433,456 | 358,910 |
| | | **2,727,840** | **2,618,125** |
| **Current liabilities** | | | |
| Liabilities to banks | (12) | 125,271 | 77,399 |
| Liabilities from corporate bonds | (12) | 36,992 | 197,291 |
| Liabilities from convertible bonds | (12) | 546 | 547 |
| Derivative financial instruments | (12) | 0 | 328 |
| Income tax liabilities | (5) | 6,800 | 7,805 |
| Other provisions | (14) | 31,913 | 37,117 |
| Trade payables | (15) | 14,093 | 7,794 |
| Other current liabilities | (16) | 41,563 | 41,486 |
| | | **257,178** | **369,767** |
| | | **5,033,344** | **4,634,540** |

# CONSOLIDATED INCOME STATEMENT

| in TEUR | Notes | 2018 | 2017 (adjusted*) |
|---|---|---|---|
| Rental income | | 400,362 | 399,279 |
| Impairment losses | | -4,072 | -5,777 |
| Rental expense | | -150,165 | -156,944 |
| **Net rental income** | (17) | 246,125 | 236,558 |
| Revenues from the sale of real estate | | 84,355 | 100,309 |
| Expenses on the sale of real estate | | -84,486 | -100,285 |
| **Sales result** | (18) | -131 | 24 |
| Revenues from services | | 44,760 | 34,082 |
| Impairment losses | | -369 | -394 |
| Expenses from property services | | -26,720 | 18,824 |
| **Services result** | (19) | 17,671 | 14,864 |
| Other operating income | (20) | 9,630 | 5,416 |
| Fair value changes in investment properties and valuation of properties held as inventory | (21) | 430,042 | 293,043 |
| thereof due to changes in expected transaction costs | | 0 | -256,660 |
| thereof due to changes in other input factors | | 430,042 | 549,703 |
| Personnel expense | (22) | -43,715 | -41,367 |
| Depreciation/amortisation | (2, 3) | -4,274 | -3,849 |
| Other operating expense | (23) | -17,112 | -25,787 |
| **EBIT** | | **638,236** | **478,902** |
| Net income from investments | (24) | 1,774 | 3,556 |
| Profit or loss from investments in associates | (24) | 0 | -7 |
| Impairments of financial assets | (24) | 0 | -945 |
| Interest income | (24) | 1,193 | 3,035 |
| Interest expense | (24) | -98,989 | -88,022 |
| **EBT** | | **542,214** | **396,519** |
| Income taxes | (6) | -54,005 | -82,845 |
| **Consolidated net income** | | **488,209** | **313,674** |
| attributable to non-controlling interests | (11) | 7,242 | 2,583 |
| attributable to equityholders of the parent company | | 480,967 | 311,091 |
| **Earnings per share (in EUR)** | (25) | | |
| Basic earnings per share | | 3.29 | 2.14 |
| Diluted earnings per share | | 3.13 | 2.08 |

*More details on the changes can be found in the section ‘New standards and interpretations’.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in TEUR | Notes | 2018 | 2017 |
|---|---|---|---|
| **Net income as shown in the income statement** | | **488,209** | **313,674** |
| Items that will later be classified as expense | | | |
| Unrealised gains and losses from hedge accounting | (11) | 166 | 700 |
| Deferred taxes on unrealised gains and losses | (5) | -54 | -149 |
| Other comprehensive income after taxes | | 112 | 551 |
| **Total comprehensive income** | | **488,321** | **314,225** |
| attributable to non-controlling interests | (11) | 7,242 | 2,583 |
| attributable to equity holders of the parent company | | 481,079 | 311,642 |

# CONSOLIDATED CASHFLOW STATEMENT

| in TEUR | Notes | 2018 | 2017 |
|---|---|---|---|
| Consolidated net income | | 488,209 | 313,674 |
| Net interest income/expense through profit and loss | (24) | 97,796 | 84,987 |
| Current income taxes through profit and loss | (5) | 4,031 | 3,056 |
| Depreciation/amortisation on intangible assets and property, plant and equipment | (2, 3, 4) | 4,274 | 4,794 |
| Profit or loss from investments in associates and other financial assets | (4) | -1,774 | -3,549 |
| Fair value changes in investment properties and valuation of properties held as inventory | (21) | -430,042 | -293,043 |
| Gains/losses from the disposal of investment properties | (1, 18) | -31 | 484 |
| Gains from the disposal of tangible and intangible assets | | 21 | 1 |
| Impairments accounts receivables | (17, 19) | 4,441 | 6,415 |
| Changes to deferred taxes | (5) | 49,975 | 79,788 |
| Changes in provisions | (14) | -5,641 | 15,406 |
| Interest received | | 449 | 283 |
| Interest paid | | -56,061 | -69,794 |
| Income tax payments | | -2,853 | -5,562 |
| Changes in receivables and other assets | | 848 | -8,190 |
| Changes in payables and other liabilities | | 5,980 | -4,277 |
| **Cashflow from operating activities** | | **159,622** | **124,473** |

| in TEUR | Notes | 2018 | 2017 |
|---|---|---|---|
| Payments received from the disposal of investment properties (less selling costs) | (1, 18) | 77,947 | 80,049 |
| Payments received from the disposal of minority interests | (1) | -81,374 | -37,207 |
| Payments made for the purchase of minority interests | (1) | -103,090 | -177,108 |
| Payments received from the disposal of intangible assets and property, plant and equipment | (2, 3) | 121 | 18 |
| Payments made for investments in intangible assets and property, plant and equipment | (2, 3) | -5,973 | -10,434 |
| Payments received from other financial assets | (4) | 652 | 3,796 |
| **Cashflow from investing activities** | | **-111,717** | **-140,886** |
| Purchase of treasury shares | (11) | -2,377 | 0 |
| Proceeds from the issuance of treasury shares (net, after costs) | (11) | 510 | 50,417 |
| Payments made for the purchase of minority interests | (11) | -22 | -569 |
| Payments received from the disposal of minority interests | (11) | 16,178 | 0 |
| Payments made for incentivised conversion of convertible bonds | (12) | 0 | 259,120 |
| Payments made for the repayment of corporate bonds | (12) | -340,397 | -125,444 |
| Proceeds from the issuance of corporate bonds | (12) | 298,633 | 0 |
| Dividends paid | (11) | -95,109 | -83,470 |
| Distribution to minority investors | (14) | -1,336 | -1,456 |
| Proceeds from new bank loans | (12) | 42,215 | 791,393 |
| Repayment of bank loans | (12) | -126,431 | -691,377 |
| **Cashflow from financing activities** | | **-208,136** | **198,614** |
| Net change in cash and cash equivalents | | -160,231 | 182,201 |
| Cash and cash equivalents at the beginning of the period | | 249,247 | 67,046 |
| **Cash and cash equivalents at the end of the period** | | **89,016** | **249,247** |

# STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

| in TEUR | Attributable to the parent's shareholders | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | | Other reserves | | | | | |
| | Subscribed capital | Share premium | Retained earnings | Hedge accounting reserve | Retained earnings | Total | | |
| **Amount on 01/01/2018 before first-time application of IFRS 9** | **146,439** | **779,689** | **46** | **-112** | **699,848** | **1,625,910** | **20,738** | **1,646,648** |
| First-time application of IFRS 9 | 0 | 0 | 989 | 0 | 0 | 989 | 4 | 993 |
| **Amount on 01/01/2018 after first-time application of IFRS 9** | **146,439** | **779,689** | **1,035** | **-112** | **699,848** | **1,626,899** | **20,742** | **1,647,641** |
| Consolidated net income | 0 | 0 | 0 | 0 | 480,967 | 480,967 | 7,242 | 488,209 |
| Other comprehensive income | 0 | 0 | 0 | 112 | 0 | 112 | 0 | 112 |
| Total comprehensive income | **0** | **0** | **0** | **112** | **480,967** | **481,079** | **7,242** | **488,321** |
| Colonia settlement offer | 0 | -710 | 0 | 0 | 0 | -710 | 0 | -710 |
| Purchase of treasury shares | -150 | -2,225 | 0 | 0 | 0 | -2,375 | 0 | -2,375 |
| Costs related to purchase of treasury shares | 0 | -2 | 0 | 0 | 0 | -2 | 0 | -2 |
| Issuance of treasury shares | 33 | 477 | 0 | 0 | 0 | 510 | 0 | 510 |
| Disposal of minority interests | 0 | -4,000 | 0 | 0 | 0 | -4,000 | 13,597 | 9,597 |
| Share-based compensation | 0 | 188 | 0 | 0 | 0 | 188 | 0 | 188 |
| Dividends paid | 0 | 0 | 0 | 0 | -95,109 | -95,109 | 0 | -95,109 |
| Change in non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 266 | 266 |
| **Amount on 12/31/2018** | **146,322** | **773,417** | **1,035** | **0** | **1,085,705** | **2,006,480** | **41,847** | **2,048,326** |
| **Amount on 01/01/2017** | **142,344** | **736,964** | **46** | **-663** | **472,227** | **1,350,918** | **14,650** | **1,365,568** |
| Consolidated net income | 0 | 0 | 0 | 0 | 311,091 | 311,091 | 2,583 | 313,674 |
| Other comprehensive income | 0 | 0 | 0 | 551 | 0 | 551 | 0 | 551 |
| **Total comprehensive income** | 0 | 0 | 0 | 551 | 311,091 | 311,642 | 2,583 | 314,225 |
| Colonia settlement offer | 0 | -756 | 0 | 0 | 0 | -756 | 0 | -756 |
| Issue of treasury shares | 4,095 | 47,012 | 0 | 0 | 0 | 51,107 | 0 | 51,107 |
| Costs related to issuance of treasury shares | 0 | -690 | 0 | 0 | 0 | -690 | 0 | -690 |
| Share-based compensation | 0 | 336 | 0 | 0 | 0 | 336 | 0 | 336 |
| Dividends paid | 0 | 0 | 0 | 0 | -83,470 | -83,470 | 0 | -83,470 |
| Initial consolidation of real estate asset companies | 0 | -3,177 | 0 | 0 | 0 | -3,177 | 3,505 | 328 |
| **Amount on 12/31/2017** | **146,439** | **779,689** | **46** | **-112** | **699,848** | **1,625,910** | **20,738** | **1,646,648** |

# CONSOLIDATED SEGMENT REPORT

| in TEUR | | Segment by LIM Region: Berlin | Chemnitz | Dresden | Erfurt | Gera | Hamburg | Leipzig | Rhine-Ruhr | Rostock | Salzgitter | Other activities | Consolidation | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Segment revenues (Rental income)** | **2018** | **38,230** | **23,659** | **27,597** | **36,951** | **31,654** | **30,476** | **36,815** | **18,819** | **21,585** | **33,821** | **3,654** | **-1,096** | **302,165** |
| | 2017 | 37,689 | 22,343 | 26,622 | 33,631 | 30,983 | 29,691 | 34,314 | 21,489 | 20,459 | 32,711 | 4,115 | -1,010 | 293,037 |
| **Segment expenses** | **2018** | **-11,672** | **-9,583** | **-5,310** | **-10,331** | **-7,823** | **-8,120** | **-7,998** | **-6,592** | **-5,009** | **-9,086** | **-796** | **211** | **-82,109** |
| | 2017 | -8,455 | -9,102 | -4,630 | -7,422 | -8,596 | -6,888 | -6,827 | -6,775 | -4,927 | -11,598 | -1,234 | 243 | -76,211 |
| Rental expenses | 2018 | -999 | -799 | -712 | -1,349 | -1,300 | -1,179 | -1,062 | -1,103 | -553 | -587 | -601 | -116 | -10,360 |
| | 2017 | -1,246 | -884 | -849 | -1,457 | -1,758 | -1,215 | -1,184 | -1,487 | -646 | -1,279 | -741 | -178 | -12,924 |
| Investment costs | 2018 | -10,669 | -8,696 | -4,524 | -8,459 | -6,282 | -6,871 | -6,648 | -5,007 | -4,242 | -8,019 | -170 | 328 | -69,259 |
| | 2017 | -6,836 | -7,985 | -3,674 | -5,541 | -6,370 | -4,953 | -5,548 | -4,491 | -3,851 | -9,682 | -187 | 592 | -58,526 |
| Impairment losses on receivables | 2018 | -242 | -177 | -136 | -637 | -331 | -422 | -391 | -764 | -323 | -575 | -74 | 0 | -4,072 |
| | 2017 | -605 | -381 | -230 | -543 | -558 | -969 | -248 | -993 | -540 | -1,028 | -321 | 0 | -6,416 |
| Other income / expenses | 2018 | 238 | 89 | 62 | 114 | 90 | 352 | 103 | 282 | 109 | 95 | 49 | -1 | 1,582 |
| | 2017 | 232 | 148 | 123 | 119 | 90 | 249 | 153 | 196 | 110 | 391 | 15 | -171 | 1,655 |
| **Segment results I** | **2018** | **26,558** | **14,076** | **22,287** | **26,620** | **23,831** | **22,356** | **28,817** | **12,227** | **16,576** | **24,735** | **2,858** | **-885** | **220,056** |
| | 2017 | 29,234 | 13,241 | 21,992 | 26,209 | 22,387 | 22,803 | 27,487 | 14,714 | 15,532 | 21,113 | 2,881 | -767 | 216,826 |
| Personnel expenses (LIM region) | 2018 | -1,917 | -1,616 | -1,130 | -1,448 | -2,497 | -1,466 | -1,884 | -901 | -1,193 | -1,956 | -413 | 0 | -16,421 |
| | 2017 | -2,111 | -1,515 | -1,127 | -1,432 | -2,403 | -1,383 | -1,875 | -837 | -1,187 | -2,029 | -476 | 0 | -16,375 |
| Other operating expenses (LIM region) | 2018 | -309 | -296 | -173 | -381 | -276 | -271 | -269 | -333 | -234 | -738 | -213 | 1,070 | -2,423 |
| | 2017 | -395 | -288 | -217 | -379 | -306 | -281 | -287 | -283 | -232 | -537 | -214 | 981 | -2,438 |
| **Segment results II** | **2018** | **24,332** | **12,164** | **20,984** | **24,791** | **21,058** | **20,619** | **26,664** | **10,993** | **15,149** | **22,041** | **2,232** | **185** | **201,212** |
| | 2017 | 26,728 | 11,438 | 20,648 | 24,398 | 19,678 | 21,139 | 25,325 | 13,594 | 14,113 | 18,547 | 2,191 | 214 | 198,013 |
| **Segment assets** | **2018** | **695,787** | **322,265** | **479,368** | **591,562** | **412,083** | **512,493** | **541,246** | **290,283** | **402,879** | **498,021** | **69,507** | | **4,815,494** |
| | 2017 | 612,435 | 290,069 | 437,307 | 519,492 | 393,544 | 452,673 | 478,287 | 283,127 | 291,585 | 449,201 | 67,719 | 0 | 4,275,439 |

This Group segment report is an integral part of the notes.

# 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 2018 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 315e (1) of the German Commercial Code were observed.

TAG is a real estate company that concentrates on the German residential real estate market. The Group's real estate assets are spread over various locations in Northern and Eastern Germany as well as North Rhine-Westphalia. As of 31 December 2018, TAG had around 84,400 (previous year: ca 83,100) residential units under management. The Company is registered with the Local Court of Hamburg under HRB 106718 and has registered offices at Steckelhörn 5, 20457 Hamburg, Germany.

