TAG 2014

Annual Report

TAG

Immobilien AG

GROUP FINANCIALS IFRS

in TEUR	2014	2013	2012
A. Net gain/loss as shown in the income statement			
Total rental income	257,373	250,991	192,462
a) Rental income from continuing operations	248,875	230,441	192,462
b) Rental income from discontinued operations	8,498	20,550	0*
EBITDA (adjusted)	165,970	157,843	116,452
EBIT	230,078	132,839	289,125
EBT	121,191	34,529	202,551
Consolidated net profit	28,964	26,995	177,922
FFO I per share in EUR (redefined)	0.63	0.47	0.26
FFO I per share in EUR (as previously reported)	0.68	0.52	0.30
FFO I in EUR m (redefined)	74.5	61.7	34.3
FFO I in EUR m (as previously reported)	80.1	68.1	39.6
FFO II in EUR m (redefined)	114.8	61.4	34.2
FFO II in EUR m (as previously reported)	120.4	67.8	39.5
AFFO in EUR m (redefined)	42.9	41.7	23.8
AFFO in EUR m (as previously reported)	48.5	48.1	29.1

B. Balance sheet key figures	12/31/2014	12/31/2013	12/31/2012
Total assets	3,734,246	3,813,052	3,799,962
Equity	1,005,053	1,127,366	1,156,456
Equity ratio in %	26.9	29.6	30.4
Real estate volume	3,371,269	3,606,799	3,664,867
LTV in %	62.2	62.1	58.6
LTV in % incl. outstanding convertible bonds	65.3	65.0	63.7
NAV per share in EUR (redefined)	10.10	9.96	10.46
NAV per share in EUR (as previously reported)	9.61	9.45	9.96
Diluted NAV per share in EUR (redefined)	9.85	9.76	9.91
Diluted NAV per share in EUR (as previously reported)	9.40	9.31	9.49

C. Employees	12/31/2014	12/31/2013	12/31/2012
Number of employees	521	519	508

D. Share	
Market cap as of 12/31/2014 in TEUR	1,267,078
Share capital in EUR	131,712,859.00
WKN/ISIN	830350/DE0008303504
Number of shares as of 12/31/2014 (issued)	131,712,859
Number of shares as of 12/31/2014 (outstanding after share buy-back)	118,585,681
Free Float in %	90
Index	MDAX/EPRA

* In 2012 TAG had no discontinued operations

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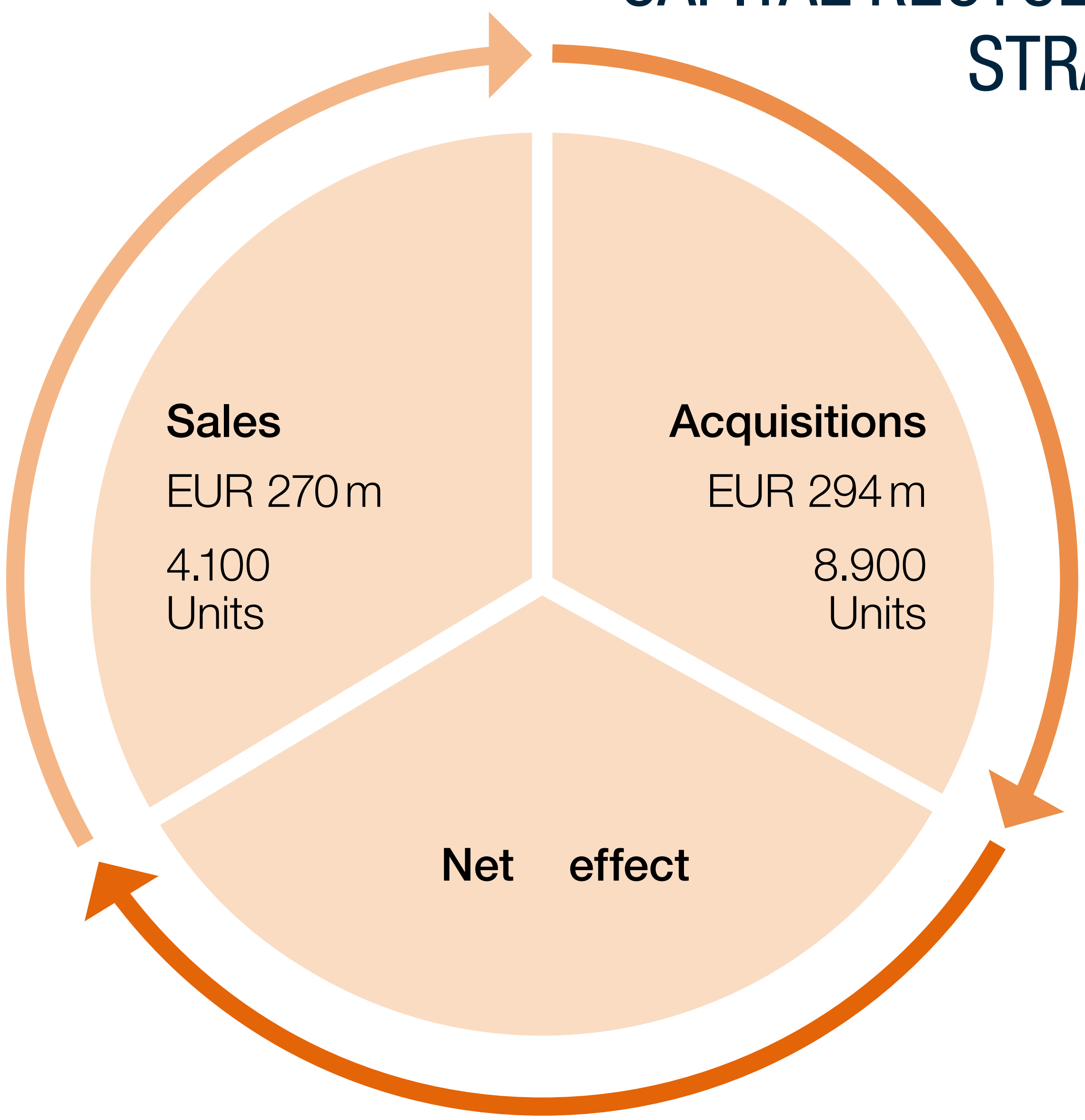
HIGHLIGHTS 2014

CAPITAL RECYCLING STRATEGY



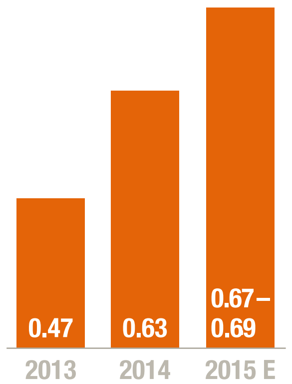
SALES

- High-priced markets
- High selling prices/multiples
- Potential for value creation raised
- Active Asset Management (vacancy reduction, rent increases)

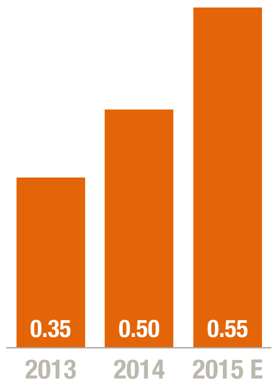
ACQUISITIONS

- Stable markets with development potential
- Integration into TAG's local infrastructure
- Existing TAG regions
- High total return

FFO I in EUR



Dividend in EUR



↑ EBITDA Margin

↑ Liquidity

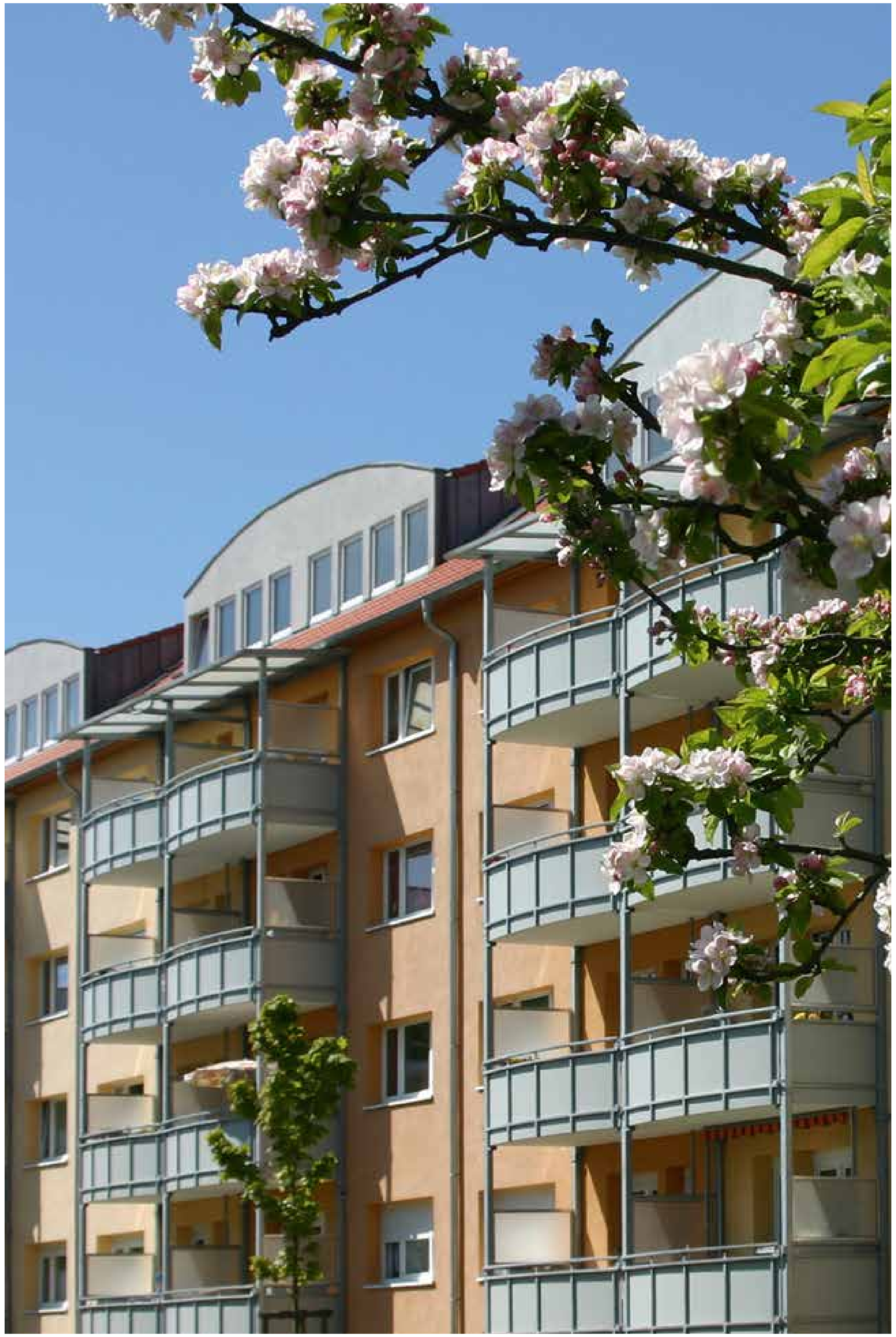
↑ Units at the beginning of 2015:

75,000

Units at the beginning of 2014:

70,600

OUR STRATEGY FOCUSES ON THE TOTAL RETURN ON INDIVIDUAL SHARES.