The financial year of the parent company and the consolidated subsidiaries 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 type of expenditure method. EBIT is defined as earnings before interest, taxes and other net cost of debt. EBT is defined as earnings before income taxes.

TAG's consolidated financial statements and the group management report were prepared by the Management Board and released for publication on 19 February 2019 subject to approval by the Supervisory Board.

### CONSOLIDATION

As of 31 December 2018, a total of 76 (previous year: 73) companies are fully consolidated and included in the consolidated financial statements. The changes result from the acquisition of two new real estate asset companies, the incorporation of one entity and the first-time consolidation of a further entity that had previously not been consolidated for materiality reasons. On the other hand, one entity was deconsolidated due to liquidation.

The list of shareholdings is attached to the notes to the consolidated financial statements and forms an integral part of these. Companies that apply the exemptions provided for in Section 264 (3) of the German Commercial Code are duly designated in the list of shareholdings.

The consolidated financial statements include the parent company's financial statements and those of the subsidiaries which it controls. The parent company is particularly deemed to exercise control if

- it controls the subsidiary,
- is exposed, or has rights, to variable returns from its involvement, and
- has the ability to affect those returns through its power over the subsidiary.

In addition to holding a majority of the voting rights, the parent company is deemed to exert control if it has the practical possibility of exerting material influence on the subsidiary. These enterprises are included in the consolidated financial statements from the date on which the TAG Group 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 classified 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 valued 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 which are previously or subsequently consolidated in full (business combination or sale without any change of status), the differences between the purchase price and the book value of the assets acquired or sold are recognised directly in equity.

The purchase and sale of real estate asset companies which do not engage in any business as defined in IFRS 3 are 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 real estate asset companies does not give rise to any differences.

Income and expenses as well as receivables and liabilities between fully consolidated companies are eliminated. Intercompany transactions not realised by a sale to or the provision of services for 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.

If a guaranteed dividend is agreed upon for a non-terminable minimum contractual period, the present value of the future payments is recognised as a liability and the non-controlling interests reduced accordingly.

If the holders of the non-controlling interests are offered a put right under a settlement offer, these claims are recognised as financial liabilities and the non-controlling interests derecognised. If the options are not exercised during the prescribed period, the liabilities are reclassified as non-controlling interests within equity.

## PRESENTATION CHANGES IN THE CONSOLIDATED INCOME STATEMENT

The changes in the presentation of the consolidated income statement compared with the previous year are described in the section entitled ‘New standards and interpretations – IFRS 9: Financial instruments, IFRS 15: Revenue from Contracts with Customers’.

## RECOGNITION AND VALUATION PRINCIPLES

### Principles

These financial statements are based on the going-concern principle. Amounts are for the most part valued at amortised cost. This does not apply to investment properties, non-current assets held for sale and hedges, all of which are recognised at their fair value.

### Investment properties

Depending on its intended use, TAG initially recognises real estate assets as investment properties, inventory properties or owner-occupied properties. Real estate assets held under operating leases in which the Group is the lessee are classified and accounted for as investment properties.

Investment properties include the Group’s real estate assets which are held to earn rental income and/or for capital appreciation and are not used by the Group itself for operating purposes or sold in the ordinary course of business. Real estate that is sold in the ordinary course of business is allocated to inventories and real estate used by the Group itself to property, plant and equipment.

Details of the investment properties that are classified as held for sale in later years following initial recognition can be found further down in the section entitled ‘Non-current assets held for sale and related liabilities’.

Investment properties are initially recognised at cost including transaction costs. They are subsequently valued 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, conversion or modernisation costs that contribute to an increase in the fair value of the property.

Valuation reports as of 30 June and 31 December of each year are prepared for the investment properties held.

### 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 owner-occupied real estate. The depreciation methods and useful lives are reviewed at the end of each financial year and adjusted if necessary.

The book value of property, plant and equipment are reviewed for any impairment upon any evidence arising indicating that the carrying values exceed the recoverable values. Impairment losses on real estate are identified using external valuation reports, which are prepared on the basis of the discounted cashflow method. Impairments of property, plant and equipment are recorded in the income statement within amortisation and depreciation expense.

## Financial assets

**(i) Accounting policies up until 31 December 2017**
Non-derivative financial assets in accordance with IAS 39 were classified as

- loans and receivables or
- available-for-sale financial assets.

Trade receivables were recognised from the date on which they arose. All other financial assets and liabilities were initially recognised on the trading day where the Company became party to the contract under the terms governing the instrument in question.

They were initially recognised at their fair value. The Group determined the classification of its financial assets upon initial recognition. A financial asset was derecognised if the contractual rights to draw on the cashflows from it 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 were classified as loans and receivables. Loans and receivables were financial assets with fixed or determinable payments which are not traded in an active market After initial recognition, they were valued using the effective interest method at amortised cost net of any impairment. Receivables were impaired if there was substantial objective evidence that the Group would not be able to recover them. This was chiefly determined by reference to the age structure of the assets.

Available-for-sale financial assets chiefly comprised investments in associates which were not allocated to any other category. After initial recognition, they were valued at their fair value provided that this could be reliably determined, with any gains or losses recorded directly in other comprehensive income and in a separate item within equity. If it was not possible to reliably determine their fair value, they were recognised at historical cost. When the asset was sold or if it was found to be impaired, the amount previously carried under equity was recycled to the income statement. Impairments of assets valued at fair value were reversed if the reasons for such impairment no longer applied. As was the case with the preceding impairments, the reversals were recorded directly in equity.

**(ii) Accounting policies from 1 January 2018**

a. Classification

Financial assets within the meaning of IFRS 9 are classified in the light of the business model under which the asset in question is held and the characteristics of their cashflows:

- at amortised cost
- at fair value through profit and loss
- at fair value through other comprehensive income

The Group determines the classification of its financial assets upon initial recognition. Reclassification is only possible in the event of a change to the business model.

Debt instruments held by TAG are valued at amortised cost if the Company intends to hold them and to realise the fixed cashflows, which may only contain interest and principle components. In TAG's case, this applies to trade receivables, other current assets and cash and cash equivalents.

Upon initial recognition, the Group may irrevocably decide to recognise at fair value through profit and loss those financial assets that otherwise satisfy the conditions for recognition at amortised cost if this helps to eliminate or significantly reduce any accounting mismatches. TAG does not make use of this option.

Equity instruments not held for trading purposes are recognised at fair value through profit and loss. Alternatively, there is an irrevocable option, the merits of which must be assessed on a case-by-case basis, to recognise these instruments at fair value through other comprehensive income upon initial recognition. In this case, the cumulative changes in fair value remain within equity permanently and are not recycled to profit and loss. TAG does not make use of this option as well.

As far as TAG is concerned, this relates to non-controlling interests in non-listed real estate asset companies reported as other financial assets as well as investment funds for which there is no specific intention to sell. Any changes in the value of these instruments including dividends or interest received from them are also reported in the share of profit of associates. Derivative financial instruments are recognised at fair value through profit and loss. The fair value is calculated using established valuation models on the basis of observable market inputs. The changes in the fair value of these derivatives are also recognised in the income statement.

b. Initial recognition

Trade receivables are recognised from the date on which they arise. All other financial assets and liabilities are initially recognised on the trading day where the Company becomes party to the contract under the terms governing the instrument in question.

Financial assets are normally initially recognised at their fair value. If they are recognised at amortised cost or at fair value through other comprehensive income, transaction costs are additionally included. However, trade receivables without any material financing component are initially recognised at their transaction price.

c. Derecognition

A financial asset is derecognised if the contractual rights to draw on the cashflows from it have expired or if these including all material opportunities and risks are transferred.

d. Impairments

The Group recognises impairments for expected credit losses on financial assets valued at amortised cost.

These impairments normally equal the amount of the expected credit losses over the term of the instrument in question. However, impairments equalling the expected 12-month credit loss are recognised if there has been no significant increase in the credit loss since initial recognition. Impairments of trade receivables always equal the expected credit loss over their respective term.

Expected credit losses over the term of the instrument are expected credit losses resulting from all possible loss events during the expected term of the instrument. 12-month credit losses are the portion of expected credit losses that result from loss events occurring within twelve months (or, if shorter, the term of the instrument) after the reporting date.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and in estimating expected credit losses, the Group considers appropriate and reliable information that is relevant and available without undue expense of time and money. This includes both quantitative and qualitative information and analyses based on the Group's past experience and sound estimates, including forward-looking information.

## Properties held as inventories and other inventories

Properties held as inventories include real estate assets that are intended for sale under normal business activities or that are under construction or development as of the acquisition date. If the intention to sell is abandoned, the land is reclassified as investment properties.

Properties held as inventories and other inventories are reported at the lower of cost or net realisable value. Cost includes the costs directly attributable to the development process of the real estate. Cost of debt in connection with the acquisition or construction of land are capitalised provided that the applicable conditions for this are satisfied. 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.

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

Income tax refund claims and income tax liabilities are recognised at the amount expected to be paid or recovered from the taxation authorities

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. 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.

Current and deferred income tax assets and liabilities are valued using tax rates and laws that, based on information available at the reporting date, are expected to apply in the period in which the asset is realised or the liability settled.

## Cash and cash equivalents

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

## Non-current assets held for sale and related liabilities

Investment properties are classified as held for sale if TAG makes a decision to sell the real estate asset in question and this asset 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 valued at their fair value.

Other non-current assets or groups of available-for-sale assets are designated as available for sale if the book value is predominantly recovered via a sales transaction rather than through continuing use, the asset is available for immediate sale and a sale can consider to be highly probable. They are recognised at the lower of their previous book value and fair value net of the cost of disposal.

Non-current assets held for sale and related liabilities are reported separately within the balance sheet.

## Differentiation of equity capital

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

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

The convertible bond issued by TAG does not contain any equity component due to the cash settlement option held by TAG. Instead, the conversion right existing alongside the underlying instrument is separated as an embedded derivative and recognised as a financial liability at fair value through profit and loss.

## Financial liabilities

**(i) Accounting policies up until 31 December 2017**
When liabilities were initially recognised, they were valued at the fair value of the consideration given net of transaction costs on the trading day in accordance with IAS 39. After initial recognition, they were valued at amortised cost using the effective interest rate method. Financial liabilities were derecognised when the contractual obligations underlying them were settled, suspended, cancelled or expired.

Derivatives with a hedge relationship were 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 was recorded in equity within a hedge accounting reserve taking account of the effects of deferred income taxes. The hedge related to the floating rates on the loans raised. The profit or loss attributable to the ineffective part was recognised through profit and loss. The prospective or retrospective effectiveness was valued using the dollar-offset method or by means of a sensitivity analysis.

Derivatives with no hedging relationship were classified as held for trading and initially recognised at their fair value on the trading day. The fair value was calculated using established valuation models on the basis of observable market inputs. The change in the fair value of these derivatives was also recognised in the income statement.

**(ii) Accounting policies from 1 January 2018**
Financial liabilities within the meaning of IFRS 9 are valued at amortised cost or at fair value through profit and loss. Financial liabilities held for trading and derivatives as well as other interests for which the corresponding option is exercised are recognised at fair value through profit and loss. TAG only assigns derivative financial instruments to this category. All other financial assets are initially recognised at amortised cost and valued using the effective interest method.

Financial liabilities are initially recognised on the trading date at their fair value. If they are recognised at amortised cost, transaction costs are additionally included. Financial liabilities are derecognised when the contractual obligations underlying them are settled or suspended, cancelled or expire. They are also derecognised and replaced with a new liability if there is any significant change in the contractual cashflows as a result of a modification of the liability.

**(iii) Accounting policies – unchanged**
The interest rate hedges outstanding as of 31 December 2018 were dissolved in the first half of 2019. The guidance in IAS 39 relating to hedged derivatives was again applied to these instruments.

In the case of compound financial instruments, an embedded derivative must be separated from its host contract if its economic characteristics and risks are not closely linked to those of the host contract, if a comparable separate instrument would match the definition of a derivative and if the compound instrument is not valued at fair value through profit and loss. If an embedded derivative is separated, the components are recognised and valued separately in accordance with the applicable guidance.

## Retirement benefit provisions

In the past, the Group had extensive defined benefit plans for former members of the Management Board and employees at individual subsidiaries as well as their family members. These are now only available to a small number of employees. 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. A non-nettable reimbursement claim is reported within other assets.

Any additions or reversals are recognised through equity if the reimbursement claim changes accordingly. Any additional effects are included within net interest income/expense.

## Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation is possible despite uncertainty as to the amount or timing. Other provisions are recognised at the amount which can reasonably be assumed to be payable to settle the present obligation on the reporting date or, in the event of the transfer of the obligation to a third party, on the date of transfer. Provisions due for settlement in more than one year are discounted in the case of a material interest effect.

## Contingent liabilities

Contingent liabilities include possible obligations based on past events, which will only be substantiated by future events or for which an outflow of resources is not probable or the amount cannot be estimated with sufficient reliability. Contingent liabilities are not recognised in the balance sheet.

## Leases

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

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

Operating leases for land and buildings in the form of hereditary building rights in which the Group is the lessee are classified as financial investments and accounted for as finance leases. They are recognised within investment properties and include the corresponding lease liabilities.

Lease payments under individual operating leases in which the Group is the lessee are recognised at the end of the current year as an expense in the income statement on a straight-line basis over the term of the lease. More details on the changes arising from the first-time application of the standard as of 1 January 2019 can be found in the section entitled 'New standards and interpretations - IFRS 16: Leases'.

## Revenue recognition

The Group recognises income from rental leases on a straight-line basis in accordance with IFRS 16 over the term of the lease as well as income received from rechargeable incidental costs which in accordance with IFRS 15 are recognised over the period in which the service is performed, i.e. mostly the date on which the expense in question is recognised. In addition, the tenant is required to reimburse such incidental costs as land tax and building insurance which are not based on any services provided by TAG.

The overall remuneration including reimbursements for land tax and building insurance is broken down into individual components on the basis of the relevant stand-alone selling prices, which primarily equal the nominal values of the rent and the ancillary costs.

The tenants pay TAG advances towards the utility costs regardless of the actual period of performance. The rechargeable ancillary costs and advance payments received for a given period, which mostly equals the calendar year, are duly settled in the following year.

Further income from the provision of services is reported in the period in which the service in question is provided.

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).

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.

## Share-based payments

**(i) Management Board**

As of 2018, TAG's Management Board receives variable remuneration in the form of TAG shares under a long-term incentive plan (LTIP) based on total shareholder return (TSR, the sum of the increase in the share price plus dividends paid in the respective year) over a three-year period.

The basis for calculating the share price performance is the volume-weighted average price (VWAP) of TAG shares over a period of two months prior to the end of year at the beginning and at the end of a three-year period. If the target TSR of 30% is achieved, the variable remuneration amounts to TEUR 150 p.a.; in the event of any variation, a proportional adjustment is made. In addition, a comparison is made with a peer group consisting of listed real estate companies that hold substantial residential real estate assets in Germany. If the actual TSR is at least 2% better or worse than the corresponding peer group, an additional premium/discount of 25% on the variable remuneration is included.

The variable remuneration is capped at TEUR 300 p.a. The remuneration is paid in the form of TAG treasury shares previously acquired by the Company on the market. The basis for calculating the number of TAG shares to be transferred is the VWAP of the TAG share over a period of two months prior to the end of the respective year. No lock-down periods apply to the resale of the shares granted.

This variable remuneration component is valued at its fair value on 1 January of each year. The values have been determined by an independent expert on the basis of a Monte Carlo simulation. The resultant personnel expenses are recorded directly as an addition to the share premium and distributed on a straight-line basis over the vesting period, which equals the year in question.

No TAG shares were transferred under the LTIP in the year under review. The personnel expenses from the LTIP recognised in the income statement came to a total of TEUR 188 for all members of the Management Board in 2018.

**(ii) Staff participation programme**
As of 2018, all employees in the TAG Group have the opportunity of acquiring TAG shares at a preferential price once a year. These shares are previously acquired by the Company from the market as treasury stock. The discount on the share price offered to the employees is fixed at the beginning of the year, likewise on the basis of the volume-weighted average price (VWAP) of TAG shares over a period of two months prior to the end of the financial year. Certain caps apply to the shares which the employees may acquire on preferential terms. After acquisition, the shares may not be sold or encumbered for a period of three years unless the employment contract with the employee concerned expires at an earlier date.

The benefit granted to employees from the purchase of the discounted shares is also recognised at fair value. The resultant personnel expenses of TEUR 104 are recorded in full as an addition to the share premium. A total of 32,885 TAG shares have been transferred to employees.

## NEW STANDARDS AND INTERPRETATIONS

### First-time adoption of new standards in 2018

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 | Index |
|---|---|
| IFRS 9 | Financial instruments |
| IFRS 15 | Revenue from contracts with customers |
| Clarifications of IFRS 15 | Revenue from contracts with customers |
| Amendments to IFRS 2 | Share-based payment |
| Amendments to IFRS 4 | Financial instruments and insurance contracts |
| Amendments to IAS 40 | Transfers of investment property |
| IFRS improvement cycle 2014–2016 | Amendments to and clarifications of IFRS 1 and IAS 28 |
| IFRIC 22 | Foreign-currency transactions |

The amendments to IFRS 2 clarify the valuation of cash-settled share-based payment transactions, the accounting treatment of modifications to share-based payment transactions and the recognition of taxes on net-settled share-based payment transactions.

The amendments to IFRS 4 provide solutions for the accounting consequences of the divergence between the dates of initial application of IFRS 9 and IFRS 17 and are therefore only relevant for insurance companies.

The amendments to IAS 40 clarify that transfers to or from the investment property portfolio must be triggered by a change in the use of the property.

The improvements to IFRS 2014-2016 include the deletion of transitional provisions in IFRS 1 that are no longer relevant and amendments to IAS 28 according to which, under specific circumstances, investments in associates or joint ventures may be optionally valued at fair value through profit or loss.

IFRIC 22 deals with the translation of foreign currency transactions in the case of advance payments made or received.

TAG applied the new IFRS 9 and IFRS 15 standards for the first time from 1 January 2018. The effects are described in the following sections. Announcements and amendments to existing standards did not have any material impact.

## IFRS 9: Financial Instruments

The Group applied IFRS 9 for the first time from 1 January 2018. The modified retrospective method was applied to account for the transition effects in connection with IFRS 9. Under this method, comparison information with the exception of impairments of trade receivables, which are presented separately, is not adjusted and the transition effects identified retrospectively are recorded directly in equity from 1 January 2018.

The standard provides guidance on the recognition and valuation of financial assets, financial liabilities and some contracts for the sale or purchase of non-financial items. It replaces IAS 39 Financial Instruments: Recognition and valuation.

As a result of the adoption of IFRS 9, the Group has implemented amendments to IAS 1: Presentation of Financial Statements, which require an impairment loss on financial assets net of income from impaired receivables to be presented in a separate line item in the income statement. In 2017, the Group had recognised impairments of trade receivables of TEUR 6,415 within rental expenses; income of TEUR 244 from impaired receivables was recorded as other operating income. These items are now recognised as impairment expense within net rental income (TEUR 5,777) and within net income from services (TEUR 394).

In addition, the Group applied amendments to IFRS 7 Financial Instruments: Disclosures in the notes to the consolidated financial statements for 2018. However, these generally did not apply to the comparison information.

Under IFRS 9, financial assets are classified on the basis of the business model applied by the Company to manage them and the characteristics of the contractual cashflows. IFRS 9 defines three important categories for financial assets: amortised cost (AmC), fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). The standard eliminates the previous IAS 39 categories 'held to maturity', 'loans and receivables', 'available for sale' and 'held for trading'. Under IFRS 9, derivatives embedded in contracts where the underlying financial asset is within the scope of the standard are never accounted for separately. Instead, the hybrid financial instrument as a whole is assessed to determine the appropriate classification.

IFRS 9 largely retains the existing guidance of IAS 39 for the classification of financial liabilities.

Details of how the Group classifies and measures financial instruments and the related profit and loss under IFRS 9 can be found in the section entitled 'Individual recognition and valuation principles – financial assets and financial liabilities'.

The following table compares the original valuation category in accordance with IAS 39 with the new one in accordance with IFRS 9 from 1 January 2018 for all classes of financial assets and financial liabilities designated by the Group.

| | 01/01/2018 | | 12/31/2017 | |
|---|---|---|---|---|
| in TEUR | IFRS 9 Category | Book value | IAS 39 Category | Book value |
| **Assets** | | | | |
| Other financial assets | FVTPL | 7,581 | AfS | 6,537 |
| Trade receivables | AmC | 8,665 | LaR | 8,716 |
| Other current assets | AmC | 11,324 | LaR | 11,324 |
| Cash and cash equivalents | AmC | 263,669 | LaR | 263,669 |
| **Equity and Liabilities** | | | | |
| Liabilities to banks | AmC | 1,935,436 | AmC | 1,935,436 |
| Liabilities from corporate bonds | AmC | 322,221 | AmC | 322,221 |
| Liabilities from convertible bonds | AmC | 256,175 | AmC | 256,175 |
| Derivative financial instruments with hedging relationship | n/a | 195 | n/a | 195 |
| Derivative financial instruments with no hedging relationship | FVTPL | 8,163 | HfT | 8,163 |
| Other non-current liabilities | AmC | 6,648 | AmC | 6,648 |
| Trade payables | AmC | 7,794 | AmC | 7,794 |
| Other current liabilities | AmC | 41,486 | AmC | 41,486 |

In the past, TAG valued various equity instruments at amortised cost in cases in which no listed price was available on an active market and the fair value could not be reliably valued. The first-time recognition of these instruments at fair value through profit and loss resulted in a gain of TEUR 1,044 (before income tax effects) as of 1 January 2018 which was recognised in retaining earnings.

Impairments of financial assets are valued using the expected-loss model and no longer on the basis of the incurred-loss model. This will give rise to two valuation levels:

- Lifetime expected credit losses: expected credit losses due to possible default events occurring during the lifetime of a financial instrument.
- 12-month credit losses: expected credit losses due to possible loss events within the next twelve months after the reporting date.

Valuation on the basis of lifetime expected credit losses is applied if there has been a significant increase in credit risk since initial recognition; otherwise, the 12-month credit loss concept is applied. However, the lifetime expected credit loss concept should always be used for trade receivables and contractual assets with no material financing component. This resulted in an additional impairment (before income tax effects) of around TEUR 51 as of 1 January 2018, which was recognised through equity within retained earnings. This adjustment affected solely trade receivables. No additional impairments were necessary for the other financial assets.

The first-time adoption of IFRS 9 did not have any impact on the Group's accounting policies for financial liabilities and derivative financial instruments.

## IFRS 15: Revenue from Contracts with Customers

The Group applied IFRS 15 for the first time from 1 January 2018. The retrospective method was used to account for transition effects in connection with IFRS 15. As a result, the comparison information for 2017 has been restated.

IFRS 15 provides a broad framework for determining if, in what amount and when revenues are recognised. It replaces the existing guidance on recognising revenues, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Under IFRS 15, revenue is recognised when a customer obtains control of goods or services.

Income from rental business includes rental activities, which comprise lease components and are recognised as revenue over the period of the lease, as well as non-lease components, i.e. activities which are invoiced as ancillary costs.

It is necessary to draw a distinction on the basis of whether the services recognised as ancillary costs arise from the originated provision of services as the principal or are sourced as an agent from a third party.

To date, the principal/agency distinction has been made on the basis of the opportunities and risks arising from the provision of the services in accordance with IAS 18. Previously, the ancillary costs were reported net under rental expenses.

Under IFRS 15, however, it is now necessary to determine whether a party had control over the services prior to transfer to the customer. Indicators for this assessment, which must be viewed in their entirety and are not cumulative, include the primary responsibility for performance of the service, the potential inventory risk of not being able to recharge the costs and the power to set the price of the service.

All activities invoiced as ancillary costs are recognised using the principal method and presented in the income statement, where they are not netted with the corresponding income. Revenue is recognised upon the performance of the activity. Recharged external services are reported within rental revenues; activities provided by Group companies are reported within net service income.

Under IFRS 15, land tax and building insurance do not constitute separately identifiable performance obligations offering the tenant a distinct benefit. With these contractual components, the agreed consideration is allocated to the other identified components of the contract on the basis of their relative stand-alone selling prices.

Categorisation of revenue from contracts with customers within the meaning of IFRS 15 is derived from the disclosures concerning net rental income and net income from services.

The first-time application of IFRS 15 did not result in any differences in the timing or the amount of revenue recognised. Consequently, it did not have any impact on any of the line items of the balance sheet as of 1 January 2017 and 2018. Moreover, there was no impact on consolidated net profit in 2017 or 2018 as it merely involved a change of presentation.

To facilitate a comparison with the figures for the previous period, the retrospective method was chosen for initial recognition and the presentation for the previous year adjusted accordingly. This resulted in the following changes to rental revenue and expenses as well as revenue from the provision of services:

| in TEUR | Previous presentation | Adjustment | New presentation |
|---|---|---|---|
| Rental income | 293,037 | 106,242 | 399,279 |
| Change due to adoption of IFRS 9 (IAS 1: Impairments) | 0 | -5,777 | -5,777 |
| Rental expense | -57,117 | -99,827 | -156,944 |
| **Net rental income** | **235,920** | **638** | **236,558** |
| Revenues from services 2017 | 33,098 | 984 | 34,082 |
| Change due to adoption of IFRS 9 (IAS 1: Impairments) | 0 | -394 | -394 |
| Expenses from property services 2017 | -17,840 | -984 | -18,824 |
| **Services result** | **15,258** | **-394** | **14,864** |
| **Other operating income** | **5,660** | **-244** | **5,416** |

Further details of the composition of income and expenses can also be found in the notes to the income statement.

The section entitled 'Individual recognition and valuation principles' provides further information on the accounting policies applied by the Group in connection with revenue recognition.

## New standards not yet applied

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

| Standard | Index | First-time application |
|---|---|---|
| **Endorsed by the EU** | | |
| IFRS 16 | Leases | 01/01/2019 |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement | 01/01/2019 |
| Amendments to IAS 28 | Investments in associates and joint ventures | 01/01/2019 |
| IFRIC 23 | Uncertainty over income tax treatments | 01/01/2019 |
| **EU endorsement pending** | | |
| Amendments to IFRS 9 | Financial instruments: Prepayment Features with Negative Compensation | 01/01/2019 |
| IFRS improvement cycle 2015-2017 | Amendments to and clarification of IFRS 13, IFRS 11, IAS 12 and IAS 23 | 01/01/2019 |
| Amendments to IFRS 3 | Business Combinations: Definition of a Business | 01/01/2020 |
| Amendments to IAS 1 and IAS 8 | Definition of Material | 01/01/2020 |
| Amendments to the IFRS framework | | 01/01/2020 |
| IFRS 17 | Insurance Contracts | 01/01/2021 |
| Amendments to IFRS 10 and IAS 28 | Sale or Contributions of Assets Between an Investor and its Associate/Joint Venture | pending |

The Company does not plan to early adopt any of these new standards.

The effects of the future application of IFRS 16 have been reviewed by the Company and are described below. No material impact arises from other standards applicable from 1 January 2019. The effects of other amendments to the standards applicable from a later date are currently being reviewed.

## IFRS 16: Leases

The Group has assessed the effects of the first-time application of IFRS 16 on the consolidated financial statements as presented below. The actual effects of the application of this standard from 1 January 2019 may differ as the Group has not yet fully completed testing and evaluation of the controls in its new IT systems. Similarly, the new accounting policies may be subject to change prior to the first consolidated financial statements published after the date of first-time adoption.

IFRS 16 provides revised guidance on the recognition, management and presentation of leases as well as the disclosure duties. There are no major changes for lessors, i.e. the lessor continues to make the financing/operating lease distinction in accounting for leases. However, lessees must now recognise all assets and liabilities under leases. An exception may be utilised in the case of short-term or minor-value leases.

At the beginning of the lease, a right to utilise the asset and a matching liability equalling the present value of all relevant lease payments are recognised. Whereas the right to utilise the asset is systematically depreciated, the lease liability is adjusted on the basis of financial mathematics methods. If a right to utilise investment properties is involved, it continues to be recognised at its fair value in accordance with IAS 40.

IFRS 16 replaces the existing guidance on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

The Group intends to apply the modified retrospective method when it adopts IFRS 16. For this reason, the cumulative effect of the application of IFRS 16 will be recognised as an adjustment to the opening amount of retained earnings as of 1 January 2019; the comparative prior-year figures will not be restated. The accounting conveniences will be utilised in some cases for leased assets of a minor-value and for short-term leases.

Adoption of IFRS 16 is expected to have the following impact on the Group's net assets, financial conditions and results of operations:

- recognition of rights of utilisation of around EUR 10m and of lease liabilities of a matching amount as of 1 January 2019
- increase of around EUR 2m in impairment expense in 2019
- increase of around EUR 0.2m in interest expense in 2019
- decrease of around EUR 2m in office space, motor vehicle and IT expenses reported through profit and loss in 2019

These effects will impact all leases already in existence as of 31 December 2018. New leases entered into in 2019 will additionally heighten the impact on impairments, interest and recurring costs. The aforementioned effects will additionally result in a reduction in the equity ratio and an increase in EBITDA (adjusted) as well as the cashflow from operating activities presented on the face of the consolidated cashflow statement.

No impact is currently expected on funds from operations (FFO) as it is planned to eliminate the corresponding effects within the consolidated income statement (shift from other operating expenses to impairments and interest expenses) for the purposes of calculating this parameter. Failure to do this would result in an increase in FFO due to the heightened impairments.

However, TAG will monitor the further development of this key performance indicator within the industry and adjust the previously planned unchanged method for calculating FFO (in terms of earnings) if necessary, provided that the majority of the peer group does likewise in order to ensure the continued comparability of the FFO calculations.

## 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:

- The Management Board must determine as of each reporting date whether the Group's real estate is held on a long-term basis for rental, for investment or for the Group's own use or whether it is available for sale. TAG uses the fair value model in accordance with IAS 40 to measure its investment properties; alternatively, it could have selected the cost model. Real estate assets classified as property, plant and equipment or as inventories are always valued at (amortised) cost.
- For the purposes of determining rental income, it is necessary to draw a distinction on the basis of whether the services recognised as ancillary costs arise from the originated provision of services as a principal or are sourced as an agent from a third party. Indicators for this assessment, which must be viewed in their entirety and are not cumulative, include the primary responsibility for performance of the service, the potential inventory risk of not being able to recharge the costs and the power to set the price of the service. Services are assumed to have been originated by the Group as the principal if higher revenue and matching rental expenses are recognised.
- When real estate asset companies are acquired, it is necessary to determine whether this acquisition is classified as a business combination within the meaning of IFRS 3 or whether individual assets and liabilities have been acquired. The purchase method of accounting as defined in IFRS 3 is used to account for business combinations. The cost of an acquisition is valued 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. The acquisition and sale of real estate asset companies which do not engage in any business within the meaning of IFRS 3 are 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 real estate asset companies does not give rise to any differences.