Heinrich-Mann-Strasse, Stralsund

FOREWORD

Dear Shareholders,
Ladies and Gentlemen,

TAG Immobilien AG had a successful year in 2014. On the operations side, we were able to significantly increase our funds from operations (FFO) from EUR 61.7 m in 2013 to EUR 74.5 m, and achieved substantially improved earnings before taxes (EBT) of EUR 121.2 m (previous year: EUR 34.5 m). Even after the value adjustments we made to the commercial sector at year-end, our consolidated net profit increased year-on-year to EUR 29.0 m (previous year: EUR 27.0 m). Therefore, for the 2014 financial year we are proposing the payment of a dividend of EUR 0.50 per share at the Annual General Meeting. For TAG, this represents a significant increase over previous years, and means that we pay the highest dividend yield in the sector compared to our peer group.

Vacancy and rents showed a very gratifying development across the entire portfolio. For instance, vacancy in our residential units was reduced from 8.9 % at the beginning of the year to 8.1 % year-end. The Salzgitter location saw a significant development in vacancy, which fell a further 3.1 % during the fiscal year to 15.5 % at year-end and is currently at 15 %. At the same time, average rent per square metre in residential units increased from EUR 4.97 to EUR 5.00 in the group. With targeted investments in the portfolio's energy efficiency and senior friendly accommodations, we are ensuring the future viability of the real estate and its sustainable utilisation, and offering our tenants measurable added value at reasonable prices in various regions of Germany.

A major strategic move in 2014 was the sale of our commercial real estate portfolio – notarised in March 2014 and completed in May 2014 – which involved real estate assets of EUR 294 m and bank loans totalling EUR 166 m. This transaction concluded TAG's focus on the residential real estate sector. In addition, the sale brought in more than EUR 70 m in cash and cash equivalents in May 2014.

During the 2014 financial year, we expanded our residential portfolio to a total of 72,530 units, and by the time this annual report goes to print, the portfolio will have grown to around 75,000 units. In all, we acquired approximately 8,900 units in 2014 at purchase prices that averaged about 10 times the annual net rental income. We invested a total of EUR 294 m in new portfolio.

We began the exponential expansion of our portfolio in 2009, much earlier than many of our competitors, and have created value for our shareholders as a result. However, in the current market environment, clear capital discipline is becoming more important, as in some segments and regions, purchase prices have reached levels where in our view, long-term portfolio management is no longer in congruence with the equity costs. So in these regions, we are also reviewing sales options.

In November and December 2014 we were able to sell a total of around 3,500 residential units in Berlin for a total selling price of EUR 246 m. These sales not only gave us a book profit of EUR 43 m; once the associated liabilities to banks had been paid off and prepayment penalties taken into account, a net cash inflow of around EUR 115 m remained, which is available for investment in new portfolio, and part of which has already been reinvested in recent weeks and months.

In matters of financing, we have further improved our funding structure. As of 31 December 2014, total financing costs averaged 3.7 % compared to 3.9 % at the end of the previous year. By the reporting date, the average maturity of our loans was over 10 years. After having issued our first corporate bond in August 2013 with a volume of EUR 200 m, an interest rate of 5.125 % and a maturity of five years, we were able to increase it by another EUR 110 m in February 2014. The effective interest rate for this increase was 4.3 %. Finally, we issued another corporate bond in June 2014 in the amount of EUR 125 m, with a term of six years and an interest rate of just 3.75 %. The exercise prices of the convertible bonds we had issued in previous years, whose outstanding nominal volume amounted to EUR 107 m on 31 December 2014 and whose terms expire in 2015 and 2019, are quoted well below the current market price, so we expect a full conversion into equity.

On the capital side, we took some new paths in 2014. In fiscal 2013, we had already repurchased convertible bonds totalling EUR 72 m, thereby significantly reducing potential dilutive effects for our shareholders. Now with the share buyback carried out in September and October 2014, we have created further value for our shareholders by acquiring EUR 122 m in TAG shares below NAV and at a price of EUR 9.30 per share, which is significantly below the current share price.

Dr Harboe Vaagt, CLO

Claudia Hoyer, COO

Martin Thiel, CFO

There were also significant personnel changes on our boards in 2014. Our long-standing Chairman of the Supervisory Board, Dr Lutz R. Ristow, resigned from the Supervisory Board for age reasons. After resigning from the Supervisory Board, Dr Ristow was appointed Honorary Chairman of the Supervisory Board. At the end of the year Rolf Elgeti, who significantly shaped TAG as CEO for over five years, moved to the Supervisory Board of our company and is now its Chairman. We thank them both for their excellent work of recent years, which Rolf Elgeti is now continuing on the Supervisory Board, albeit in a different role.

Our strategy for you, our shareholders, focuses on total return per share. In contrast to previous years, growth in absolute numbers is no longer a priority for TAG. Rather than size, the ability to create value and to occupy a leading position in our regions with profitability and capital efficiency are crucial to success.

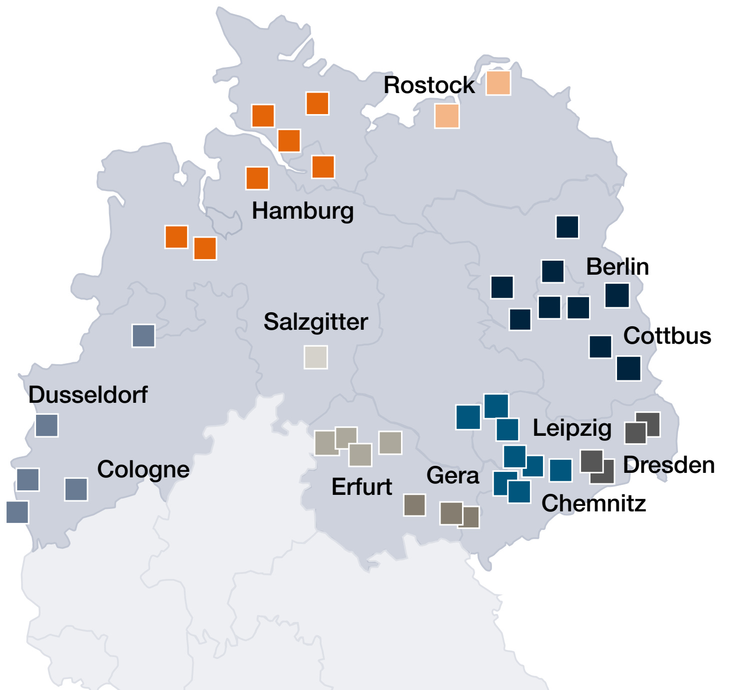
We thank you for your trust and confidence in us in the past financial year. The very positive performance of our share price in recent months shows the capital market's acceptance of our business model. In fiscal 2015, we will resolutely keep going along our path and continue to successfully position TAG in the market as a company with high returns and dividends.

Yours sincerely,

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

REAL ESTATE PORTFOLIO AND OPERATIVE ORGANISATION OF TAG

As of 31 December 2014, the TAG portfolio comprised about 72,500 units, mainly located in regions showing positive economic growth and development. The focus is on real estate with stable cash flows and attractive returns in locations where TAG already has has investments and offices. The regional focus is mainly northern and eastern Germany. TAG concentrates on residential real estate and has focused its strategy on the management and development of residential real estate by selling most of its commercial portfolio in the 2014 financial year. The book value of all real estate owned by the Group was EUR 3.4 billion as of 31 December 2014.



Hamburg region (10 %)
Segment: Hamburg; LIM: Hamburg

Rostock region (8 %)
Segment: Hamburg;
LIM: Mecklenburg-Vorpommern

Berlin region (15 %)
Segment: Berlin; LIM: Berlin

Salzgitter region (15 %)
Segment: Salzgitter; LIM: Salzgitter

Dresden region (14 %)
Segment: Thuringia / Saxony;
LIM: Dresden, Doebeln / Chemnitz

Leipzig region (11 %)
Segment: Thuringia / Saxony;
LIM: Leipzig

Gera region (11 %)
Segment: Thuringia / Saxony;
LIM: Gera

Erfurt region (10 %)
Segment: Thuringia / Saxony;
LIM: Erfurt

Rhine-Ruhr region (6 %)
Segment: NRW; LIM: Dusseldorf

Portfolio as of 12 / 31 / 2014	2014	2013
Units	72,530	70,587
Rentable area in sqm	4,436,670	4,582,344
Real estate volume in TEUR	3,371,269	3,606,799
Net actual rent in EUR / sqm / month (total)	5.16	5.24
Net actual rent in EUR / sqm / month (residential portfolio)	5.00	4.97
Net actual in EUR m p. a. (total)*	252,287	260,471
Vacancy in % (total)	9.0	9.5
Vacancy in % (residential portfolio)	8.1	8.9

* Excl. acquisitions signed November 2014 / closing February 2015 (2,850 units)

In managing and developing its inventories, we rely on a regionally decentralised organisational structure and flat hierarchies. Its own employees provide the asset and property management needed to develop the real estate and create value. The direct portfolio management is carried out by 'LIM units" (Leiter / in Immobilienmanagement – Director of Real Estate Management), each of which is assigned a regionally defined portfolio of properties. Their administration is decentralised and largely autonomous within approved budgets. The director of a given unit handles leasing, customer service and modernization based on his or her local expertise, and is responsible for budgets and for planning and carrying out the development of the unit's portfolio. Each LIM reports directly to the Management Board (especially COO), and key operational business matters of the operational business are communicated directly to the Management Board.

In addition to the LIM units, standardised work processes are pooled in central departments at the various sites. This ensures an efficient organisation that creates synergies and eases the burden of operational management for regularly recurring work processes such as rental accounting, utility bill settlement and rent increases. During the 2014 / 2015 financial year, a company-wide ERP system was introduced so that the entire Group now works on a uniform, modern platform that contains the solutions and modules needed for digital invoice processing and the import of digital tenant and property files, and that links all units and employees with each other. To further optimise costs, TAG has centralised its purchasing activities in a separate department.

In line with its strategy, TAG will continue to buy properties that can be cost-effectively integrated and profitably managed using the existing infrastructure and organisation described here.

EXPANSION OF THE RESIDENTIAL REAL ESTATE PORTFOLIO

During the year, various acquisitions served to expand the residential portfolio by about 8,900 units.