## Estimates

The Group makes estimates and assumptions concerning the future. The resultant accounting estimates may deviate from the ensuing actual results. Estimates and assumptions entailing a significant risk in the form of a material adjustment to the book value of assets and liabilities within the next financial year are detailed below. All significant estimates are reviewed by the Management Board on an ongoing basis and adjusted prospectively if necessary.

- 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. Valuations are calculated using the discounted cashflow method, i.e. discounted for expected future surplus income. The resultant gross capital value is converted into a net figure by deducting the transaction costs. The factors material for the valuation, such as future rent income, the applicable discount rates and transaction costs, are estimated by TAG in conjunction with the valuers. The fair values of the investment properties stood at EUR 4,666.7 m as of the reporting date (previous year: EUR 4,166.0 m).
- The estimate of the net proceeds from the sale of real estate held as inventories entails uncertainty particularly with respect to the realisable prices. As of the reporting date, the book value of these properties stood at EUR 52.3 m (previous year: EUR 48.1 m).
- The applicable corporate tax plan is of crucial importance for assessing the recoverable value of the deferred income tax assets. These plans are prepared on the basis of various estimates, e.g. with regard to future income and expenses. 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. As of the reporting date, the deferred income tax assets had a book value of EUR 70.0 m (previous year: EUR 45.4 m).
- With respect to other provisions, various assumptions have been made, e.g. with respect to the probability and amount of utilisation of provisions for repairs, damages and litigation risks as well as tax risks. For this purpose, account is taken of all information available as of the balance sheet date. Other provisions are valued at EUR 31.9 m as of the reporting date (previous year: EUR 37.1 m).

# NOTES ON THE BALANCE SHEET

## 1. INVESTMENT PROPERTIES

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

| Investment properties in TEUR | |
|---|---|
| **Amount on 01/01/2017** | **3,777,757** |
| Additions from real estate acquisitions | 181,842 |
| Portfolio investments | 41,044 |
| Transferred to available-for-sale assets | -51,442 |
| Sales | -78,687 |
| Change in market value | 295,494 |
| **Amount on 12/31/2017** | **4,166,008** |
| Additions from real estate acquisations | 123,173 |
| Portfolio investments | 61,229 |
| Transferred to inventory | 88 |
| Transferred to available-for-sale assets | -86,935 |
| Sales | -26,752 |
| Change in market value | 429,862 |
| **Amount on 12/31/2018** | **4,666,673** |

The book value includes the fair value of the real estate assets of these, hereditary building rights account for around EUR 114.9m (previous year: EUR 101.9m). These are classified as financial assets and reported as finance leases. In addition, lease liabilities of EUR 4.5m (previous year: EUR 3.4m) are recognised for the hereditary building rights. Investment properties valued at EUR 4.3bn (previous year: EUR 4.0bn) are used to secure bank liabilities, primarily in the form of real estate liens and the assignment of rental receivables.

The income statement includes the following main amounts for investment properties:

| Investment properties in TEUR | 2018 | 2017 |
|---|---|---|
| Rental income (current net cold rent) | 292,712 | 284,848 |
| Rental expenses | -53,092 | -54,881 |
| **Total** | **239,620** | **229,967** |

The fair value of all of the Group's real estate assets was valued by CBRE GmbH as an independent expert effective 30 June and 31 December 2018. The independent experts 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 made by the independent expert on the basis of 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 independent expert 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.

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 income 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 chiefly include the property management costs borne by the owner.

The underlying detailed planning period is generally ten years. A potential discounted terminal value for the property in question is forecast for the end of this period, reflecting the most likely price which can be achieved at the end of this period. For this purpose, the discounted cash surpluses for the tenth year are capitalised at the exit rate to produce the perpetual annuity.

The sum total of the discounted cash surpluses and the discounted potential selling value equals the gross present value of the property in question. The net present value is calculated by deducting the costs arising in an orderly transaction.

The investment properties are normally valued on the basis of their fair value (Level 3).

The following table sets out the fair value of the investment properties per segment and the material assumptions underlying this valuation method:

| Segment | Berlin | | Chemnitz | | Dresden | | Rhine-Ruhr | | Erfurt | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Market value (in EUR m)** | **683.3** | **574.3** | **316.5** | **289.7** | **472.4** | **437.3** | **290.1** | **282.9** | **587.7** | **519.4** |
| Net cold rent p.a. (in EUR m) | 37.4 | 37.9 | 23.4 | 22.8 | 27.2 | 27.4 | 17.8 | 19.3 | 36.8 | 34.0 |
| Vacancy (in %) | 5.1 | 7.2 | 10.1 | 11.1 | 2.8 | 3.6 | 3.3 | 4.7 | 4.2 | 3.1 |
| **Valuation parameters (average)** | | | | | | | | | | |
| Net cold rent to market rent (in %) | 88 | 91 | 95 | 96 | 94 | 94 | 93 | 95 | 90 | 92 |
| Increase in market rent p. a. (in %) | 1.1 | 0.8 | 0.6 | 0.4 | 1.0 | 0.9 | 1.1 | 0.9 | 1.1 | 0.8 |
| Maintenance costs (in EUR/sqm) | 8.7 | 8.3 | 8.6 | 8.9 | 9.0 | 9.1 | 9.1 | 9.1 | 9.4 | 9.5 |
| Administration costs (in EUR per unit) | 216 | 205 | 228 | 237 | 242 | 245 | 260 | 260 | 227 | 229 |
| Structural vacancy (in %) | 3.7 | 3.5 | 4.7 | 4.7 | 2.9 | 3.0 | 1.7 | 2.0 | 2.4 | 2.2 |
| Discount rate (in %) | 5.2 | 5.5 | 5.7 | 5.8 | 5.2 | 5.4 | 5.4 | 5.5 | 5.4 | 5.5 |
| Capitalisation rate (in %) | 4.1 | 4.5 | 5.1 | 5.4 | 4.1 | 4.5 | 4.2 | 4.6 | 4.3 | 4.6 |

| Segment | Gera | | Hamburg | | Leipzig | | Rostock | | Salzgitter | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Market value (in EUR m)** | **390.6** | **392.9** | **490.4** | **442.0** | **515.4** | **469.2** | **402.0** | **291.1** | **498.0** | **449.2** |
| Net cold rent p.a. (in EUR m) | 30.2 | 31.3 | 30.1 | 29.8 | 34.6 | 36.2 | 21.7 | 20.9 | 34.2 | 33.3 |
| Vacancy (in %) | 9.1 | 9.7 | 4.0 | 4.3 | 5.0 | 4.9 | 3.9 | 4.7 | 5.1 | 5.6 |
| **Valuation parameters (average)** | | | | | | | | | | |
| Net cold rent to market rent (in %) | 92 | 93 | 93 | 93 | 93 | 94 | 92 | 93 | 96 | 96 |
| Increase in market rent p. a. (in %) | 0.5 | 0.5 | 1.1 | 0.9 | 0.8 | 0.6 | 0.9 | 0.6 | 0.8 | 0.6 |
| Maintenance costs (in EUR/sqm) | 8.6 | 9.0 | 8.1 | 8.4 | 8.3 | 8.7 | 8.9 | 9.1 | 9.1 | 9.1 |
| Administrative costs (in EUR per unit) | 221 | 236 | 235 | 243 | 222 | 231 | 240 | 240 | 244 | 244 |
| Structural vacancy (in %) | 4.9 | 5.0 | 1.9 | 2.0 | 4.2 | 4.6 | 3.2 | 3.3 | 2.5 | 2.8 |
| Discount rate (in %) | 5.8 | 5.9 | 5.4 | 5.5 | 5.5 | 5.7 | 5.3 | 5.5 | 5.5 | 5.5 |
| Capitalisation rate (in %) | 5.2 | 5.4 | 4.2 | 4.5 | 4.7 | 5.1 | 4.4 | 4.9 | 4.6 | 4.9 |

The ‘Other Activities’ segment predominantly includes the commercial real estate activities and the serviced apartments operated by the Group. The market value of these investment properties equals EUR 20.3 m (previous year: EUR 18.2 m).

The valuation parameters shown are derived from the reports as of 31 December of each year. The valuations effective 31 December are based on the tenant lists and vacancies as of 30 September. Allowance is made for any fluctuation as of the applicable reporting date where there is evidence of any material differences.

The assumptions underlying the valuation of the fair value of the real estate are made by the independent valuer on the basis of his professional experience and are subject to uncertainty. The effects of possible fluctuations in the valuation parameters are shown in the following table in the form of a sensitivity analysis:

| Sensitivity analysis in EUR m | 2018 | 2017 |
|---|---|---|
| Market value investment properties | 4,667 | 4,166 |
| Change in market value | | |
| Market rent (+/- 2.0%) | 73/-70 | 93/-98 |
| Increase in market rent (+/- 0.2%) | 234/-256 | 191/-209 |
| Maintenance costs (-/+ 10%) | 92/-107 | 93/-92 |
| Administration costs (-/+ 10%) | 37/-38 | 42/-41 |
| Structual vacancy (-/+ 1.0%) | 11/-11 | 58/-58 |
| Discount and capitalisation rate (-/+ 0.5%) | +623/-491 | +507/-405 |

Possible interdependencies between the individual parameters are of secondary importance or cannot be determined due to their complexity.

## 2. INTANGIBLE ASSETS

The table below analyses the movements in intangible assets.

| Acquisition and production costs in TEUR | |
|---|---|
| **Amount on 01/01/2017** | **8,601** |
| Additions | 855 |
| Disposals | -108 |
| **Amount on 12/31/2017** | **9,348** |
| Additions | 527 |
| Disposals | -6 |
| **Amount on 12/31/2018** | **9,869** |

| Cumulative depreciation in TEUR | |
|---|---|
| **Amount on 01/01/2017** | **6,345** |
| Additions | 1,286 |
| Disposals | -108 |
| **Amount on 12/31/2017** | **7,523** |
| Additions | 1,372 |
| Disposals | -6 |
| **Amount on 12/31/2018** | **8,889** |

| | |
|---|---|
| **Book value on 12/31/2017** | **1,825** |
| **Book value on 12/31/2018** | **980** |

## 3. PROPERTY, PLANT AND EQUIPMENT

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

| Property, plant and equipment<br>Acquisition and production costs in TEUR | Real estate | Operating and office equipment | Total |
|---|---|---|---|
| **Amount on 01/01/2017** | **11,494** | **12,290** | **23,784** |
| Additions | 0 | 9,579 | 9,579 |
| Disposals | 0 | -260 | -260 |
| **Amount on 12/31/2017** | **11,494** | **21,609** | **33,103** |
| Additions | 0 | 5,469 | 5,469 |
| Disposals | 0 | -532 | -532 |
| Reclassification as investment properties | -88 | 0 | -88 |
| **Amount on 12/31/2018** | **11,406** | **26,546** | **37,952** |

| Cumulative depreciation in TEUR | Real estate | Operating and office equipment | Total |
|---|---|---|---|
| **Amount on 01/01/2017** | **1,420** | **5,368** | **6,788** |
| Additions | 294 | 2,269 | 2,563 |
| Disposals | 0 | -240 | -240 |
| **Amount on 12/31/2017** | **1,714** | **7,397** | **9,111** |
| Additions | 198 | 2,704 | 2,902 |
| Reversal | -37 | 0 | -37 |
| Disposals | 0 | -390 | -390 |
| **Amount on 12/31/2018** | **1,875** | **9,711** | **11,586** |
| | | | |
| **Book value on 12/31/2017** | **9,780** | **14,212** | **23,992** |
| **Book value on 12/31/2018** | **9,531** | **16,835** | **26,366** |

The real estate assets classified as property, plant and equipment are used in full to secure bank liabilities, primarily in the form of real estate liens and the assignment of rental receivables. They include hidden reserves, which equal the difference of EUR 8 m between the book value and the fair value (previous year: EUR 7 m).

## 4. OTHER FINANCIAL ASSETS

Other financial assets primarily include non-controlling interest in non-listed real estate asset companies and closed-end real estate investment funds, which were valued at historical cost less any necessary impairments up until 2017. As of 1 January 2018, they are valued at their fair value on the basis of IFRS 9.

This item breaks down as follows:

| Acquisition and production costs in TEUR | |
|---|---|
| **Amount on 12/31/2017** | |
| Acquisition and production costs | 8,010 |
| Disposals | -1,473 |
| **Book value 12/31/2017** | 6,537 |
| First-time application of IFRS 9 | 1,044 |
| **Amount on 01/01/2018** | 7,581 |
| Disposals | -562 |
| Change in market value | 1,143 |
| **Book value 12/31/2018** | **8,162** |

The disposals primarily relate to capital repayments. In addition, one entity which had not been consolidated due to its subordinate importance in the previous year was consolidated for the first time from 1 January 2018. As well as this, investment income of TEUR 632 (previous year: TEUR 3,556) arising from dividend distributions was recognised.

## 5. CURRENT AND DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

| | 2018 | | 2017 | | |
|---|---|---|---|---|---|
| **Deferred income taxes in TEUR** | **Assets** | **Equity and liabilities** | **Assets** | **Equity and liabilities** | **Change** |
| Unused tax losses (incl. interest carried forward) | 64,725 | 0 | 49,947 | 0 | 14,778 |
| Investment properties | 542 | -437,660 | 442 | -364,861 | -72,699 |
| Intangible assets | 0 | 0 | 1 | 0 | -1 |
| Property, plant and equipment | 0 | -1 | 0 | -2 | 1 |
| Other financial assets | 4 | -1,317 | 0 | -930 | -383 |
| Liabilities | 313 | -4,242 | 832 | -4,807 | 46 |
| Provisions | 2,509 | -295 | 4,029 | -199 | -1,616 |
| Derivative financial instruments | 11,918 | 0 | 2,072 | 0 | 9,846 |
| **Total** | **80,011** | **-443,515** | **57,323** | **-370,799** | **-50,028** |
| Offset | -10,059 | 10,059 | -11,889 | 11,889 | – |
| **Deferred income taxes recorded on the face of the balance sheet** | 69,952 | -433,456 | 45,434 | -358,910 | – |
| | | | | **Change in 2018** | **-50,028** |
| | | | | reported through equity: | -54 |
| | | | | Change in cash:: | -49,974 |

The items not recorded through profit and loss arise from the reclassification of hedge accounting effects previously recorded within equity. The change in deferred income taxes on derivative financial instruments stems from the conversion right valued at fair value in connection with the convertible bond issued by TAG.

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

| Income taxes in TEUR | 2018 | 2017 |
|---|---|---|
| Current income tax expense | -4,031 | -3,056 |
| Deferred income taxes | -49,974 | -79,789 |
| **Total** | **-54,005** | **-82,845** |

Current income taxes include tax expenses for the year under review as well as a tax refund claim for earlier years of TEUR 50 (previous year: TEUR 588).

Deferred income tax liabilities of TEUR 64,806 (previous year: TEUR 73,863) arise from changes in temporary differences. Income from changes in deferred income taxes on unused tax losses stands at TEUR 14,778 (previous year: TEUR 6,074).

As in the previous year, the income tax refund claims included in the consolidated balance sheet predominantly comprise refunds of investment income tax. Income tax liabilities include income tax expenses for the year under review of TEUR 1,210 (previous year: TEUR 1,593). The other liabilities relate to income taxes for earlier years.

Expected and actual net tax expense is reconciled as follows:

| Actual net income tax expense in TEUR | 2018 | 2017 |
|---|---|---|
| Earnings before income taxes (EBT after other taxes) | 542,214 | 396,519 |
| Expected net tax expense (32.275%) | -175,000 | -127,976 |
| Reconciled with tax effects from: | | |
| Income and expenses from earlier years | 4,562 | 1,274 |
| Impairment of deferred income taxes and utilisation of previously unrecognised unused tax losses/interest carried forward | 19,179 | -809 |
| Tax-free returns and non-deductible expenses | -2,560 | -3,276 |
| Effects of trade tax exemption | 101,419 | 51,038 |
| Net gains/losses from consolidation | 5 | -1,548 |
| Others | -1,610 | -1,548 |
| **Actual net income tax expense** | **-54,005** | **-82,845** |

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

The theoretical tax rate is calculated as follows:

| Theoretical tax rate in % | 2018 | 2017 |
|---|---|---|
| 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 10.0% (previous year: 20.9%).

Excluded from deferred income tax assets are unused corporate tax losses of EUR 112 m (previous year: EUR 185 m) and unused trade tax losses of EUR 113 m (previous year: EUR 172 m) as well as interest carried forward of EUR 7 m (previous year: EUR 6 m) as utilisation currently does not appear to be likely.

The sum total of unrecognised temporary differences in connection with shares in subsidiaries and associates stands at EUR 83 m (previous year: EUR 56 m). The Group does not expect any strain from this as there are currently no plans to sell these shares.

## 6. PROPERTIES HELD AS INVENTORIES AND OTHER INVENTORIES

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

| Investment properties in TEUR | |
|---|---|
| **Amount on 01/01/2017** | **51,690** |
| Additions | 1,237 |
| Impairments | -2,451 |
| Disposals | -2,327 |
| **Amount on 12/31/2017** | **48,149** |
| Additions | 9,278 |
| Impairments | -182 |
| Reversal | 362 |
| Disposals | -5,311 |
| **Amount on 12/31/2018** | **52,296** |

Investment properties recognised as inventories valued at EUR 4.7 m (previous year: EUR 4.7 m) are used to secure bank liabilities, primarily in the form of real estate liens and the assignment of rental receivables. This item includes real estate assets of EUR 46.4 m (previous year: EUR 37.2 m) which are expected to be sold only after more than twelve months. The real estate assets held as inventories include hidden reserves arising from the difference of EUR 51.7 m (previous year: EUR 18.1 m) between the book value and the fair value determined by the independent expert.

Directly attributable cost of debt of TEUR 456 (previous year: TEUR 0) arising from a development project were capitalised in 2019.

Other inventories primarily comprise heating material.

## 7. TRADE RECEIVABLES

Trade receivables break down as follows:

| Trade receivables in TEUR | 2018 | 2017 |
|---|---|---|
| Rent receivables | 13,397 | 7,749 |
| Receivables from the sale of properties | 124 | 125 |
| Others | 656 | 842 |
| **Total** | **14,177** | **8,716** |

As in the previous year, receivables from the sale of land are secured by cash deposits.

Rental receivables include an amount of EUR 5.2m arising from the netting of gross receivables of EUR 140.9m for rechargeable but not yet invoiced ancillary costs with the corresponding advance payments received from the tenants. Ancillary costs for which statements of account have been issued account for receivables of TEUR 4,452 (previous year: TEUR 2,916).

Impairments for expected credit losses on trade receivables are analysed in the following table:

| Individual impairments in TEUR | |
|---|---|
| **Amount on 01/01/2017** | **10,066** |
| Utilised | -3,629 |
| Reversed | -4,725 |
| Additions | 9,319 |
| **Amount on 12/31/2017** | **11,031** |
| Effect of first-time application IFRS 9 | 51 |
| **Amount on 01/01/2018** | **11,082** |
| Utilised | -4,111 |
| Reversed | -2,366 |
| Additions | 3,681 |
| First-time consolidation | 173 |
| **Amount on 12/31/2018** | **8,459** |

In the year under review, impairments (adjustments and derecognitions) of trade receivables of TEUR 4,441 (previous year: TEUR 6,171) were recognised in the income statement due to insufficient credit worthiness on the part of tenants.

## 8. OTHER CURRENT ASSETS

Other current assets break down as follows:

| Other current assets in TEUR | 2018 | 2017 |
|---|---|---|
| Rechargeable retirement benefit obligations | 4,077 | 4,258 |
| Loans to shareholders with non-controlling interests | 3,857 | 3,600 |
| Excess payments to suppliers | 2,097 | 2,152 |
| Others | 1,034 | 1,314 |
| **Total** | **11,065** | **11,324** |

Loans to shareholders with non-controlling interests are secured in full by a pledge on shares in real estate asset companies.

## 9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all bank accounts and overdraft facilities with banks due for settlement within three months of the reporting date as well as a small volume of cash in hand. They are reconciled with the cashflow components of cash and cash equivalents in the section entitled 'Notes on the cashflow statement'.

## 10. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are composed solely of real estate assets previously classified as investment properties. The item chiefly comprises the planned sale of around 1,600 residential units outside the Group's strategic core business. They are mainly composed of a portfolio in Leipzig valued at EUR 23.4 m, a portfolio in Gera valued at EUR 21.0 m, a portfolio in Hamburg valued at EUR 12.2 m and a portfolio in Berlin valued at EUR 11.6 m. In the previous year, they had chiefly comprised a portfolio in the Berlin segment valued at EUR 36.1 m, a commercial real estate asset in the segment Other valued at EUR 7.5 m and a portfolio in the Leipzig segment valued at EUR 6.6 m.

The table below sets out the movements in this item:

| Non-current assets held for sale in TEUR | |
|---|---|
| **Amount on 01/01/2017** | **17,049** |
| Reclassification from investment properties | 51,442 |
| Sales | -16,989 |
| **Amount on 12/31/2017** | **51,502** |
| Reclassification from investment properties | 86,935 |
| Sales | -51,442 |
| **Amount on 12/31/2018** | **86,995** |

Sales contracts have already been signed for a portion valued at EUR 32.8 m (previous year: EUR 51.5 m), with ownership, rights of use and liabilities expected to be transferred in the first half of 2019. The assets are allocated to Level 3 of the fair value hierarchy and their value measured on the basis of the independent expert's report. The procedure underlying the calculation as well as the main valuation inputs are described in the notes on investment properties.

## 11. EQUITY

### Share capital, authorisation of the Management Board to issue of new shares (authorised and contingent capital) as well as share buybacks

The Company's fully paid-up share capital is unchanged over the previous year and stands at EUR 146,498,765.00. It is divided into 146,498,765 shares. They are bearer shares.

In a resolution passed at the Annual General Meeting held on 23 May 2018, the shareholders approved the creation of 'Authorised capital 2018' 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 29m by issuing up to 29m no-par-value ordinary shares on a cash and/or non-cash basis once or on repeated occasions on or before 22 May 2023. The Management Board has so far not made any use of this authorisation.

In a resolution passed at the Annual General Meeting held on 23 May 2018, the Contingent Capital 2017/I approved at the Annual General Meeting of 16 May 2017 was replaced by 'Contingent Capital 2018/I' In this connection, the Management Board was authorised to increase the Company's share capital by up to EUR 29m through the issue of up to 29m new no-par bearer shares on a contingent basis. The contingent capital was used to grant shares to the holders of convertible and/or option bonds issued by the Company or any of its directly or indirectly affiliated subsidiaries in accordance with the authorisation granted on 14 June 2013, 19 June 2015, 16 May 2017 and 23 May 2018. The new shares will be issued at the conversion or option price determined in accordance with the above mentioned authorisation resolutions. The contingent capital may be utilised only to the extent that the conversion and option rights are exercised or corresponding obligations are to be settled and only if no other method of settlement is applied.

A resolution was passed at the Annual General Meeting held on 17 June 2016, authorising the Company 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 on or before 16 June 2021. The authorisation may not be utilised by the Company to trade in treasury stock. In addition to the customary statutory possibilities for use, the shares may also be allocated and transferred to members of the Management Board in connection with the determination of variable remuneration. The Company made use of this authorisation to buy back its own shares via the stock exchange. As of 31 December 2018, the Company held a total of 177,115 treasury shares (previous year: 60,000).

Reported subscribed capital less treasury stock thus stands at EUR 146,321,650.00 (previous year: EUR 146,438,765.00).

## Reserves

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.

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 in TEUR**

| | |
|---|---|
| **Amount on 01/01/2017** | **-663** |
| Unrealised gains and losses | 1,030 |
| Recorded in profit and loss | -330 |
| Deferred income tax effect | -149 |
| **Amount on 12/31/2017** | **-112** |
| Unrealised gains and losses | 418 |
| Recorded in profit and loss | -252 |
| Deferred income tax effect | -54 |
| **Amount on 12/31/2018** | **0** |

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

## Dividend

Subject to the Supervisory Board's consent, the Management Board of TAG plans to propose a dividend of EUR 0.75 per share for 2018 (previous year: EUR 0.65 per share) for approval by the shareholders.

## 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 Any compensation accruing to these shareholders in the form of annual guaranteed dividends over an interminable minimum period is recognised within other non-current liabilities.

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.

## 12. FINANCIAL LIABILITIES

Changes in financial liabilities are as follows:

| | | | | Other | | |
|---|---|---|---|---|---|---|
| **Financial liabilities in TEUR** | **01/01/2018** | **Cashflow from financing activities** | **Changes in fair value** | **Interest expenses** | **paid interest** | **12/31/2018** |
| Liabilities to banks | 1,935,436 | -84,611 | 0 | 43,231 | -38,907 | 1,855,544 |
| Liabilities from corporate bonds | 322,221 | -41,764 | 0 | 19,719 | -14,413 | 285,763 |
| Liabilities from convertible bonds | 256,175 | 0 | 0 | 3,004 | -1,652 | 257,527 |
| Derivative financial instruments | 8,358 | 2,838 | 30,974 | 278 | -443 | 42,005 |
| Other financial liabilities | 7,424 | 4,169 | 1,128 | 280 | -874 | 12,127 |
| **Total** | **2,529,614** | **-118,973** | **32,102** | **66,512** | **-56,289** | **2,452,966** |

### Liabilities to banks

Liabilities to banks break down as follows: For the most part, they are collateralised by real property liens and the assignment of rental income. 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).

### Corporate bonds

TAG issued two corporate bonds in 2018. The first corporate bond 2018/2023 for EUR 125 m has a term of five years and a coupon of 1.25% p.a. The second corporate bond 2018/2025 likewise for EUR 125 m has a term of seven years and a coupon of 1.75%. Both corporate bonds are unsecured.

In June 2018, TAG simultaneously redeemed the existing corporate bond 2014/2020 for EUR 125 m with a coupon of 3.75% p.a. and an original expiry date of 25 June 2020, paying out the outstanding coupon in full ahead of schedule. This resulted in one-off interest expense of EUR 9.5 m.

The outstanding amount of EUR 191 m under corporate bond 2013/2018 with a coupon of 5.125% p.a. was redeemed as scheduled in August 2018.

Since November 2018, short-dated commercial papers have been issued in an amount of up to EUR 50 m as a special type of corporate bond with a term customarily of between one and six months. As of 31 December 2018, an amount of EUR 35.0 m was outstanding in this connection.

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

### Convertible bonds

TAG issued a convertible bond with a nominal value of EUR 262 m in August 2017. With a term of five years and a coupon of 0.625% p. a., it is unsecured and has a term of five years. The conversion price stood at EUR 17.8522 on the reporting date (previous year: EUR 17.9331).

### Derivative financial instruments

Derivative financial instruments include the fair value of TEUR 36,926 (previous year: TEUR 6,339) of the conversion right arising from the convertible bond as well as the purchase price guarantees for non-controlling interests in subsidiaries with a fair value of EUR 5,078 m (previous year: EUR 1,600 m).

All interest-rate hedges were terminated or expired in 2018.

### Other financial liabilities

This item chiefly comprises liabilities of TEUR 6,367 (previous year: TEUR 3,243) for guaranteed dividends in favour of non-controlling shareholders and liabilities of TEUR 4,482 (previous year: TEUR 3,354) under finance leases, which are reported under other non-current assets. These liabilities also include the parts due for settlement within one year, which are reported under other current liabilities.

The non-discounted lease liabilities stand at TEUR 5,696 (previous year: TEUR 4,262).

## 13. RETIREMENT BENEFIT PROVISIONS

Retirement benefit provisions equal the net amount recognised. This item breaks down as follows:

| Net liabilities in TEUR | Liabilities | Reimbursement claim |
|---|---|---|
| **Recognised on the face of the balance sheet as of 01/01/2017** | **6,132** | **4,396** |
| Recognised appropriation | 111 | 0 |
| Reimbursement recognised (within equity) | 67 | 67 |
| Pension payments | -368 | -205 |
| **Amount on 12/31/2017** | **5,942** | **4,258** |
| Recognised appropriation | -105 | 0 |
| Reimbursement recognised (within equity) | 23 | 23 |
| Pension payments | -355 | -204 |
| **Amount on 12/31/2018** | **5,505** | **4,077** |

The refund claim reported within other current assets concerns claims towards a subsidiary acquired in earlier years for which there is a right of recovery against the former shareholder.

The change in the year under review is primarily due to interest expense as well as actuarial gains or losses. As the change in the reimbursement claim corresponding to part of the liability is subject to the same factors, the effects are mostly reported within equity. Any additional effects are included within interest expense or income, as the case may be.

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

| Retirement benefit provisions | 2018 | 2017 |
|---|---|---|
| Interest rate in % | 1.81 | 1.69 |
| Pension adjustment in % | 2.00 | 2.00 |
| Duration (in years) | 10 | 12 |
| Retirement age | In accordance with social code VI | |

The Klaus Heubeck 2018 G mortality tables were used as the basis for biometric calculations. The 2005 G mortality tables had been used in the previous year. This resulted in a one-off actuarial loss of TEUR 61.

Of the retirement benefit provisions, an amount of TEUR 344 (previous year: TEUR 363) is due for payment within one year. These amounts together with other retirement benefit obligations are reported within non-current liabilities for the sake of simplicity. 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 6,132 in 2016, TEUR 6,020 in 2015, TEUR 6,317 in 2014 and TEUR 5,618 in 2013.

## 14. OTHER PROVISIONS

Other provisions break down as follows:

| Other provisions in TEUR | Amount 01/01/2018 | Utilised | Reversed | Added | Amount 12/31/2018 |
|---|---|---|---|---|---|
| Outstanding invoices | 19,646 | 18,823 | 121 | 19,115 | 19,817 |
| Property transfer tax risk | 4,021 | 655 | 11 | 988 | 4,343 |
| Damages and litigation risk | 8,500 | 0 | 6,200 | 0 | 2,300 |
| Bonus | 1,720 | 1,336 | 0 | 891 | 1,275 |
| Legal, consulting and auditing costs | 835 | 833 | 2 | 811 | 811 |
| Others | 2,395 | 853 | 111 | 1,936 | 3,367 |
| **Total** | **37,117** | **22,500** | **6,445** | **23,741** | **31,913** |

Provisions for outstanding invoices primarily relate to invoices not yet received as of the reporting date for ongoing maintenance and renovation mostly expected to be settled in the short term.