Dessau, Saxony-Anhalt

Erfurt, Thuringia

Chemnitz, Saxony

Purchase	Thuringia Feb. 2014	Saxony-/Anhalt, Mecklenburg Sept. 2014	North-/East-Germany Nov. 2014	Others Aug./Nov. 2014	Total
Units	4,000	1,500	2,300	1,100	8,900
Rentable area in sqm	236,000	85,400	150,200	68,500	540,100
Net actual rent in EUR/sqm/month	5.24	5.20	5.22	–	
Vacancy in %	10.7	12.9	3.7	–	
Purchase price in EUR m	120.5	37.8	103.0	32.8	294.1
Net actual rent p.a. in EUR m	12.4	3.75	9.8	3.4	29.35
Region/location	Hermsdorf, Jena, Weimar, Erfurt, Chemnitz, etc.	Freiberg, Chemnitz, Dresden	Nordhausen, Stadtilm, Kiel, Itzehoe	Dessau, Goerlitz, Schwerin	
Transfer	Aug. 2014	Oct. 2014	Feb. 2015	Sept. 2014 – Feb. 2015	
Multiple	9.7x	10.1x	10.5x	9.6x	10.0x

Some of the newly acquired inventories have higher vacancy rates than the existing portfolio. In these inventories, TAG sees the possibility of value creation and development potential that can be unlocked through targeted rental offerings, investments, or modernization. Often the condition of the real estate to be improved is due to inadequate third-party management that does not reflect market requirements, and to frequent changes in ownership. The purchase prices agreed, usually between 9 and 11 times the annual actual rent, promise attractive earnings and a further increase in the portfolio's operating cash flow.

TAG's importance and presence in the East German property market has increased significantly in recent years. The focus for investment in the residential market in the former East Germany is primarily based on positive economic fundamentals and especially on the end of outmigration. For the first time since reunification in 2012, as many people moved from West to East as vice versa. The population is increasing, mainly in university towns and cities with good educational and employment opportunities, such as Dresden, Leipzig, Magdeburg, Jena and Chemnitz. This population development trend comes with a trend towards future demand for living space. There is not only rising demand in the population centres but also in the immediate surrounding areas, where vacancy is falling and rent levels are on the rise. As investor demand increases, a corresponding increase in purchase price levels can be seen. In some locations, properties fetch an average of 16 to 17 times their annual net rental income – in 2010, this purchase price factor was still at 12.9 in Dresden and Leipzig, for example.

SALES AND CAPITAL RECYLING

TAG's strategy focuses on the development and management of residential real estate. Accordingly, at the end of March 2014, the commercial real estate division was sold in a share deal involving a transfer of TAG Gewerbeimmobilien GmbH shares, and deconsolidated at the end of May 2014. At this point, TAG's portfolio includes only a few commercial properties, such as our own owner-occupied corporate headquarters in Hamburg, or the serviced apartments we operate.

Though TAG primarily sees itself as a long-term investor, the sale of smaller residential portfolios to optimise the portfolio or exploit favourable market opportunities are a component of the corporate strategy. Starting from an portfolio of over 70,000 residential units, we already had announced in autumn 2014 that we would exploit opportunities for disposals at locations where the purchase price of residential properties is growing much faster than rents. The capital released is to be reinvested in further acquisitions with higher initial returns. The disposals made during financial year 2014 further improved the overall profitability of the portfolio. The equity released is to be reinvested in additional acquisitions in TAG's core regions ('capital recycling').

In 2014, we mainly took advantage of sales opportunities in the currently high-priced Berlin market, and the transactions described below were successfully completed. Some of the purchase prices were significantly higher than the book value of the inventories, and at factors that were up to 19 times the annual rental income. The real estate was managed in recent years by TAG's in-house management, and the value enhancement potential was successfully increased.

Berlin (Staaken)

Berlin (Lankwitz)

Sale	Berlin (Marzahn)	Berlin (Staaken et al.)	Others	Total
Units	2,600	900	600	4,100
Net actual in EUR/sqm/month	4.89	4.97–7.53	–	
Net actual in EUR m	9.4	4.1	0.9	14.4
Vacancy in %	1.2	1.8–5.3	–	
Selling price in EUR m	170.4	76.0	24.4	270.8
Net inflow of liquidity in EUR m	72.0	30.0	9.8	111.8
Book profit (IFRS) in EUR m	36.7	6.4	0.0	43.1
Transfer	Berlin (Marzahn)	Staaken/Lankwitz, Charlottenburg, Neukölln	verschiedene Orte	
Multiple	18x	19x	28x	19x

SUCCESSFUL PORTFOLIO MANAGEMENT

Further vacancy reduction

TAG further reduced vacancy during the 2014 financial year to 8.1 % in its residential units – down from 8.9 % at the end of 2013. Once again, the steepest vacancy reduction in all TAG residential units was achieved in the Salzgitter region, where the vacancy rate fell from 18.6 % to 15.5 %.

In addition, the average net actual rent / sqm per month in the Group increased for many residential units (2014: EUR / sqm 5.00 / 2013: EUR 4.97), after a change of tenant where the new rent was EUR 5.23 / sqm on average.

As a part of vacancy reduction, TAG continuously works on improving its services and the quality of its residential units to strengthen tenant loyalty and respond to tenants' needs. These include the optimisation of rental overhead that has been reduced in recent years due to the size of the Group and targeted local measures for the benefit of tenants. These initiatives include regular new tenders and negotiations with energy suppliers and waste disposal companies, which contribute to improving the quality and attractiveness of a location. The reduction of ancillary costs especially strengthens the competitiveness of TAG apartments.

Realised value creation – Example: The portfolio sold in the Marzahn district of Berlin

In November 2014, a portfolio of 2,600 residential units in the Marzahn district of Berlin was sold at a profit. We had transferred the portfolio to our own property management group in 2011 and developed it through active asset management. In particular, the apartments were adapted to the needs of the market and to individual prospective tenants, which reduced the vacancy to less than 1 % within 3 years while also serving to justify rent increases. Resolute overhead management and an associated reduction in ancillary costs (utilities), as well an improvement in the green spaces and outdoor facilities, make the residential portfolio attractive. In addition, the management practiced stringent receivables management, thereby significantly reducing the rent receivables' default risk. With a sale price of EUR 170.4 m, TAG increased the NAV of the company by EUR 54.4 m through successful asset management during three years.

Facts

- Units: ca. 2,600
- Acquisitions: two transactions in 2011
- Dispositions – one in November 2014
- Net actual rent p. a.: **↑ + 8 %**
  - At acquisition: ca. EUR 8.7 m
  - At disposition: 2014: EUR 9.4 m
- Vacancy: **↓ - 60 %**
  - At acquisition: ca. 3.0 %
  - At disposition 2014: ca. 1.2 %
- Delinquent rent: (in % of the net actual rent): **↓ - 80 %**
  - At acquisition: 6.1 %
  - At disposition 2014: 1.2 %
- Value creation: **↑ + 47 %**
  - At acquisition: ca. EUR 116 m
  - At disposition: EUR 170.4 m
  - NAV contribution: EUR 54.4 m

Berlin (Marzahn)

Berlin (Marzahn)

Successful asset management in Salzgitter

When TAG bought the Salzgitter portfolio in 2011, it had gone through frequent management changes and had an above-average vacancy rate of 24 %.

Thanks to special marketing concepts for students, singles, families and seniors, e.g. layout changes and senior-friendly bathroom conversions, vacancy was reduced by nearly 10 % within a few years. In conjunction with social projects that especially promote intergenerational interaction, a contemporary living environment has been created for the tenants. Regular monitoring and optimisation of operating costs, such as waste management, heat-metering services, cable TV, and energy costs results in affordable rent with a good quality of housing. In Salzgitter the portfolio's operating profitability has increased many times over during the past few years.

Facts

- Units: ca. 9,000
- Acquisition in February 2011 (through acquisition by Colonia Real Estate AG)
- Net actual rent p. a.:
  - At acquisition: ca. EUR 26.9 m
  - 2014: EUR 29.3 m

  ↑ + 9 %
- Vacancy:
  - At acquisition: ca. 24 %
  - December 2014: 15.5 %

  ↓ - 35 %
- FFO contribution p. a.:
  - At acquisition: ca. EUR 2.8 m
  - 2014: EUR 8.2 m

  ↑ + 293 %
- FFO Margin (FFO / net actual rent):
  - At acquisition: 10.4 %
  - 2014: 28.0 %

  ↑ + 269 %

Muntebauten, Salzgitter

Salzgitter

Salzgitter

> TAG can provide assistance in designing a self-determined life, at all stages of life, by offering leisure activities, advice, flexibility and adapting living spaces.“
>
> Andreas Zube, managing director Caritas in Gera

SUSTAINABILITY REPORT 2014

Forward-looking residential property management is no longer conceivable without taking sustainability into account, and TAG has devoted itself to the topic for years. The Group focuses its business policy not only on economic, but also on environmental and social aspects. However, commercial success creates the conditions for social engagement to even be possible. So as a successful company, TAG sponsors a wide variety of projects in its regions and districts.

Clever concepts, better development

Germany's tenants are demanding when it comes to choosing a new home. They like to live in the middle of things, but still be surrounded by leafy green areas. For 52 %, good infrastructure with quick access to shops, schools, kindergartens and hospitals is very important. At the same time, however, 49 % attach great importance to a quiet living environment with little traffic noise. These are the results of a representative TAG study in collaboration with the Technical University of Darmstadt, which surveyed 1,000 tenants in Germany.

TAG is able to fulfil these wishes very nicely with its residential inventories in various German regions. Just as important, though, is the fact that homes can be flexibly equipped in accordance with the tenant's preferences and budget. The advantage is a housing supply individually tailored to the tenant's wishes and needs, which in many market segments represents a significant competitive advantage.

To meet tenants' various furnishing needs, TAG developed a new 'Wohnen nach Maß' ('Made-to-measure living') concept, which allows tenants in Chemnitz, Döbeln, Erfurt or Gera, for example, to choose from a range of floor and wall coverings, tiles and bathroom furnishings – according to their preferences, tastes and budgets, and letting them choose to either have everything or just some of the options redone. Specially decorated show homes at the site help tenants decide which sockets and light switches they want installed. TAG offers a wide variety of styles, options and ideas on how to furnish a home, making optimum use of space.

Bespoke living

Another decisive factor when tenants are choosing a new home is a landlord who is easy to get hold of, takes their concerns seriously, maintains the property well, and quickly sorts out problems or defects. TAG proves that it provides this with more than 60 tenant offices at all locations. TAG always manages its units locally and ensures that tenants have a direct contact person on-site. Specific concerns can be discussed during office hours and are resolved immediately if possible. The staff quickly and efficiently addresses the tenants' problems. In addition, interested parties can take the opportunity to find out about the latest apartment listings at the tenant office.

Otto-Hofmann-Strasse, Chemnitz

Berliner-Strasse, Erfurt

> "As a landlord, social commitment, neighborhood assistance and interaction between generations are very important."
>
> Prof. Dr. Schiereck, TU Darmstadt

Family living

TAG again stepped up its efforts for families with children in 2014. For example, a four-storey building in the Stotternheim district of Erfurt was converted into family-friendly flats with individual layouts. By carrying out this extensive modernisation, the company is responding to the great demand for affordable housing for families.

The flats are situated in a child-friendly environment with a green courtyard and playground. In addition to spacious 3- to 5-bedroom flats, studios have been created. To accomplish this, the property was vacated and everything was modernised, from the electrical system, windows and doors, to the installation of a solar system. An energy-saving insulated exterior façade, modernised (and upgraded) bathrooms, balconies, and renovated stairwells complete the overall picture.

As a special offer to families with young children, TAG launched a subsidised system of waste locks as part of its waste management in Salzgitter. Families with children under the age of three can apply for a 'nappy chip' to bring down the cost of their waste disposal.

In the Zwötzen district of Gera, TAG has renovated several playgrounds to the delight of the resident children. In the Lusan district, a playground was opened with a new climbing wall, swings and slide. TAG operates a total of 33 playgrounds in the urban districts of Gera.

In other cities too, such as Döbeln and Merseburg, TAG has invested in playgrounds and football pitches with goals. Besides the inauguration of the football pitch, the children of tenants in Merseburg were also given TAG school bags at the start of the school year.

In Salzgitter, two boys aged 11 and 12 campaigned for the restoration of the football pitch in their urban neighbourhood. With plenty of enthusiasm, good ideas and prices researched online, they approached the City of Salzgitter to get in contact with the owner, who turned out to be TAG. In consultation with the two children, the football pitch was not only provided with new turf, but also new goals – and the adjacent playground for small children was restored at the same time, providing good playing conditions for the big and small children again. The two boys received a signed football from the Mayor of Salzgitter for their efforts.

Initiatives like these are important in two respects. First, TAG would like to offer families with children a diverse supply of housing in a child-friendly environment. Secondly, these actions often provide an excellent opportunity for TAG's account managers to talk with tenants.

Senior living

In the years ahead, the proportion of the population requiring daily help will increase. TAG is preparing for this by steadily adapting its portfolio to the needs of this target group. New, creative and affordable solutions are required, as currently only 5 % of the 11 million senior households in Germany live in wheelchair-accessible housing.

And yet there are manifold ways to create suitable housing for seniors – from assisted living to neighbourhood concepts and flat-sharing communities. TAG's aim is to help older people live a self-determined, autonomous and independent life in their own homes for as long as possible.

TAG has decided to enter into partnership with welfare organisations at the locations in question. Under these collaboration agreements, TAG voluntarily commits to providing senior-friendly housing in the urban neighbourhood, as well as premises for the welfare organisations' work and meeting places (lounges) for tenants. Furthermore, TAG financially supports their work at the site. The partner, meanwhile, uses their own staff to address tenant concerns, provide care and nursing services, and operate the meeting places. The objective here in each case is to also actively involve tenants in the work, and thereby initiate a network of voluntary neighbourhood assistance.

A good example is the first intergenerational lounge in Salzgitter, run by the Diakonie – the church's welfare and social work arm – since 2013, where tenants get together to shop and cook, celebrate birthdays, and for cheerful afternoons of games. On their own initiative, the tenants have set up a telephone hotline to help each other out in small ways in everyday life. In addition, there is advice and support for people who need help. The lounge is going so well that an expansion is now being considered. In 2014, three other tenant lounges of this kind were opened with various partners in Salzgitter so that TAG can ensure care for elderly tenants in nearly all of the urban neighbourhoods where it has properties.

In a seniors' quarter in Erfurt, there has for years been a housekeeper from a welfare association to look after the needs of older tenants, advise them on receiving care in their own home, and even do their shopping. The tenants live in flats equipped for the disabled, with wheelchair ramps, wide doors, adequate space in the bathrooms (with floor-level showers), a glazed balcony, and a lift. If necessary, tenants can use the care services. Offerings also include (elder)care apartments with suitable bathrooms and a professional nurse in the building.

In the centre of the Lusan district of Gera in September 2014, TAG Wohnen and Caritas built the 'Eichenhof' community house. The building, which had stood empty for some time, was turned into to a new advisory, meeting and communications centre. Here, too, a sustainable network of neighbourhood assistance has been created. The great demand at the location was already evident when it opened - so many tenants came that the premises were hardly big enough to hold them. A dance for seniors was in particularly high demand from the start.

"We want to help older people with creative solutions to live a self-determined, autonomous and independent life for as long as possible – including eldercare services on request."

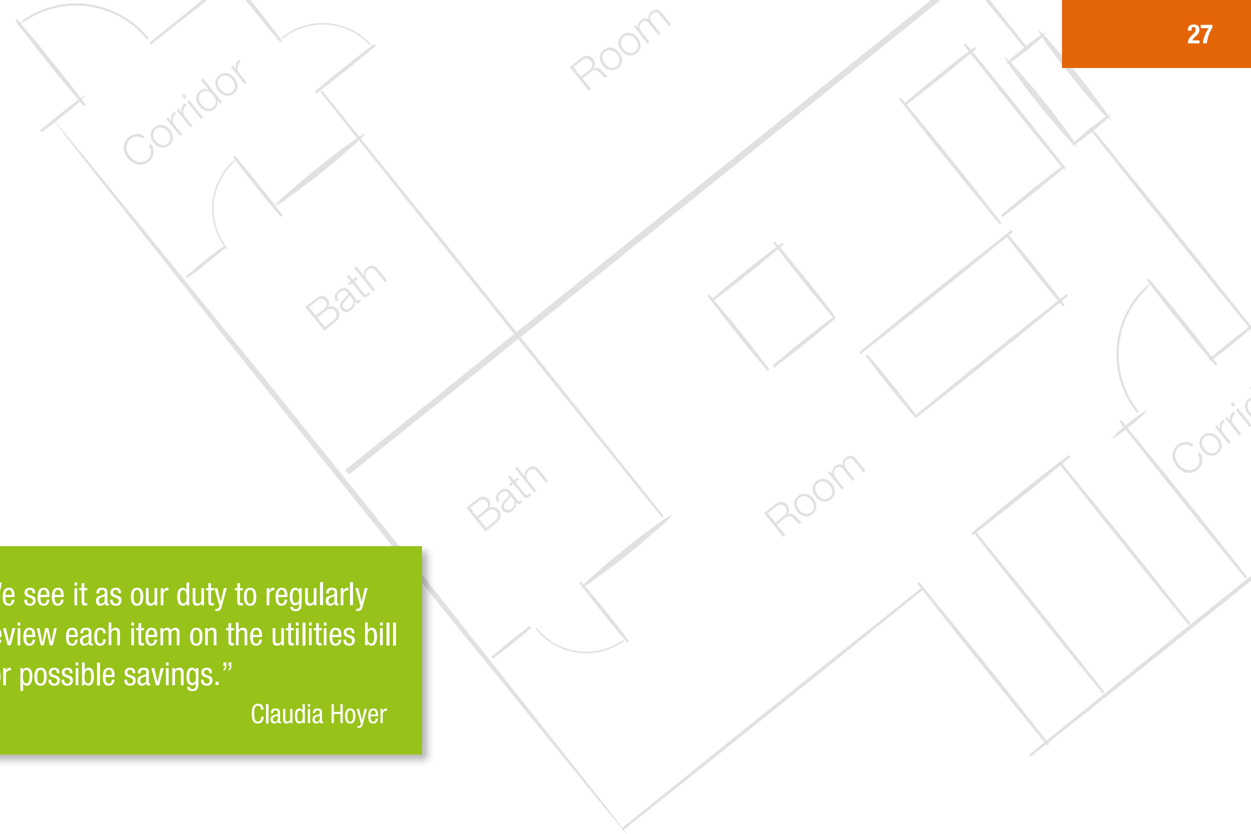
Claudia Hoyer

On Lommatzschen Strasse in Döbeln, two properties were given a complete overhaul in 2014 to make them senior-friendly, with the residential needs of tenants being given special attention by providing different layout concepts. The Döbeln Workers' Welfare Federal Association (AWO) will operate the tenants' lounge for the two properties, ensuring recreational activities as well as nursing care for the tenants. The first property was completed at the end of the year and was quickly let; the second property will be handed over to the new tenants in the spring of 2015.

Attractiveness through renovation

Each year, TAG partly carries out extensive and selective renovation work on its properties. Due to the good market situation and declining vacancy rate, the extent of renovation and modernisation carried out in 2014 was stepped up significantly, and there is now rental demand even for properties that are entirely vacant.

A good example of this is Bürgelstrasse 9 and 13 in Schwerin, where TAG decided to invest around EUR 1.2 m in extensively renovating the buildings, which had been vacant for years. 20 fully-refurbished homes, widely accessible for people with disabilities, some of which were converted into 3- and 4-bedroom flats, await new in the spring of 2015. The bright, revamped flats will be accessible by lift from now on. Each flat has a balcony, high-quality flooring, white front and interior doors, and modern bathrooms fitted with light tiles and a new interior. All plumbing and electrical systems were replaced. The exterior was cleaned, and the balconies freshly painted in cheerful colours to complete the new overall impression.



Another example are the investments in the Bestensee location near Berlin. In order to improve the quality of life, cut energy consumption and reduce long-term vacancy, TAG has invested in various projects here. A total of four major measures were initiated and successfully completed. For example, blocks 4a-c and 7a-c on Friedenstrasse were extensively renovated. The properties are fitted with a modern thermal insulation system, cellar ceiling and loft insulation, new balconies, some new windows, and the plumbing and electrical systems were completely refurbished. The empty flats were all modernised, some with spacious floor plan alterations. For example, enclosed kitchens were converted into combined kitchen-living rooms with windows or open-plan kitchens with bar areas. Demand for the modernised flats was so great that all of the vacant flats were re-let immediately. Meanwhile, existing tenants can look forward to significantly lower heating costs. Extensive renovations were also carried out at Friedenstrasse 13c, and 15, where the old façade and the out-dated balconies were dismantled and completely rebuilt. The work was completed in February 2015 so that the tenants can enjoy spring on their new balconies. The last completely empty block of houses is being converted into senior-friendly housing in 2015, and will have an attached nursing ward.

On Heeresbergstrasse in the Lusan district of Gera, TAG has invested EUR 3.8m in an elaborate renovation of a housing complex based around a green courtyard. Begun in 2013, the work was successfully completed last year. The old windows were replaced; the flats were given new entrance doors, and the façade and mezzanine floors insulated to prevent heat loss. The fire protection was brought up to date, the roofs repaired, and the electrical systems refurbished. Now all flats have intercoms, the stairwells and facades have been given a colourful coat of paint, and each flat has a balcony, as well as windows in the bathroom and kitchen.