Provisions for compensation claims and litigation risks predominantly relate to possible claims arising from construction work completed in earlier years, settlement of which depends on the outcome of currently still pending litigation. No allowance was made for interest effects for materiality reasons.

The provisions for realty transfer tax relate to risks arising from the acquisition of equity interests in 2012. The provisions for earlier acquisitions were reversed in the year under review due to time-bar effects. Further details can be found under other disclosures on 'contingent liabilities'.

## 15. TRADE PAYABLES

Trade payables primarily comprise net obligations under advance payments towards ancillary costs less those ancillary costs that have not yet been invoiced as well as liabilities to suppliers.

Trade liabilities include an amount of EUR 7.8 m arising from the netting of prepayments of EUR 143.5 m made by the tenants in settlement of corresponding receivables from rechargeable but not yet invoiced ancillary costs.

## 16. OTHER CURRENT LIABILITIES

This item breaks down as follows:

| Other current liabilities in TEUR | 2018 | 2017 |
|---|---|---|
| Put options of non-controlling shareholders | 18,943 | 18,763 |
| Tenant credit from advance payments | 9,938 | 10,185 |
| Tax liabilities | 6,153 | 2,108 |
| Obligations from associated companies | 2,160 | 2,087 |
| Deferrals and accruals | 1,076 | 859 |
| Guaranteed dividend | 1,408 | 827 |
| Others | 2,394 | 6,372 |
| **Total** | **41,563** | **41,486** |

The liabilities under put rights held by non-controlling shareholders concern a settlement offer submitted in 2016 to the external shareholders of TAG-Colonia-Immobilien AG, under which they were to transfer their shares to a 100% subsidiary of TAG in consideration of a cash payment of EUR 7.19 per share. This right remains effective until the end of the pending shareholder action.

# NOTES ON THE INCOME STATEMENT

## 17. NET RENTAL INCOME

Taking into account the changes in presentation arising from the first-time application of IFRS 15, rental income breaks down as follows:

| Rental income in TEUR | 2018 | 2017 (adjusted) |
|---|---|---|
| Rental income (‘net rent’) | 302,165 | 293,037 |
| Rechargeable ancillary costs | 82,682 | 91,794 |
| Rechargeable land taxes and building insurance | 15,515 | 14,448 |
| **Total** | **400,362** | **399,249** |

Under IFRS 15, land taxes and building insurance do not constitute services provided by TAG and are reported separately solely for information purposes. With these contractual components, the agreed consideration is proportionally allocated to the other identified components of the contract.

Rental expenses break down as follows:

| Rental expenses in TEUR | 2018 | 2017 (adjusted) |
|---|---|---|
| Maintenance expenses | 34,305 | 29,135 |
| Non-recoverable charges | 9,846 | 13,993 |
| Ancillary costs of vacant real estate | 7,817 | 7,574 |
| **Non-rechargeable expenses** | **51,968** | **50,702** |
| Rechargeable costs, taxes and insurance | 98,197 | 106,242 |
| **Total** | **150,165** | **156,944** |

Impairments are now reported in a separate line item. Further details can be found in the section entitled ‘New standards and interpretations’ explaining the IFRS 9: Financial instruments.

## 18. NET INCOME FROM SALES

Net income from sales breaks down as follows:

| Income from sales in TEUR | 2018 | 2017 |
|---|---|---|
| Revenues from the sale of investment properties | 78,487 | 96,914 |
| Expenses on the sale of investment properties | -78,456 | -97,399 |
| **Net income from the sale of investment properties** | **31** | **-485** |
| Net income from the sale of properties held as inventory | 5,867 | 3,395 |
| Revenues from the sale of inventories | -6,029 | -2,886 |
| **Net income from the sale of inventories** | **-162** | **509** |
| Total | -131 | 24 |

It arises from the ongoing sales of individual apartments and apartment buildings in 2018 and particularly also the sale of 461 units in North Rhine-Westphalia and Lower Saxony, which were primarily allocated to the Rhine-Ruhr segment. In 2017, it arose from the ongoing sales of individual apartments and apartment buildings and particularly also the sale of a portfolio in Freiburg, which was also allocated to the Rhine-Ruhr segment.

Expenses for the sale of properties primarily comprise portfolio costs for properties sold in the year under review.

## 19. NET INCOME FROM SERVICES

Net income from services is composed of various services provided by the Group.

| Income from property services in TEUR | 2018 | 2017 (adjusted) |
|---|---|---|
| Energy services | 20,730 | 12,932 |
| Facility management | 8,779 | 7,843 |
| Multimedia services | 8,307 | 7,862 |
| Craftsmen services | 3,154 | 2,352 |
| Rechargeable land taxes and building insurance | 1,495 | 984 |
| Other | 2,295 | 2,109 |
| **Total** | **44,760** | **34,082** |
| Impairment losses | -369 | -394 |
| Expenditure of property services | -26,720 | -18,824 |
| **Net income from property services** | **17,671** | **14,864** |

Under IFRS 15, land taxes and building insurance do not constitute services provided by TAG and are reported separately solely for information purposes. With these contractual components, the agreed consideration is allocated to the other identified components of the contract.

Together with the ancillary costs attributable to third-party services reported within net rental income and the proportionate recharged land taxes and insurance, revenue from contracts with customers comes to TEUR 130,775 (previous year: TEUR 129,322).

Net income from services now also includes as a separate line item the impairment expense attributable to this revenue. Further details can be found in 'New standards and interpretations' explaining IFRS 9: Financial instruments.

Further service expenses are recognised within the relevant items of the income statement (e.g. personnel expenses).

## 20. OTHER OPERATING INCOME

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

| Other operating income in TEUR | 2018 | 2017 (adjusted) |
|---|---|---|
| Reversal of provisions for real estate transfer tax risk | 6,200 | 0 |
| Reversal of provisions | 245 | 1,362 |
| Derecognition of liabilities | 920 | 1,043 |
| Advances | 519 | 70 |
| Other out-of-period income | 627 | 1,019 |
| Other | 1,119 | 1,922 |
| **Total** | **9,630** | **5,416** |

Other off-period income primarily relates to the discharge of liabilities under statements of ancillary costs for former years as well as insurance indemnification.

## 21. CHANGES IN THE FAIR VALUE OF INVESTMENT PROPERTIES AND PROPERTIES HELD AS INVENTORIES

This item comprises gains and losses of TEUR 429,862 (previous year: TEUR 295,494) from the regular fair value valuation of investment properties and fair value revaluation gains of TEUR 180 on properties held as inventories (previous year: fair value valuation losses of TEUR 2,451). In the previous year, these figures had included the non-recurring effect of a change in the market estimate of acquisition transaction costs. This resulted in a fair value revaluation loss of TEUR 256,496 on investment properties and of TEUR 164 on properties held as inventories.

## 22. PERSONNEL EXPENSES

Personnel expenses break down as follows:

| Personnel expenses in TEUR | 2018 | 2017 |
|---|---|---|
| Employees in operations | 24,723 | 24,228 |
| Administration and central functions | 9,886 | 9,219 |
| Caretakers | 7,160 | 6,389 |
| Craftsmen | 1,946 | 1,531 |
| **Total** | **43,715** | **41,367** |

## 23. OTHER OPERATING EXPENSES

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

| Other operational experditures in TEUR | 2018 | 2017 |
|---|---|---|
| Legal, consulting and auditing costs (incl. IT consulting) | 5,621 | 5,030 |
| Cost of premises | 2,073 | 1,943 |
| IT costs | 1,737 | 1,204 |
| Telephone costs, postage, office material | 1,523 | 1,408 |
| Travel expenses (incl. motor vehicles) | 1,416 | 1,410 |
| Other ancillary staff costs | 1,048 | 1,236 |
| Investor Relations | 552 | 563 |
| Incidental cost of monetary transactions | 554 | 467 |
| Insurance | 484 | 493 |
| Contributions and donations | 425 | 441 |
| Advertising | 417 | 454 |
| Allocation to accruals for real estate transfer tax risk | 0 | 8,500 |
| Other | 1,262 | 2,638 |
| **Total** | **17,112** | **25,787** |

In the year under review, other operating expenses included payments under operating leases of TEUR 3,015 (previous year: TEUR 2,748) for IT hardware, motor vehicles and office space.

## 24. NET FINANCE INCOME / EXPENSE

Net finance income / finance expense has the following structure:

| Financial result in TEUR | 2018 | 2017 |
|---|---|---|
| Investment income | 1,774 | 3,556 |
| Result from associated companies | 0 | -7 |
| Depreciation of financial assets | 0 | -945 |
| Interest income | 1,193 | 3,035 |
| Interest expense | -98,989 | -88,022 |
| **Finance income/expense** | **-96,022** | **-82,383** |
| Non-cash interest from bonds | 1,652 | 1,095 |
| Premature termination compensation | 9,811 | 14,417 |
| Other non-cash items (e.g. derivatives) | 29,991 | 178 |
| **Net finance income/expense (cash, without one-time invoice)** | **-54,568** | **-66,693** |

The share of profit of associates for 2018 includes the effects of the first-time application of IFRS 9 arising from the equity investments valued at fair value through profit and loss and includes dividends received of TEUR 302. In 2017, the share of profit of associates comprised solely dividends and other distributions.

Interest income includes income of TEUR 105 (previous year: TEUR 0) from the valuation of retirement benefit provisions. The remaining interest income arises from financial assets, which are valued at amortised cost using the effective interest method. Interest expense breaks down as follows:

| Interest expense in TEUR | 2018 | 2017 |
|---|---|---|
| Interest expense under the effective interest method<br>Financial liabilities recognised at amortised cost | 67,228 | 83,904 |
| Net change in fair value<br>Derivative financial instruments valued at fair value through profit and loss | 31,227 | 1,497 |
| Other financial income | 534 | 2,621 |
| **Total** | **98,989** | **88,022** |

## 25. EARNINGS PER SHARE

Earnings per share break down as follows:

| Earnings per share | 2018 | 2017 |
|---|---|---|
| **Consolidated net profit (in TEUR)** | | |
| Consolidated net profit excluding non-controlling interest | 480,967 | 311,091 |
| Interest expense on convertible bonds | 22,750 | 2,299 |
| Consolidated net profit excluding non-controlling interest (diluted) | 503,717 | 313,390 |
| **Number of shares (in thousands)** | | |
| Weighted number of shares outstanding | 146,341 | 145,709 |
| Effect of conversion on convertible bonds | 14,650 | 4,883 |
| Effect of management compensation | 25 | 0 |
| Weighted number of shares (diluted) | 161,016 | 150,592 |
| **Earnings per share (in EUR)** | | |
| Basic | 3.29 | 2.14 |
| Diluted | 3.13 | 2.08 |

Diluted earnings per share include the potential correction to consolidated earnings and the number of shares outstanding when convertible instruments or options are exercised. In TAG's case, the dilution effect primarily arises from 'potential shares' under convertible bonds.

# NOTES ON THE CASHFLOW STATEMENT

Cashflows are divided into cashflows from operating activities, cashflows from investing activities and cashflows from financing activities in the year under review. Cashflows from investing and financing activities are presented directly, while cashflows from operating activities are calculated using the indirect method.

The cashflow components of cash and cash equivalents comprise only freely available cash and cash equivalents and are reconciled with the cash and cash equivalents reported in the balance sheet as follows:

| Cash and cash equivalents in TEUR | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents as reported on the balance sheet | 91,718 | 263,669 |
| Cash at banks subject to drawing restrictions | -2,702 | -14,422 |
| **Cash and cash equivalents** | **89,016** | **249,247** |

The amount reported refers to incoming payments subject to temporary drawing rights from sales as well as bank balances pledged in the short term for maintenance activities.

The acquisition of real estate asset companies was funded solely through cash and cash equivalents; in this connection, cash and cash equivalents of TEUR 1,001 (previous year: TEUR 315) were acquired.

# NOTES ON SEGMENT REPORTING

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

TAG manages its residential portfolio on a regional basis. Accordingly, it has defined the following segments: Berlin, Chemnitz, Dresden, Erfurt, Gera, Hamburg, Leipzig, Rhine-Ruhr, Rostock, Salzgitter and other activities. The ‘Other Activities’ segment comprises service business, commercial real estate activities and the serviced apartments operated by the Group.

Segment reporting is consistent with internal reporting, which fundamentally conforms to IFRS accounting requirements (with the exception of the reconciliation of segment earnings with EBIT described below). Segment earnings I are derived from net rental income (‘net rents’) and related expenses. In line with internal reporting, segment earnings I have been widened to include personnel expenses and other operating costs directly attributable to the LIM (head of real estate management) regions.

Reflecting internal reporting practices, segment revenue is reported solely on a net basis (‘net rent’). Notes on the income statement – 17 rental income reconciles rental income with segment revenue:

The following table reconciles segment earnings II with EBT as stated in the income statement:

| Segment earnings in TEUR | 2018 | 2017 |
|---|---|---|
| **Segment earnings II** | **201,212** | **198,013** |
| Capitalised investment costs not deducted from segment earnings | 33,184 | 27,658 |
| Non-rechargeable ancillary costs of vacant real estate | -7,817 | -7,574 |
| Net gains/losses from sales | -131 | 24 |
| Fair value changes in investment properties and valuation of properties held as inventory | 430,042 | 293,043 |
| Non-allocated staff costs | -27,294 | -24,993 |
| Depreciation and amortisation | -4,274 | -3,849 |
| Other non-allocated income and expenses | 13,314 | -3,420 |
| Net finance expense | -96,022 | -82,383 |
| **EBT** | **542,214** | **396,519** |

# 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 market, 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.

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

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

The equity ratio including non-controlling interests as of the end of the year is as follows:

| **Equity ratio in TEUR** | **2018** | **2017** |
|---|---|---|
| Equity | 2,048,326 | 1,646,648 |
| Total assets | 5,033,343 | 4,634,540 |
| **Equity ratio in %** | **40.7** | **35.5** |

## FAIR VALUE OF FINANCIAL INSTRUMENTS

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 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 the period under review.

The fair values of the financial instruments recorded in the statement of financial position break down as follows:

| Fair value of financial instruments in TEUR | Fair value hierarchy | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Other financial assets | Level 2/3 | 8,162 | 6,537 |
| **Equity and liabilities** | | | |
| Derivatives with no hedging relationship | Level 2 | 42,005 | 8,163 |
| Derivatives with a hedging relationship | Level 2 | 0 | 195 |

The other financial assets coming within the scope of IAS 39 were valued at historical cost as of 31 December 2017. The fair value stood at TEUR 7,581 as of 1 January 2018. As of 31 December 2018, other financial assets with a fair value of TEUR 4,815 are assigned to Level 2 and other financial assets with a fair value TEUR 3,347 to Level 3. The change in 2018 in the carrying amount of the other financial assets with a fair value calculated in Level 3 is composed of repayments of TEUR 562 and changes in fair value through profit and loss of TEUR 175.

They primarily comprise non-listed minority interests in real estate companies and funds. Equity investments are valued partially on the basis of observable market prices (Level 2) and partly on the basis of company-specific models such as customary net asset value models in the light of non-observable market data (Level 3). The inputs used in these methods include assumptions on future cashflows and future real estate prices and are based as closely as possible on market data. A change in the fair value of real estate assets held by associates would have a proportionate effect on the fair value of such associates.

At the moment, there is no specific intention for these investments to be sold.