These are just some examples that describe TAG's extensive renovation and modernisation programme at many other locations as well.

Higher quality, better service

Rising utility and heating costs constitute a challenge for TAG, as well as for tenants. A survey indicates that six out of ten Germans regard this 'second rent' as a significant financial burden every month. And the vast majority (70 %) are worried that utility and heating costs will to continue to rise uncontrollably.

Reducing utility and heating costs

TAG therefore feels it is its duty to regularly review each item on the utility bill for possible savings, as most tenants in Germany believe they pay too much. Nearly two-thirds believe there is considerable potential for savings on electricity, gas, water, waste disposal or caretaker services.

> "We see it as our duty to regularly review each item on the utilities bill for possible savings."
>
> Claudia Hoyer

Example: Salzgitter

The Salzgitter location is a good example of TAG's successful utilities cost management. TAG has reduced the utility bills by up to EUR 340, or 20 % of the total rent per apartment and year for its tenants in the town in Lower Saxony. Since it took over the residential portfolio in 2011, costs for energy, waste management, cable TV, Internet and caretaker services have been optimised by developing the previous operating cost billing system into a new operating cost management system.

The entire power supply was retendered and now, for example, eco-friendly electricity is supplied to households from cogeneration plants. Depending on individual consumption habits, this saves each tenant EUR 60-275 in heating costs per year. By changing the service provider and meticulously managing the waste disposal areas (household waste, bulky waste, waste paper), disposal costs have been halved, among other things, because TAG identified in detail how many waste bins were in front of a building, how quickly they were filled, and whether collection could take place every 14 days rather than once a week. A new concept involving waste locks and usage-based billing led to further savings in 2014. Furthermore, waste consultation sessions were introduced, where interested tenants can get expert answers to their questions on the subject of waste.

In addition, state-of-the-art remote meter reading was installed for electricity/gas/water, guaranteeing technically precise and accurate measurement of consumption and further cost savings. The measures described above have resulted in cheaper total monthly rent for over 15,000 tenants in almost the entire residential housing portfolio of around 9,000 units in Salzgitter (in the northern Harz region).

So TAG not only offers its customers more affordable housing with quality features, but also active cost management through proactive retendering and negotiations with utilities and waste management companies. The Group seeks and finds sustainable solutions. This helps to improve the quality and attractiveness of the locations for customers, and above all to lower ancillary costs and indirectly reduce portfolio vacancy.

"We host neighborhood festivals or provides community gardens for young and old to take tenants out of their anonymity and strengthen a sense of community."
Claudia Hoyer

More responsibility, more engagement

In an ageing society, social commitment, neighbourhood assistance and cooperation between generations is becoming increasingly important. The TAG survey shows that Germany is split when it comes to wanting to get to know your neighbours. While half prefer to withdraw, the other half know their neighbours well. Neighbourhood festivals for tenants, community gardens and meeting places for young and old are offered in all of TAG's regions. They are important if for no other reason than that elderly people in particular are increasingly living on their own.

Living together as neighbours

In Döbeln in Saxony TAG is actively promoting vibrant neighbourhoods. The 'L(i)ebenswert Wohnen' (Li/o/veable living) lounge actively enhances social interaction in the neighbourhood. TAG has created a place where people are there for each other, and where the different generations – ages range from 3 to 89 – can meet and enjoy each other's company.

Consultations, readings and events are regularly held in the lounge and its library. Visitors are actively involved in shaping the programme of events, which ranges from origami workshops and computer courses to communal gardening and crocheting.

Children and young people stop by to paint, do crafts, play and read. Seniors like to attend the weekly coffee klatch. A knitting circle that meets on the last Thursday of every month came up with the idea of donating baby booties to a maternity ward. Last year, the landscaping near the entrance of the building was redesigned by the kids and teens who live there.

TAG got involved in a variety of projects for children again in 2014. In Hagenow, for instance, TAG has maintained close ties with the Regenbogen (Rainbow) day nursery for years. Many of the tenants' children attend the nursery in their neighbourhood and regard it as a home away from home. TAG supports the nursery and also organises communal spring cleaning campaigns or tenants' parties. TAG also regularly supports the Görlitz chapter of the German Child Protection League, which organises educationally sound childrens' birthday parties, holiday camps and sports lessons.

After two years, the tea dance held in the Fredsberg district of Salzgitter has developed into one of the most popular events. In cooperation with the AWO Kreisverband Salzgitter-Wolfenbüttel e.V., about 100 seniors from the district – including many regulars and newcomers – meet five times a year. Lots of joint activities, including visits to the cinema and sports days, has been organized locally.

Conclusion: More tasks, more goals

In 2014, TAG once again proved its closeness to tenants with its ideas and its commitment. The Group is aware, every day, of its increased social responsibilities as a landlord. So TAG does not limit itself to creating attractive and affordable housing and innovative and sustainable neighbourhood concepts, but also actively and purposefully promotes a community spirit among tenants.

Going forward, tenants and housing developers must continue to build an even more close-knit network. Often, direct contact with their neighbours is all it takes for tenants, because as the survey in collaboration with the Technical University of Darmstadt found, 81 % of respondents would offer assistance should a neighbour need help. TAG's staff are happy to provide the impetus to bring neighbours together again.

TAG EMPLOYEES AND BOARDS

Not counting trainees, caretakers and cleaning staff, TAG employed a total of 558 people as of the end of the 2014 fiscal year (previous year: 519). In addition to this, as of the 31 December 2014 reporting date, TAG employed 134 caretakers (previous year: 112). This area was systematically expanded in the past year to further strengthen the basis for good service to tenants, and to improve its quality.

The performance of each employee influences TAG's success, so staff training and professional development are an especially high priority. Effective employee retention is essential given the increased competition for qualified staff.

In this context, vocational training and the promotion of young talent play a special role in the medium and long term: the TAG Group currently employs a total of 45 apprentices. Six staff members are completing dual degree programs in business administration with a focus on the real estate industry. TAG wants to offer these trained real estate professionals continued employment at its various locations once they graduate. The cooperation and sponsorship contract signed with the Technical University of Darmstadt also serves to advance TAG's efforts to promote and support emerging talent.

Beyond this, TAG supports its staff in achieving a better work-life balance – an important factor in employer attractiveness given the demographic developments in our society. For instance, the Group has various part-time working models in place to allow the greatest possible job flexibility.

The proportion of women in the company is currently at 60 %. In the governing bodies, women make up 25 % of the Executive Board and 33 % of the Supervisory Board.

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

Age from 0–29	18 %
Age from 30–39	24 %
Age from 40–49	22 %
Age from 50–59	24 %
Over 60 years	12 %

At the end of the Annual General Meeting on 13 June 2014, the Chairman of the Supervisory Board, Dr Lutz R. Ristow, retired from the Supervisory Board for age reasons. His deputy, Professor Ronald Frohne also resigned from the Supervisory Board for personal reasons. At year-end 2014 and the end of January 2015, respectively, the two employee representatives Andrea Mäckler and Wencke Röckendorf also resigned from the Supervisory Board for personal reasons. New employee representatives will be elected by the general body of TAG employees during the first half of 2015.

Furthermore, the former CEO of the company, Rolf Elgeti, resigned his mandate on 31 October 2014. At the extraordinary shareholders' meeting held on 28 November 2014, Mr Elgeti was elected by the shareholders to the company's Supervisory Board, which he has chaired ever since. In turn, Dr Ingo-Hans Holz resigned his Supervisory Board mandate at the end of the shareholders' meeting.

Another change in the Management Board occurred on 1 April 2014 when Martin Thiel was appointed as the new TAG CFO for George Griesemann, who retired from the Board.

Following these changes, the composition of the company boards is as follows:

Management Board:
- Claudia Hoyer (COO)
- Martin Thiel (CFO)
- Dr Harboe Vaagt (CLO)

Supervisory Board:
- Rolf Elgeti (Chairman)
- Lothar Lanz (Deputy Chairman)
- Dr Philipp K. Wagner
- Dr Hans-Jürgen Ahlbrecht

Dr Ristow, who has successfully supported TAG over many years, both as Chairman of the Supervisory Board and as Chairman of the Management Board, was appointed Honorary Chairman of the Supervisory Board on 13 June 2014.

Steckelhoern, Hamburg

TAG SHARES AND THE CAPITAL MARKET

The MDAX-listed TAG share price ended 2014 on a clear upward trend, and at plus 11 % was above the MDAX, which only managed to regain 3 % since the beginning of the year. TAG shares started the year at EUR 8.63, and were trading at EUR 9.62 on 30 December 2014. The EPRA index, comprised of various real estate companies listed on international portfolio exchanges, also trended upward at +23 %. TAG shares were listed at EUR 12.70 on 20 March 2015.

Totaling 131,712,859, the share capital and number of shares has increased by EUR 414,542 / the same number of no-par shares since year-end 2013 due to the exercise of conversion rights. Free float is 90 %. After the share buy-back in September and October 2014, TAG Immobilien AG owns approximately 10 % of its own shares as of 31 December 2014. At a share price of EUR 9.62 on 30 December 2014, TAG's market capitalisation was EUR 1,267. As before, most of TAG's shareholders are domestic and international investors, whom have a long-view investment strategy.

TAG stock parameters in 2014

Stock market ticker symbol	TEG
Type of stock	Bearer ordinary shares
ISIN	DE0008303504
Transparency level	Prime Standard
Indices	MDAX, German CDAX Performance, Prime All Share, Prime Financial Services, Classic All Share, DIMAX, EPRA
German securities code number	830350
Designated sponsor	Close Brothers Seydler AG, Frankfurt / Main, HSBC Trinkaus & Burkhardt AG, Dusseldorf
Stock exchange	all german stock indices including Xetra

Opening price	01 / 02 / 2014	EUR 8.63
Closing price	12 / 30 / 2014	EUR 9.62
High	12 / 29 / 2014	EUR 9.71
Low	03 / 21 / 2014	EUR 8.52
Current share price	03 / 20 / 2015	EUR 12.70
EPRA NAV per share (redefined)	12 / 31 / 2014	EUR 10.10
Diluted NAV per share	12 / 31 / 2014	EUR 9.85

> The strategy for shareholders focuses on the total return on individual shares. Growth in absolute numbers is no longer a priority for TAG, in contrast to previous years.
>
> Martin Thiel