Derivative financial instruments are valued using established methods, the main inputs for which are derived from active markets. In the case of interest rate hedges, this is chiefly the discounted cashflow method. The purchase price guarantees, which are recognised as a derivative financial instrument with no hedging relationship, are valued using a standardised process based on a Monte Carlo (mark-to-model) simulation applying two correlated stochastic processes. The conversion right under the convertible bond, which is recognised separately as a derivative, is valued using a binomial model.

In addition, the following financial instruments whose book value are not sufficiently close to their fair value are valued at amortised cost in the consolidated balance sheet:

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| **Financial instruments in TEUR** | **IFRS 13 Valuation** | **Book value** | **Fair value** | **Book value** | **Fair value** |
| Liabilities to banks | Level 2 | 1,855,543 | 1,892,918 | 1,935,436 | 1,973,186 |
| Liabilities from corporate bonds | Level 2 | 285,763 | 286,342 | 322,221 | 327,472 |
| Liabilities from convertible bonds | Level 2 | 257,527 | 276,007 | 256,175 | 267,792 |
| Other non-current liabilities | Level 2 | 10,850 | 10,805 | 6,648 | 6,648 |

The fair value of non-current liabilities is calculated using the discounted cashflow method. The discount rate is based on an appropriate market interest rate.

Trade receivables, other current assets and cash and cash equivalents, which are also recognised at historical cost, have short settlement periods. Accordingly, their book value as of the balance sheet date comes close to their fair value. The same thing applies to current liabilities to banks, trade payables and other current liabilities.

## NET PROFIT / LOSS FROM FINANCIAL INSTRUMENTS

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

| FY 2017 | IAS 39 Category | Interest | Impairments | Derecognition | Other |
|---|---|---|---|---|---|
| Loans and receivables | LaR | 1,545 | -6,171 | 0 | 0 |
| Investments | AfS | 0 | 0 | 0 | 3,556 |
| Financial liabilities | AmC | -83,904 | 0 | 1,043 | 0 |
| Derivative financial instruments with no hedging relationship | HfT | -1,497 | 0 | 0 | 0 |

Details of the net gains and losses from financial instruments in 2018 can be found in Note 24 on net finance income/ finance expense in the notes on the income statements.

## PURPOSES OF FINANCIAL RISK MANAGEMENT

The main risks monitored and managed by means of the Group's financial risk management comprise market risks arising from interest rates as well as equity prices, credit, finance and liquidity risks.

## MARKET RISKS

The Group's activities expose it to financial risks arising from changes in interest rates. For the most part, long-term bank loans are subject to fixed interest rates. However, there is also a very small volume of floating-rate loans. The corporate and convertible bonds have only fixed interest rates.

All interest-rate hedges were terminated or expired in 2018. As of 31 December 2017, interest rate swaps not used in hedge relationships had a nominal value of TEUR 8,019 and a negative market value of TEUR 224. They expired in 2018. In addition, there was an interest rate swap used in a hedge relationship with a nominal value of TEUR 6,125 and a negative market value of TEUR 195 as well as a cap with a nominal value of TEUR 8,945 and a market value of TEUR 0, which were terminated prematurely in 2018 in connection with a debt restructuring transaction.

As of 31 December 2018, floating-rate loans had a nominal value of EUR 42.4 m (previous year: EUR 40.2 m). With respect to these loans, an increase/decrease of 0.5% in the interest rate would result in an increase/decrease in annual interest expense of EUR 0.2 m (previous year: EUR 0.2 m). These effects would directly affect consolidated net profit and consolidated equity in the light of the effect on income tax.

The derivative financial instruments still include the conversion right valued at EUR 36.9 m (previous year: EUR 6.3 m) arising from the convertible bond issued in 2017 and the purchase price guarantees/obligations valued at EUR 5.1 m (previous year: EUR 1.6 m) to cover a potential impairment at one subsidiary. These derivatives are subject to the risk of changes in interest rates as well as share prices. An increase/decrease of 0.5% in interest rates would cause the obligations under these financial instruments to rise by EUR 0.3 m or decline by EUR 0.0 m, respectively (previous year: EUR 0.5 m/EUR -0.3 m). An increase/decrease of 5% in share prices would result in an increase of EUR 10.5 m or a decline of EUR 8.4 m, respectively, in the value of this obligation (previous year: EUR 2.6 m/EUR -1.9 m). The change would directly affect consolidated net profit and consolidated equity in the same amount in the light of the deferred tax effects.

## CREDIT RISK MANAGEMENT

### Introduction

The credit risk is the risk of loss for the Group if a counterparty fails to honour its contractual obligations. The book value of the financial assets recognised in the consolidated financial statements less any impairments constitute the Group's maximum credit risk. This does not include any collateral received, particularly rental deposits and liens.

The Group enters into business relations solely with credit-worthy counterparties and, if appropriate, requests collateral to reduce the risk of loss in the event of the counterparty's failure to comply with its duties. In this connection, available financial information as well as the Group's own trading records were used to assess counterparties. Risk exposure is monitored on an ongoing basis.

There are trade receivables due from a large number of customers spread over different regions, all of which are located within Germany. Regular credit assessments are performed to determine the financial condition of the receivables. Material receivables are predominantly held against customers with good credit ratings.

## Estimate of expected credit losses

At each reporting date, TAG examines financial assets recognised at amortised cost for any evidence of impairment. A financial asset is impaired if one or multiple events with a negative impact on the expected future cashflows from the financial asset occur.

The gross carrying amount of a financial asset is impaired if the Group does not reasonably believe that it will be possible to recover all or part of the financial asset. Impairments of trade receivables always equal the expected credit loss over their respective term. The Group uses an impairment matrix to measure expected losses on trade receivables from individuals. These include a very large number of small balances.

The loss ratios are calculated on the basis of a factor method that compares the outstanding receivables with the gross rent, taking into account the rental deposits received. Loss ratios are calculated on the basis of historical data from the last three years in the light of any changes in external factors and are reviewed regularly.

The following table provides information on the estimated credit risk for individuals as of 31 December 2018.

| in EUR m | Loss rate | Gross carrying amount | Impairment |
|---|---|---|---|
| Existing rental contracts | | | |
| - Factor ≤ 2 | 0.5% | 10.7 | 0.1 |
| - Factor >2 ≤ 3 | 35% | 0.5 | 0.1 |
| - Factor >3 ≤ 6 | 50% | 0.9 | 0.3 |
| - Factor >6 ≤ 9 | 75% | 0.5 | 0.3 |
| - Factor >9 | 100% | 0.9 | 0.9 |
| Terminated rental contracts | 75% | 9.1 | 6.7 |
| | | 22.6 | 8.4 |

The Group derecognises a financial asset when it is finally determined to be unrecoverable. In making this assessment, the Group takes into account credit information or information from judicial rent collection proceedings, for example.

## Impairments of trade receivables

Impairments of trade receivables changed as follows:

| Impairments in EUR m | 2018 |
|---|---|
| **Balance on 1 January under IAS 39** | **11.0** |
| Adjustment due to first-time application of IFRS 9 | 0.1 |
| **Balance on 1 January under IFRS 9** | **11.1** |
| Amounts adjusted | -4.1 |
| Net changes over expected term | 1.5 |
| **Balance on 31 December 2018** | **8.5** |

Receivables had a gross carrying amount of EUR 2.8 m in the year under review. Significant changes in the gross carrying amount of trade receivables regularly result from changes in the normal course of business. The increase is primarily due to ancillary cost statements in the year under review.

Trade receivables with a nominal value of EUR 3.8 m were recognised as of 31 December 2018 but are still subject to enforcement measures.

## Other current assets / cash and cash equivalents

The estimate of expected credit losses applicable to other current assets/cash and cash equivalents is based on valuation inputs and external ratings. The expected credit losses are still classified as low.

As of 31 December 2018, the Group had cash and cash equivalents of EUR 91.7 m. Cash and cash equivalents are deposited with banks and financial institutions all of which have an investment grade rating. The estimated impairment of cash and cash equivalents was calculated on the basis of expected losses within twelve months and reflects the short settlement periods. The Group assumes that its cash and cash equivalents are currently exposed to a low risk in view of the external ratings of the banks and financial institutions. When it applied IFRS 9 for the first time from 1 January 2018, the Group did not recognise any impairments for materiality reasons. There was no change in this view as of 31 December 2018.

The Group had granted short-term loans of EUR 3.9 m as of 31 December 2018. The estimated impairment of these loans was calculated on the basis of expected losses within twelve months and reflects the fact that they are collateralised in full. TAG assumes that the credit risk for any of these assets would increase significantly if the applicable LTV ratio were to exceed 85% or the contractual payments were more than 30 days past due. Accordingly, the Group did not recognise any impairments when it applied IFRS 9 for the first time from 1 January 2018 due to the existing collateral. There was no change in this view as of 31 December 2018.

## LIQUIDITY RISK

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

The following tables show the scheduled repayment of bank liabilities as of the earliest day on which the Group is under any settlement obligation.

| Liabilities to banks in TEUR | 2018 | 2017 |
|---|---|---|
| Due for settlement in less than 1 year | 125,271 | 77,399 |
| 1 to 5 years | 418,963 | 398,614 |
| More than 5 years | 1,311,309 | 1,459,423 |
| **Total** | **1,855,543** | **1,935,436** |

In addition, there are estimated future payment outflows from interest on liabilities of banks due for settlement in less than one year of EUR 41 m (previous year: EUR 27 m), in more than one but less than five years of EUR 144 m (previous year: EUR 85 m) and in more than five years of EUR 201 m (previous year: EUR 156 m).

The corporate bonds of EUR 125 m each will be repaid in 2023 and 2025. The convertible bond issued in 2017 will expire in 2022 unless it is converted. In addition, there is estimated interest due for settlement in less than one year of EUR 5 m (previous year: EUR 16 m), in more than one but less than five years of EUR 20 m (previous year: EUR 16 m) and in more than five years of EUR 4 m (previous year: EUR 0 m). The 2018 issued commercial papers with a maximum value of EUR 50 m, of which an amount of EUR 35 m is outstanding as of the reporting date, normally have terms of between one and six months.

Within derivative financial instruments, the conversion right of EUR 36.9 m (previous year: EUR 6.3 m) may be exercised at any time until September 2022, with TAG holding a cash settlement option. A purchase price guarantee valued at EUR 2.2 m (previous year: EUR 1.6 m) may be exercised for the first time at the end of 2026 and subsequently every two years at the end of each year; another purchase price guarantee valued at EUR 2.8 m (previous year: EUR 0.0 m) may be exercised for the first time at the end of 2028 and subsequently every two years at the end of each year.

Other financial assets primarily concern investments of an indefinite duration. All other financial assets are due for settlement in less than one year.

The Group is able to utilise overdraft facilities. The total amount not utilised as of the reporting date stands at EUR 106.5 m (previous year: EUR 73.0 m). 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 still making use of current market conditions to restructure key loan agreements on a long-term basis in order to mitigate this risk.

In addition, loans of a total of EUR 1,426 m (previous year: EUR 1,504 m) have been raised within the Group for which financial covenants specifying certain capital service ratios and equity/debt ratios have been agreed. If any of these covenants are breached, premature loan repayments may be necessary. As of the reporting date, all main financial covenants stipulated in loan contracts were complied with.

Similarly, the corporate and convertible bonds are subject to certain terms and conditions which, if breached, constitute a liquidity risk. In the event of a change of control (no financial covenants have been stipulated), these 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 – are 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 42.6 m (previous year: EUR 40.2 m). The relevant contracts provide for collateral equalling three monthly rental instalments to be provided.

# OTHER INFORMATION

## OTHER FINANCIAL OBLIGATIONS

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

| Other financial obligations in TEUR | 2018 | 2017 |
|---|---|---|
| Rentals for business premises | 11,244 | 2,476 |
| Others (e.g. manager contracts, leases, rental guarantees) | 4,688 | 4,581 |
| **Total** | **15,932** | **7,057** |

The increase in other financial obligations is mainly due to a long-term lease agreement for new business premises in Berlin. One part of the other financial obligations of TEUR 4,569 (previous year: TEUR 3,866) is due for settlement in less than one year, a further part of TEUR 5,751 (previous year: TEUR 3,192) between one and less than five years and a further part of TEUR 5,612 (previous year: TEUR 0) in more than five years.

## CONTINGENT LIABILITIES

In 2011 and 2012, TAG executed several transactions for the acquisition of real estate entities in the form of corporate structures so as to avoid realty transfer tax on the acquisition of the shares. The shares were acquired via a special purpose entity. At the date on which the transactions were executed, the exemption from realty transfer tax was permitted under statutory provisions and court judgements at the time as well as a circular issued by the tax administration. In addition, the tax authorities had been duly notified.

However, in a ruling of September 2017 published at the beginning of 2018, the German Federal Tax Court altered its legal views on the exemption of transactions within such corporate structures from realty transfer tax. This specifically concerned the question of the allocation of the shares held by the special purpose entities for the purposes of realty transfer tax. As a result of the legal uncertainty that has arisen from the new court ruling, it was not possible to exclude a situation in which realty transfer tax liability was retroactively assessed for certain transactions executed in 2011 and 2012 notwithstanding the existence of grandfathering rules arising from reliance on the previous legal situation, notification submitted to the tax authorities and time-bar effects. Accordingly, provisions of EUR 8.5 m were set aside as of 31 December 2017 for transactions executed in 2011 and 2012 in cases in which tax assessment may not yet be final. As of 31 December 2018, it was possible to reverse part of these provisions in an amount of EUR 6.2 m for transactions executed in 2011 as these were now subject to time-bar effects. Consequently, there were provisions of EUR 2.3 m for the transactions executed in 2012 as of the reporting date.

While the Company believes that this amount is sufficient to cover the realty transfer tax risks, additional tax burdens beyond the amount of these provisions may arise in view of the present legal uncertainty as well as uncertainty over the approach taken by the tax authorities in this matter. This concerns transactions involving possible retrospective realty transfer tax liabilities of around EUR 20 m. TAG assumes that claims are now time-barred due to the submission of notification of the transactions. However, as this has not yet been officially reviewed or confirmed, the possibility of an outflow of resources cannot be completely ruled out.

## 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 of only subordinate importance.

## FEES PAYABLE TO STATUTORY AUDITORS

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the annual and consolidated financial statements of TAG Immobilien AG as well as the annual financial statements of various subsidiaries where mandatory audits were required. In addition, a voluntary audit of a subsidiary's annual financial statements was performed. As well as this, advisory services were provided in connection with the tax deductibility of interest on loans (interest barrier) and the tax risk management system. In addition, an internal training course and a workshop related to the non-financial report were held and an opinion concerning compliance with financial covenants obtained.

The fees of a total of EUR 991 (previous year: TEUR 883) (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 966 (previous year: TEUR 860) for auditing services
- TEUR 2 (previous year: TEUR 2) for other attestation services
- TEUR 10 (previous year: TEUR 13) for tax advisory services, and
- TEUR 13 (previous year: TEUR 8) for other services.

The fees for auditing activities include trailing costs of TEUR 49 (previous year: TEUR 2).

## HEADCOUNT

TAG had the following average number of employees:

| Employees | 2018 | 2017 |
|---|---:|---:|
| Operational employees | 517 | 509 |
| Administration and central area | 108 | 105 |
| Caretakers | 310 | 297 |
| Craftsmen | 58 | 50 |
| **Total** | **993** | **961** |

## RELATED PARTIES

As in the previous year, there were no transactions with related parties with the exception of the remuneration paid to the Company's governance bodies as listed below.

## 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 the year under review are listed below:

- Rolf Elgeti, businessman, Potsdam (Chairman)
  - Deutsche Leibrenten Grundbesitz AG, Frankfurt am Main (Chairman)
  - Staramba SE, Berlin
  - Laurus Property Partners GmbH, Munich
  - creditshelf Aktiengesellschaft, Frankfurt am Main (Chairman), from May 2018
  - Highlight Event and Entertainment AG, Pratteln, Switzerland, from June 2018
- Mr Lothar Lanz, businessman, Munich (Deputy Chairman)
  - Axel Springer SE, Berlin
  - Zalando SE, Berlin (Chairman)
  - home24 SE, Berlin (Chairman)
  - Bauwert Aktiengesellschaft, Bad Kötzting (Deputy Chairman)
  - Dermapharm Holding SE, Grünwald, from January 2018
  - Kinnevik AB, Stockholm, Sweden, until May 2018
- Dr Philipp K. Wagner, attorney, Berlin
  - Hevella Capital GmbH & Co. KGaA, Potsdam
- Prof Dr Kristin Wellner, university professor, Leipzig, from May 2018
- Dr Hans-Jürgen Ahlbrecht, engineer, Berlin, until May 2018
- Harald Kintzel, attorney, Berlin, employee representative
- Marco Schellenberg, real estate management assistant, Gera, employee representative

The remuneration paid to the Supervisory Board in the year under review came to TEUR 365 (previous year: TEUR 365) plus expenses and value added tax.

## MANAGEMENT BOARD

The members of the Management Board and the offices which they hold in other supervisory boards or comparable domestic and non-domestic supervisory bodies in 2018 are set out below:

- Claudia Hoyer, Chief Operating Officer, Potsdam
- Martin Thiel, Chief Financial Officer, Hamburg
- Dr Harboe Vaagt, Chief Legal Officer, Hamburg
  - TAG Colonia-Immobilien AG, Hamburg (Chairman)

Details of the remuneration paid to the member of the Supervisory Board and the Management Board can be found in the section entitled 'Report on the Company's remuneration system in accordance with Section 315 (2) No. 4 of the German Commercial Code (remuneration report)'.

Remuneration accruing to the Management Board in the year under review (incentives granted) came to TEUR 1,861 (previous year: TEUR 2,045).

## 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.

## MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

No reportable events occurred after the reporting date.

Hamburg, 19 February 2019

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

# LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 (2) OF THE GERMAN COMMERCIAL CODE

| Name of company | Registered office | Share in capital % |
|---|---|---|
| **Parent company** | | |
| **TAG Immobilien AG** | **Hamburg** | |
| **Fully consolidated companies** | | |
| Bau-Verein zu Hamburg Immobilien GmbH | Hamburg | 100.0 |
| Bau-Verein zu Hamburg Wohnungsgesellschaft mbH | Hamburg | 100.0 |
| BV Hamburger Wohnimmobilien GmbH | Hamburg | 100.0 |
| VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG | Berlin | 100.0 |
| VFHG Verwaltungs GmbH | Hamburg (formerly: Berlin) | 100.0 |
| Wohnanlage Ottobrunn GmbH | Hamburg | 100.0 |
| Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH | Hamburg | 100.0 |
| Bau-Verein zu Hamburg ‘Junges Wohnen’ GmbH | Hamburg | 100.0 |
| URANIA Grundstücksgesellschaft mbH | Hamburg | 100.0 |
| BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH | Hamburg | 100.0 |
| Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH | Hamburg | 100.0 |
| TAG Handwerkerservice GmbH | Hamburg | 100.0 |
| TAG Steckelhörn Immobilien GmbH | Hamburg | 100.0 |
| TAG Brandenburg-Immobilien GmbH | Hamburg | 100.0 |
| TAG Gotha Wohnimmobilien GmbH & Co. KG | Hamburg | 100.0 |
| TAG Wohnen & Service GmbH | Hamburg | 100.0 |
| TAG Immobilien Verwaltung (vormals: TAG Stuttgart-Südtor Verwaltungs GmbH) | Hamburg | 100.0 |
| TAG Potsdam-Immobilien GmbH | Hamburg | 100.0 |
| TAG Immobilien Wohn-Invest GmbH | Hamburg | 100.0 |
| TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH | Hamburg | 100.0 |
| TAG Wohnungsgesellschaft Sachsen mbH | Hamburg | 100.0 |
| TAG Immobilien Service GmbH | Hamburg | 100.0 |
| TAG Beteiligungs- und Immobilienverwaltungs GmbH* | Hamburg | 100.0 |
| Energie Wohnen Service GmbH | Hamburg | 100.0 |
| TAG Finance Holding GmbH | Hamburg | 100.0 |
| TAG Beteiligungsverwaltungs GmbH | Hamburg | 100.0 |
| TAG Nordimmobilien GmbH | Hamburg | 100.0 |
| TAG Sachsenimmobilien GmbH | Hamburg | 100.0 |
| TAG NRW-Wohnimmobilien & Beteiligungs GmbH | Hamburg | 100.0 |
| TAG 1. NRW-Immobilien GmbH | Hamburg | 100.0 |
| TAG 2. NRW-Immobilien GmbH | Hamburg | 100.0 |
| TAG Leipzig-Immobilien GmbH | Hamburg | 100.0 |
| TAG Marzahn-Immobilien GmbH | Hamburg | 100.0 |
| TAG SH-Immobilien GmbH | Hamburg | 100.0 |
| TAG Magdeburg-Immobilien GmbH | Hamburg | 100.0 |
| TAG Grebensteiner-Immobilien GmbH | Hamburg | 100.0 |
| TAG Klosterplatz-Immobilien GmbH | Hamburg | 100.0 |
| TAG Wolfsburg-Immobilien GmbH | Hamburg | 100.0 |
| TAG Chemnitz-Immobilien GmbH | Hamburg | 100.0 |
| TAG Spreewaldviertel-Immobilien GmbH | Hamburg | 100.0 |
| TAG Wohnen GmbH* | Hamburg | 100.0 |

| | | |
|---|---|---|
| TAG Stadthaus am Anger GmbH | Hamburg | 100.0 |
| TAG TSA Wohnimmobilien GmbH* | Hamburg | 100.0 |
| Multimedia Immobilien GmbH | Hamburg | 100.0 |
| Zuhause Wohnungsunternehmen GmbH | Berlin | 100.0 |
| Perseus Immobilien Gesellschaft 9 S.à.r.l. | Luxemburg | 100.0 |
| Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG | Hamburg | 98.1 |
| TAG Wohnungsgesellschaft Berlin-Brandenburg mbH | Hamburg | 94.8 |
| TAG Bartol Immobilien GmbH | Hamburg | 94.8 |
| TAG Certram Immobilien GmbH | Hamburg | 94.8 |
| TAG Sivaka Immobilien GmbH | Hamburg | 94.8 |
| TAG Zidal Immobilien GmbH | Hamburg | 94.8 |
| TAG Chemnitz Straubehof Immobilien GmbH | Hamburg | 94.8 |
| TAG Chemnitz Muldental Immobilien GmbH | Hamburg | 94.8 |
| TAG Chemnitz Zeisigwald Immobilien GmbH | Hamburg | 94.8 |
| TAG Havel-Wohnimmobilien GmbH | Hamburg | 94.8 |
| TAG Wohnungsgesellschaft Thüringen mbH | Hamburg | 94.0 |
| TAG Portfolio Thüringen GmbH & Co. KG | Hamburg | 94.0 |
| TAG Wohnungsgesellschaft Gera mbH | Hamburg | 94.0 |
| TAG Wohnungsgesellschaft Gera-Debschwitz mbH | Hamburg | 94.0 |
| TAG Grasmus Immobilien GmbH | Hamburg | 84.8 |
| Emersion Grundstücksverwaltungsgesellschaft mbH | Hamburg | 84.8 |
| Domus Grundstücksverwaltungsgesellschaft mbH | Hamburg | 84.8 |
| TAG Colonia-Immobilien AG | Hamburg | 84.1 |
| Colonia Wohnen GmbH | Hamburg | 84.1 |
| Colonia Immobilien Verwaltung GmbH | Hamburg | 84.1 |
| Colonia Portfolio Ost GmbH | Hamburg | 84.1 |
| Colonia Portfolio Berlin GmbH | Hamburg | 84.1 |
| Colonia Portfolio Bremen GmbH & Co. KG | Hamburg | 84.1 |
| Colonia Portfolio Hamburg GmbH & Co. KG | Hamburg | 84.1 |
| Colonia Wohnen Siebte GmbH | Hamburg | 84.1 |
| Colonia Portfolio Nauen GmbH & Co. KG | Hamburg | 84.1 |
| TAG Wohnimmobilien Halle GmbH & Co. KG | Hamburg | 84.1 |
| FC REF I GmbH | Grünwald | 80.0 |
| FC REF II GmbH | Grünwald | 80.0 |

| Name of company | Registered office | Share in capital % | Equity TEUR | Consoli-dated net income TEUR |
|---|---|---|---|---|
| **Companies reported at equity** | | | | |
| Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH i.L. ** | Hamburg | 50.0 | 33 | -1 |
| Texas Gewerbeimmobilien S.à.r.l. i.L. *** | Luxemburg | 20.0 | -2,511 | -14,472 |

* Exemptions provided for in Section 264 (3) of the German Commercial Code utilised
** Figures based on the single-entity German GAAP (HGB) financial statements as of 31 December 2018
*** Figures based on the single-entity Luxembourg GAAP financial statements as of 31 December 2017

# INDEPENDENT AUDITOR'S REPORT

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

### Opinions

We have audited the consolidated financial statements of TAG Immobilien AG, Hamburg and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cashflows for the financial year from 1 January 2018 to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of TAG Immobilien AG for the financial year from 1 January 2018 to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January 2018 to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

## Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the group management report' section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

## Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

## Measurement/valuation of investment properties

We refer to the comments in the notes to the consolidated financial statements on the measurement of the fair value of investment properties ('Recognition and valuation principles' and '1. Investment properties') and to the related measurement uncertainties ('Material judgments and estimates') and to the group management report on the remeasurement of the real estate portfolio ('Business development').

**Risks to the financial statements**

TAG Immobilien AG has recognized within its non-current assets investment properties valued at EUR 4,666.7 m (92,7% of total assets), which were measured at their fair value as of the reporting date). Fair value measurement of the investment properties resulted in a measurement gain of EUR 430.0 m in the financial year, which was recognised through profit and loss.

The fair values of the investment properties are calculated on the basis of opinions prepared by the independent expert whose services are retained for this purpose. Among other things, the expert opinions are based on data provided by the company (e.g. floor space available for leasing, vacancies and current rents). Fair value is calculated using the discounted cashflow method on the basis of expected future cashflows. Accordingly, some of the main inputs for these calculations such as future rental income, property management costs and the discount rates to be applied are estimated by the independent experts.

In addition to actual data, forward-looking data subject to some discretionary leeway is required for the calculations. Forward-looking estimates are inherently subject to uncertainty and may have a significant impact on the calculation of fair values and, hence, the presentation of the company's net assets and results of operation. The financial statements are exposed to a risk in that the fair value of the investment properties may be incorrectly measured and that the measurement methods applied and the uncertainties for estimates were not explained sufficiently in the notes to the consolidated financial statements.

**The approach taken in our audit**
To assess the appropriateness of the data used to calculate fair value and of the underlying assumptions and other parameters, we implemented our own measurement specialists. In talks with the Management Board, representatives of the company's departments (particularly real estate accounting and group financial accounting) and the external experts retained by the company, we sought to gain an understanding of the appropriateness of the measurement method applied, the measurement process and the independent expert's activities. We then sought to satisfy ourselves of the appropriateness and efficacy of the controls used for ensuring that the actual data had been collected free of any errors or omissions, processed appropriately and made available to the independent expert and for ensuring that the determining factors applied by such independent expert were reasonable.

We assessed the competence, capabilities and objectivity of the independent expert and we appraised the calculations performed by the independent expert. For this purpose, we checked the actual data (address, floor space available for letting, vacancies, actual rent) used for calculating the fair value of the investment properties against the company's current tenant lists for a combination of risk-oriented and randomly selected items among other things. In addition, we assessed the assumptions applied to determine the rentals prevailing in the real estate market, structural vacancies and discount and capitalization rates in the light of the type and location of the assets selected by means of a comparison with the market and sector-specific benchmarks.

Moreover, we compared the general assumptions underlying the measurements (growth in rents, operating, administration and maintenance costs, periods required for follow-up lease etc.) with general and sector-specific market expectations. In addition, we compared the average multiples arising from the fair values and assumed market rentals per location in the light of the characteristics of the individual asset and location with multiples derived on reports issued by real estate associations and renowned real estate brokers.

As well as this, we assessed whether the explanations provided by the company in the notes to the consolidated financial statements on the calculation of the fair value of the investment properties and the related uncertainties were presented appropriately.

**Our conclusions**
The assumptions and parameters applied for the measurement of investment properties are appropriate and are in accordance with the valuations principles for the measurement of investment properties. The explanations in the notes to the consolidated financial statements are appropriate.

## OTHER INFORMATION

Management is responsible for the other information. The other information comprises the non-financial statement and the corporate governance statement, and the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 23 May 2018. We were engaged by the supervisory board on 15 June 2018. We have been the group auditor of the TAG Immobilien AG without interruption since the financial year 2012.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Rainer Thiede.

Hamburg, 19 February 2019

**KPMG AG**
**Wirtschaftsprüfungsgesellschaft**
[Original German version signed by:]

| | |
|---|---|
| **Thiede** | **Bagehorn** |
| **Wirtschaftsprüfer** | **Wirtschaftsprüfer** |
| **(German Public Auditor)** | **(German Public Auditor)** |

# 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, 19 February 2019

**Claudia Hoyer**
**COO**

**Martin Thiel**
**CFO**

**Dr. Harboe Vaagt**
**CLO**

# TAG FINANCIAL CALENDAR 2019

## Publications / Events

| | |
|---|---|
| 6 March 2019 | Publication of Annual report 2018 |
| 25 April 2019 | Publication of interim report – Q1 2019 |
| 7 May 2019 | Annual General Meeting, Hamburg |
| 8 August 2019 | Publication of interim report – Q2 2019 |
| 30 October 2019 | Publication of interim report – Q3 2019 |

## Conferences

| | |
|---|---|
| 10 January 2019 | Oddo BHF Forum, Lyon |
| 21 January 2019 | Kepler Cheuvreux German Corporate Conference, Frankfurt |
| 28 March 2019 | Commerzbank German Real Estate Forum 2019, London |
| 3 April 2019 | Bankhaus Lampe German Conference, Baden-Baden |
| 16 May 2019 | Kepler Cheuvreux German Property Day, Paris |
| 23 May 2019 | Kempen European Property Seminar, Amsterdam |
| 24 May 2019 | HSBC European Real Estate Conference, Frankfurt |
| 6 June 2019 | dbAccess Berlin Conference, Berlin |
| 29 August 2019 | German sector conference Commerzbank AG, Frankfurt |
| 10 September 2019 | EPRA Conference, Madrid |
| 23 September 2019 | Berenberg & Goldman Sachs Corporate Conference, Munich |
| 23–26 September 2019 | Baader Investment Conference, Munich |
| 28 November 2019 | Berenberg Real Estate Seminar, Paris |

TAG Headquarter Hamburg (Hamburg)

# CONTACT

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The English version of the 2018 annual report is a translation of the German version. The German version is legally binding.

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