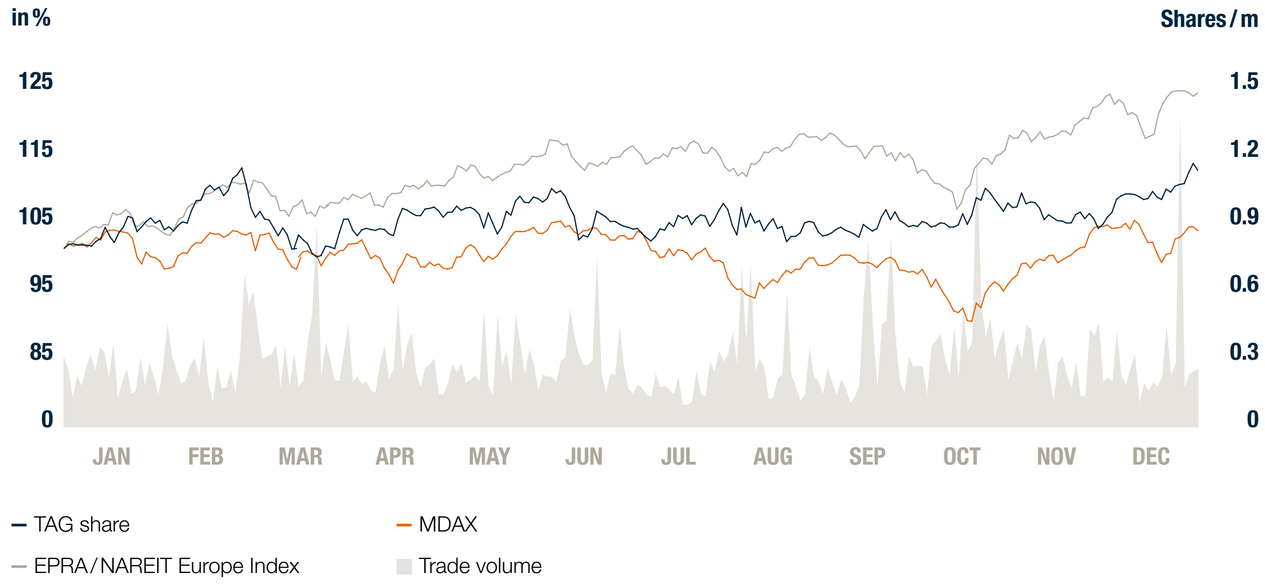
Share buy-back in autumn 2014

Against a background of high liquidity and not entirely attractive investment options, in September 2014, the TAG Supervisory Board and Management Board decided to buy-back up to 10% of the company's own shares. In a public offering in September and October 2014, a total of 13,127,178 shares were repurchased at a price of EUR 9.30 per share. The offering was very well received by shareholders. The shares were purchased at a price of EUR 9.30 per share, i.e. below the NAV of EUR 10.16 per share as of 30 September 2014.

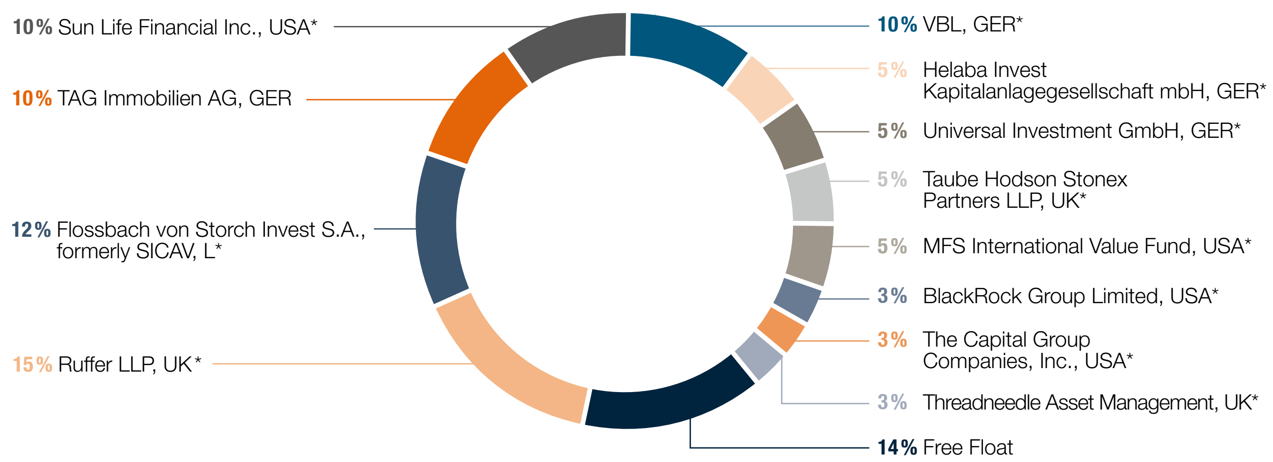
Alternatively, the shares purchased under the buy-back may be withdrawn, to service option or conversion rights, or as a currency for acquisitions.

As the share buy-back fully utilised the authorisation given at the Annual General Meeting on 13 June 2014, the extraordinary shareholders' meeting on 28 November 2014 re-authorised the Management Board and the Supervisory Board to acquire own shares. Consequently, the legal conditions for further share buy-backs are given, but only if they make economic sense after considering the liability and liquidity situation and other investment opportunities.

Share price 2014



Shareholder structure as of 31 December 2014



Capital market communications

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

Dividend

TAG lets its shareholders participate in the company's success by regularly paying a dividend, and pays out a significant share of the profits as dividends. At the Annual General Meeting in June 2014, a dividend of 35 cents per share was agreed for the 2013 financial year. For the following year 2014, the dividend is to be increased to 50 cents per share.

Corporate bonds

In February 2014, the capital of a corporate bond issued in August 2013 (WKN A1TNFU) was increased by another EUR 110m to EUR 310m by way of a private placement. The bond, which matures in August 2018 and pays annual interest of 5.125%, had an original volume of EUR 200m. The EUR 110m increase was issued at 103% of nominal value, and thus at about the price of the bond at the time. This part of the bond has an effective interest rate of 4.3% p.a.

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

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

WKN A1TNFU	WKN A12T10
Volume: EUR 310m	Volume: EUR 125m
Division into shares: EUR 1,000.00 per share	Division into shares: EUR 1,000.00 per share
Nominal value per bond: EUR 1,000.00	Nominal value per bond: EUR 1,000.00
Maturity: 5 years starting in 2013	Term: 6 years starting in 2014
Interest rate (effective): 5.125% (200m)/4.3% (110m)	Interest rate: 3.75%
Issue price: at par (200m)/zu 103% (110m)	Issue price: at par

Overview of outstanding TAG convertible bonds

WKN A1E 89W7	WKN A1PGZM3
Issued volume: EUR 66,6m	Issued volume: EUR 85,3m
Outstanding volume: EUR 32,2m	Outstanding volume: EUR 74,5m
Division into shares: EUR 9.000.000 per share	Number of shares: 853
Nominal value per bond: EUR 7,40	Nominal value per bond: EUR 100.000,00
Maturity: 12/10/2015	Term: 06/28/2019
Interest rate: 6,5%	Interest rate: 5,5%
Conversion price: EUR 6,6677	Conversion price: EUR 8,1923

Flaemingstraße, Eberswalde

CORPORATE GOVERNANCE

Report on TAG Corporate Governance in fiscal 2014

'Corporate Governance' comprises the principles of a company's management, and in general, refers to the existing regulatory framework for managing and supervising a business. In particular, 'corporate governance' refers to the responsible management and supervision of companies with a view to long-term value creation. The TAG Management and Supervisory Boards see it as a key prerequisite for sustainable business success because it strengthens the confidence of shareholders, employees, business partners and the public in the company's leadership and management. Respect for the interests of shareholders and employees, transparency and responsibility when making business decisions, and dealing adequately with risks are therefore key elements of corporate governance at TAG, and form the basis for the actions of the Supervisory Board, Management Board and staff members of TAG Immobilien AG.

In accordance with Section 3.10 of the German Corporate Governance Code (the 'GCGC'), the Management Board and Supervisory Board issue the following report for TAG Immobilien AG, which also includes the Remuneration Report published on page 92 of the Annual Report. The Corporate Governance Statement in accordance with Section 289a of the German Commercial Code is posted on the TAG homepage at www.tag-ag.com/InvestorRelations under 'Corporate Governance Statement'.

Compliance with the recommendations of the German Corporate Governance Code

In their implementation of Corporate Governance, the Management Board and Supervisory Board are guided by the GCGC (as of: June 24 2014). Article 161 of the German Stock Corporations Act stipulates that the Management Board and Supervisory Boards shall issue annual declarations of conformance with the recommendations of the GCGC, specifying which recommendations were not applied. The latest Declaration of Conformance, adopted in September 2013, was updated several times in 2014:

- In June 2014, an update was necessary, as the Chairman of the Audit Committee, Mr Lothar Lanz simultaneously took over as Chairman of the Supervisory Board, thus deviating from the recommendation in Section 5.2. paragraph 2. His dual role as Chairman of the Audit Committee and Supervisory Board allowed for the optimal coordination of the work of both bodies from a single source, as it were, and in a particularly efficient way. This move was in the best interests of the Company, as Mr Lanz meets the requirements of Section 100 paragraph 5 of the German Stock Corporations Act.
- The Declaration of Conformance update in November 2014 was necessary because on the one hand, Lothar Lanz resigned as Chairman of the Supervisory Board, thereby ending his dual mandate as a committee and Supervisory Board Chairman, and on the other, because in view of the reduction of the Management Board to only three members on 1 November 2014, neither a spokesperson nor a Chairman of the Management Board was appointed. In this respect, 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 distribution of business plan, and that the full board can appropriately represent the company to the outside.

Any other deviations from the recommendations of the GCGC during the fiscal year were mainly for technical reasons. Please refer to the Declaration of Conformance last published in November 2014 and included at the end of this report for the reasons for deviations from the recommendations of the GCGC.

Moreover, at its meeting on 28 November 2014, the Supervisory Board discussed its own working methods and efficiency.

'Diversity' and the composition of the Supervisory Board

According to Section 5.4.1 of the GCGC, the Supervisory Board is to set specific targets for its composition. Taking into account the company's specific situation, these targets should reflect the company's business activity, consider potential conflicts of interest, set an age limit for supervisory board members, and promote diversity. The Supervisory Board has specified its rules and criteria regarding 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.

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

TAG strives to achieve a fair representation of women in leadership positions. The current share of women is 1 / 3 of the Supervisory Board, 1 / 4 of the Management Board until 31 October 2014, and 1 / 3 from 1 November 2014. The share of women in the second tier of management is about 50 %. The Supervisory Board and Management Board still feel that setting a mandatory quota for women would not be constructive.

Election of Mr Rolf Elgeti to the Supervisory Board

Mr Rolf Elgeti was Chairman of the Management Board of TAG Immobilien AG until 31 October 2014. At the Company's extraordinary General Meeting on 28 November 2014, the shareholders elected him to the Supervisory Board. The vote followed a proposal made by shareholders holding more than 25 % of the voting rights in TAG. Overall, the Supervisory Board had received communications from shareholders who at that time held approximately 33 % of the voting rights, proposing Mr Elgeti for election to the Supervisory Board and asking for prompt implementation of this step. At the extraordinary shareholders' meeting on 28 November 2014, a detailed explanation was given regarding Mr Elgeti's move and planned election as Supervisory Board Chairman. As chair of the meeting, Lothar Lanz pointed out that the move to become Supervisory Board Chairman was designed as a clear sign for continuity in the Company and Group, and to build on the existing trust that has been earned over the years. As Chairman of the Supervisory Board, Mr Elgeti will be able to represent the Company to the capital market alongside the Management Board, and to continue the dialogue with shareholders. In the opinion of the Supervisory Board and the Management Board, Mr Elgeti's move to become Chairman of the Supervisory Board is in the interests of TAG, and given the company's development in recent years, represents a duly substantiated exception.

Disclosure of conflicts of interest

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

Internal business transactions are covered in the Dependent Company Report drawn up by the company and certified by the auditor, which describes the legal relationship between TAG and Colonia Real Estate AG in fiscal 2014. Any legal transactions carried out within the Group involved due consideration in each case, and all legal transactions were made at market rates. Professor Ronald Frohne is close to the Noerr LLP law firm, but is not affiliated with it under company law or as a partner, or through profit sharing. The firm provided consulting services in 2014 on matters of corporate law, and provided assistance in a legal dispute and with capital measures, and billed the Group for EUR 194,252.71 up until 13 June 2014, the date Professor Frohne retired from the Supervisory Board. The law firm was hired with the approval of the Supervisory Board. There were no other conflicts of interest between the Company and the members of the Supervisory Board or the Management Board, e.g. through the assumption of advisory or executive functions for third parties or business partners.

Directors' dealings and shareholdings

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

Exercise of conversion rights (par 13,000) in 13,882 shares by Supervisory Board Chairman Dr Lutz R. Ristow; purchase of 5,000 shares in total by Supervisory Board member Lothar Lanz; purchase of 7,000 and sales of 5,000 shares by Supervisory Board member Dr Hans-Jürgen Ahlbrecht; purchase of 3,000 shares by Management Board member Martin Thiel. As of 31 December 2013, the members of the Supervisory Board collectively own around 0.07 %, and members of the Management Board 0.009 % of the share capital.

As of 31 December 2014, the following shares and convertible bonds were held by Board members:

Shareholders	Number of shares	Convertible bonds
Lothar Lanz	5,000	
Dr Hans-Jürgen Ahlbrecht (from 06/13/2014)	2,000	
Rolf Elgeti (CEO up to 10/31/2014, Chairman of the Supervisory Board from 11/28/2014)	90,000	–
Dr Harboe Vaagt	2,585	–
Claudia Hoyer	6,000	–
Martin Thiel (from 04/01/2014)	3,000	–

Remuneration of the Supervisory Board

The remuneration paid to members of the Supervisory Board was adjusted based on a resolution by the Annual General Meeting of 26 August 2011. Since then, members have received fixed compensation in the amount of EUR 20,000.00 for each full fiscal year of their membership on the Supervisory Board, plus premiums for appropriate D & O insurance. The Deputy Chairman of the Supervisory Board receives 1 1/2 times this basic fixed fee, and the Chairman of the Supervisory Board receives a fixed fee in the amount of EUR 175,000.00 for each fiscal year. No variable remuneration based on the company's payout is granted. Supervisory Board remuneration does better justice to its monitoring tasks.

In addition, members of the Audit Committee receive separate compensation: the Management Board receives EUR 10,000.00, the members receive of EUR 5,000.00 each, and the members of the Personnel Committee receive an attendance fee of EUR 500.00 per meeting.

In all, the following net remuneration was provided for 2014:

Dr Lutz R. Ristow (Chairman until 06/13/2014)	EUR 79,229.45
Professor Dr Ronald Frohne (Deputy Chairman and Chairman of the Audit Committee until 06/13/2014)	EUR 20,000
Mr Lothar Lanz (Chairman from 06/13/2014 until 11/28/2014)	EUR 105,500
Mr Rolf Elgeti (Chairman from 11/28/2014)	EUR 18,600
Dr Philipp K. Wagner	EUR 25,000
Dr Hans-Jürgen Ahlbrecht (from 06/13/2014)	EUR 10,000
Dr Ingo-Hans Holz (from 06/13/2014 until 11/28/2014)	–
Ms Andrea Mäckler (until 12/31/2014)	EUR 27,740
Ms Wencke Röckendorf	EUR 20,000
In total	**EUR 306,069.45**

Remuneration of the Management Board

At regular intervals, the Management Board's remuneration is the subject of deliberation, review and restructuring by the Supervisory Board.

TAG Immobilien AG's Management Board contracts contain fixed and variable components. The variable remuneration of Management Board members is based on the provisions of Section 87 paragraph 1 sentence 3 of the German Stock Corporations Act. It is tied to the achievement of the company's business goals and is primarily based on the results of a financial year and their development. Variable remuneration is paid in instalments so that either no claims exist in a negative course of business, or existing remuneration claims can be cancelled. This scheme also makes the variable remuneration and its level contingent on the sustainable development of the business.

The detailed remuneration report for fiscal 2014 is shown in the Management Report on page 160.

Compliance

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

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

DECLARATION OF CONFORMITY BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

The management and supervisory boards of TAG Immobilien AG ("the company" in the following) declare that they have been and are in compliance with the recommendations of the „German Code of Corporate Governance" (DCGK) Government Commission in the version of 24 June 2014, with the following exceptions:

- In the past, the company's group financial statements were not published within 90 days after the end of the fiscal year or within 45 days after the end of the reporting period (Section 7.1.2 DCGK). In compliance with legal requirements, the group financial statements were published within the first four months after the end of the financial year, or eight weeks after the end of the quarter. The company's management and supervisory boards felt that bringing the deadlines forward any further was untenable given the associated effort and cost. The publication of the group financial statements for 2014 is planned for within 90 days, and that of the interim financial statements within 45 days.
- The current Chairman of the Audit Committee was also the Chairman of the Supervisory Board until 28 November 2014. In the opinion of the Supervisory Board, based on his special expertise and long years of experience as a business administration graduate and CFO, Mr Lanz is especially suited to chairing the Audit Committee. It was therefore in the company's best interests to deviate from the recommendation in section 5.2 Para 2 of the DCGK. The deviation ceased to be applicable on 28 November 2014 because while he remains Chairman of the Audit Committee, Mr Lanz is no longer simultaneously Chairman of the Supervisory Board.
- Given the reduction of the Management Board of the company to only three members with effect from 1 November 2014, the Management Board of the company 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 distribution of business, and that the full board can appropriately represent the company to the outside.

Hamburg, November 2014

Management Board and Supervisory Board
of TAG Immobilien AG

SUPERVISORY BOARD REPORT

Dear Shareholders,
Ladies and Gentlemen,

TAG Immobilien AG had a successful year in fiscal 2014, dominated by a continued focus on the residential real estate business and the optimisation of our property portfolio. Acquisitions of high-yield residential real estate resulted in an expansion of the residential real estate portfolio to around 75,000 units today, despite sales of approximately 3,500 residential units in Berlin in December 2014. The successful increase of a corporate bond issued in 2013 by EUR 110m in February 2014, and the issue of another EUR 125m corporate bond in June 2014 underlines the fact that the capital market continues to keep a positive eye on TAG's development, and gives the company the trust that is necessary for its strategy. The Supervisory Board wishes to thank all shareholders and investors for their support in fiscal 2014.

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

In fulfilling the advisory and supervisory duties required of it by law and the articles of association, the Board closely worked with and regularly advised the Management Board in the discharge of its duties, and monitored the management of the company. In accordance with Section 90 paragraph 1 and paragraph 2 of the German Stock Corporations Act, the Management Board provided regular, up-to-date and comprehensive information on all relevant matters of corporate planning, strategy development, and in particular on sales and further acquisitions performed in 2014. The Supervisory Board was involved in all decisions of fundamental importance to TAG Immobilien AG and the Group. The focus of the reporting was the sale of shares in TAG Gewerbeimmobilien GmbH and, consequently, the sale of the major portion of the commercial portfolio as well as acquisitions of other portfolios, and sales, which were mainly carried out in November and December 2014. The Management Board's regular reporting covered the financial position and profitability of the Group's companies, its business progress, the risk situation, and the implementation of risk management and compliance.

The reports were made in writing and orally. Until 31 October 2014, the Chairman & CEO was in constant contact with the then Chairman of the Supervisory Board in order to coordinate major business events. From 1 November 2014, the direct coordination primarily took place between the CFO and the Chairman of the Supervisory Board, as well as the relevant member of the Management Board and the full Management Board.

Deliberations and resolutions of the Supervisory Board

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

The meeting of 26 February 2014 centred on discussions on the preliminary results for 2013 and the dividend proposal to be put to the Annual General Meeting. The sale of shares in TAG Gewerbeimmobilien GmbH – and the associated entry into partnership with the investor and discontinuation of the commercial real estate business – was also discussed. The Supervisory Board approved this measure, which largely completes the Group's focus on the residential real estate industry. At this meeting, the Personnel Committee submitted its proposals to the full Board for the Supervisory Board elections at the Annual General Meeting on 13 June 2014.

At the meeting to approve the year-end financial statements on 9 April 2014, the Supervisory Board dealt in detail with the 2013 annual financial statements and the audit results from the auditors, who reported in person on the outcome of the audit and discussed the resulting financial statements extensively with the Board. Furthermore, the resolution items for the agenda of the AGM on 14 June 2014 were approved at this meeting, and the candidates for the upcoming Supervisory Board elections were named based on the recommendations of the Personnel Committee. Finally, at this meeting, the Board decided to adapt the system for determining variable Management Board remuneration, which led to consideration of the level of the dividend payment and FFO in determining the performance-based portion of Management Board remuneration.

The agenda of the meeting on 12 June 2014 included the issuance of a further, EUR 125 m corporate bond to be used for the acquisition of a portfolio of approx. 6,000 units that was presented at the meeting. Despite almost completed negotiations and a contract ready for notarisation, in the end TAG did not win the contract, or rather, was not willing to accept the surprising additional increase in the bid price that was demanded by the vendor in the end. At the constituent meeting of the Supervisory Board on 13 June 2014 held immediately after the Annual General Meeting, Mr Lothar Lanz was elected Chairman of the Supervisory Board and Dr Philipp K. Wagner his deputy. In special recognition of his merits, at this meeting, Dr Ristow was appointed Honorary Chairman of the TAG Immobilien AG Supervisory Board after having retired from the Supervisory Board member at the Annual General Meeting.

At its meeting on 11 September 2014, the Supervisory Board first approved the acquisition of 1,503 units in Freiberg, Chemnitz and Dresden (Project „Elad“). Then the Board discussed the proposal submitted by the Management Board in view of the company's high liquidity to carry out a share buy-back of up to 10% of the shares, and thereby fully utilise the authorisation granted by the Annual General Meeting on 13 June 2014. The Supervisory Board approved the repurchase of own shares by auction, and together with the Management Board determined the price range for the share repurchase at between EUR 8.35 and EUR 9.35 per share.

Finally, at this meeting the Supervisory Board considered the request of the Chairman of the Management Board, Mr Rolf Elgeti, to be released prematurely from his Management Board contract, effective 31 October 2014, and his offer to join the Supervisory Board instead. After detailed deliberation, the Board agreed to the early release of Mr Elgeti from his management contract effective 31 October 2014, and in the corresponding announcements recommended that the shareholders enable his move to the Supervisory Board so that his strategic expertise and experience in the capital markets can continue to be harnessed for the benefit of TAG. With the sale of TAG Gewerbeimmobilien GmbH in May 2014, the Supervisory Board considered the transformation of TAG into a major, independent company focused on residential real estate as complete, and decided that a reduction in the Management Board to three members would make sense.

The Supervisory Board meeting on 21 October 2014, conducted as a conference call, adopted the resolutions from the extraordinary shareholders' meeting on 28 November 2014 regarding the prompt implementation of Mr Elgeti's move to the Supervisory Board, as desired by the shareholders. Following the successful completion of the share buy-back program in October at EUR 9.30 per share and with a total volume of EUR 122 m, and the full utilisation of the authorisation to acquire own shares, the Supervisory Board felt it would be opportune for the shareholders to adopt another resolution regarding a new authorisation to acquire own shares.

At this meeting, the Supervisory Board also approved the acquisition of 536 residential units in Görlitz, the sale of 2,600 units located in the Marzahn district of Berlin, and another package of 218 units in Berlin. At this meeting, the Supervisory Board discussed the termination agreement with Mr Elgeti and approved it in full.

At the meeting on 28 November 2014, which was held immediately after the extraordinary shareholders' meeting that day, Mr Rolf Elgeti was elected Chairman of the Supervisory Board after Lothar Lanz had previously stepped down. Mr Lanz was subsequently elected as Deputy Chairman. This meeting centred on the adoption of the 2015 budget and further liquidity planning, which the Supervisory Board declared itself to be in agreement with.

Finally, the Supervisory Board conducted the efficiency review stipulated by the German Corporate Governance Code at its November meeting for 2014, and discussed its results at the meeting.

In addition to the aforementioned Supervisory Board meetings and the conference call on 21 October 2014, further resolutions were passed by circulation procedure. In particular, the Supervisory Board approved the sale of additional residential portfolios in Berlin for a purchase price of EUR 52.4 m, the increase in the corporate bond, and the purchase of approximately 4,000 residential units at a purchase price of EUR 120.5 m, with a further purchase of approximately 270 residential units at a purchase price of EUR 11.9 m and the acquisition of approximately 2,335 residential units at a purchase price of approximately EUR 103 m. These purchases and sales had previously been discussed in detail at Supervisory Board meetings.

Meetings of the Supervisory Board committees

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 their required independence. The members of the Audit Committee possess accounting and auditing expertise. Until 13 June 2014, Professor Dr Frohne was Chairman of the Audit Committee. Mr Lothar Lanz subsequently took over this role. Both gentlemen meet the requirements of Section 100 paragraph 5 of the German Stock Corporations Act.

The Audit Committee held four meetings during the year under review in which it dealt with relevant items of the Supervisory Board's work. The meetings were also at times attended by the representatives of the independent auditor, who in particular reported on the review on 30 June 2014. The focus of the deliberations in 2014 was once again the balance sheet valuation of the company's properties and risk items, and the risk management system. The Audit Committee made a recommendation to the Supervisory Board regarding the selection of an auditor for 2014. Finally, at its February meeting the Audit Committee received the report of the compliance officers.

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

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

Professor Dr Ronald Frohne (Chairman) until 13 June 2014
Dr Lutz Ristow until 13 June 2014
Mr Lothar Lanz (Chairman) from 13 June 2014
Dr Ingo-Hans Holz from 13 June 2014 until 28 November 2014
Mr Rolf Elgeti from 28 November 2014
Ms Andrea Mäckler until 31 December 2014

The Personnel Committee, which met once during the year, was comprised of the following members:

Dr Lutz Ristow (Chairman) until 13 June 2014
Professor Dr Ronald Frohne until 13 June 2014
Mr Lothar Lanz (Chairman) from 13 June 2014
Dr Hans-Jürgen Ahlbrecht from 13 June 2014
Ms Wencke Röckendorf

2014 Auditors

The Supervisory Board engaged the auditor KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, which had been chosen by the shareholders at the Annual General Meeting on 13 June 2014, to audit the annual financial statements of TAG Immobilien AG for 2014, in accordance with the recommendations of the German Corporate Governance Code.

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

Approval of annual financial statements and consolidated financial statements

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and the management report, as well as the consolidated financial statements, including the Group management report for fiscal 2014, prepared in accordance with the International Financial Reporting Standards (IFRS). An unqualified audit certificate was issued.

The company's financial statements and audit reports were circulated to all members of the Supervisory Board in a timely manner and discussed in detail at the meeting of 24 March 2015, after the Audit Committee had previously dealt with the results in detail and during the audit and discussed them with the auditors. The auditors attended the 24 March 2015 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 was 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 0.50 per share. The annual financial statements and the consolidated financial statements prepared by the Management Board were approved and accepted by the Supervisory Board.

Corporate Governance

As in previous years, the Supervisory Board closely monitored management's compliance with the principles of good corporate governance. Because of the dual Board responsibilities of the Management Board members of TAG Immobilien AG at ColoniaReal Estate AG, special attention was paid to the risk of conflicts of interest. No such conflicts of interest arose in 2014.

The Company complied with the German Corporate Governance Code's recommendation of appointing a Chairman of the Management Board until 31 October 2014. Following the departure of Mr Elgeti, the Supervisory Board has declined to appoint a Chairman. The Supervisory Board is of the opinion that the tasks of the Management Board – which was reduced in size on 1 November 2014 – are allocated in a sufficiently detailed and appropriate way in the rules of procedure and plan for distribution of business, and that the full board can appropriately represent the company to the outside without having to appoint a spokesman or Chairman.

The company's Declarations of Conformance were repeatedly adapted in 2014 in connection with the personnel changes to the Supervisory Board and Management Board. In each case, the latest Declaration of Conformance was jointly adopted by the Supervisory Board and the Management Board. Please also refer to the Corporate Governance Report on page 42 ff.

Personnel update

With effect from the end of the Annual General Meeting on 13 June 2014, Dr Lutz Ristow and Professor Dr Ronald Frohne resigned from the Supervisory Board and did not stand for re-election. The Supervisory Board would like to thank the two departing members for helping to shape the course of TAG Immobilien AG since it first became involved in the real estate industry in 1999, and for their steadily constructive participation and faithful cooperation on the Supervisory Board. The election of Dr Lutz Ristow as Honorary Chairman of the Supervisory Board at the Supervisory Board meeting on 13 June 2014 is an expression of the company's deep sense of affinity and gratitude for his hard work over the past decades.

Mr Rolf Elgeti

At the Annual General Meeting on 13 June 2014, Dr Hans-Jürgen Ahlbrecht and Dr Ingo-Hans Holz were elected to the Supervisory Board as their successors. At the extraordinary shareholders' meeting on 28 November 2014, Dr Ingo-Hans Holz then resigned his Supervisory Board mandate to enable Mr Rolf Elgeti to be elected to the Supervisory Board, after Mr Elgeti had been nominated by shareholders who collectively hold more than 25 % of the voting rights. Employee representatives Ms Andrea Mäckler and Ms Wencke Röckendorf resigned their positions with effect from 31 December 2014 and 31 January 2015, respectively. The Supervisory Board wishes to thank Dr Holz and the employee representatives for their constructive participation on the Company's Supervisory Board.

At its meeting on 26 February 2014, Mr Martin Thiel was appointed as another member of the Company's Management Board with effect from 1 April 2014. Mr Georg Griesemann resigned from the Management Board on 31 March 2014. The Supervisory Board thanks Mr Griesemann for his work on the Company's Management Board.

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

Hamburg, March 2015

The Supervisory Board

Rolf Elgeti
Chairman

GROUP MANAGEMENT REPORT 2014

I. Foundations of the Group

Overview and corporate strategies

The 2014 fiscal year was dedicated to further optimising our portfolio of properties and focusing on the residential real estate business. Apart from selling the lion's share of our commercial real estate portfolio, our investment activities focused on the purchases of high-yield residential real estate at selected locations. At almost all locations, we were able further reduce vacancy and increase rental income from our residential units during the past business year. And last but not least, in 2014, given residential real estate price developments in regionally highly sought-after locations, we selectively exploited selling opportunities in order to reinvest the freed-up cash into high-yield properties in our core regions.

'Highlights' for 2014 include:

- The acquisition of various residential portfolios in northern and eastern Germany with a total of 8,900 units
- The sale of the largest part of the commercial real estate portfolio through the sale of a majority stake in TAG Gewerbeimmobilien GmbH in March and May 2014
- The sale of approximately 3,500 residential units in Berlin in November and December 2014
- The repurchase of around 10 % of own shares with a total volume of EUR 122 m in September and October 2014
- The increase in corporate bonds issued in 2013 by a further EUR 110 m in February 2014, and the issuance of another corporate bond in the amount of EUR 125 m in June 2014
- The continuation of the project to standardise processes and implement new ERP software by converting the IT system to a group-wide SAP solution

The book value of all real estate held by us totalled EUR 3.4 billion as of 31 December 2014, vs. EUR 3.6 billion as of 31 December 2013. Rental income in 2014, including the discontinued commercial real estate business, amounted to EUR 257 m, of which EUR 8 m was from discontinued operations (previous year: EUR 251 m, of which EUR 21 m was from the discontinued operations).

Since Q3 2014, we have redefined both FFO (funds from operations) and NAV (Net Asset Value) for better comparability with our competitors (see the comments in the 'Results of Operations and Financial Conditions' section). FFO I under the new definition – as a key indicator for measuring our operating profitability – was EUR 74.5 m (previous year: EUR 61.7 m), or EUR 0.63 (previous year: EUR 0.47) per share. NAV under the new definition was EUR 10.10 per share at year-end (previous year: EUR 9.96). According to the previous definition, FFO was EUR 80.1 m (previous year: EUR 68.1 m), or EUR 0.68 per share (previous year: EUR 0.52), while NAV was EUR 9.61 per share (previous year: EUR 9.45).

The loan to value (LTV) ratio was 62.2 % as of 31 December 2014, excluding convertible bonds (previous year: 62.1 %). The Company's market capitalisation was EUR 1.267 billion as of 31 December 2014 (previous year: EUR 1.153 billion).

In 2014, we achieved a further improvement in our financing structure by reducing average interest rates and extending maturity dates of our loans. In February 2014, the capital of the existing corporate bond issued in August 2013 was increased by another EUR 110m. The successful placement of a new EUR 125m bond in June 2014 increased the portfolio of corporate bonds to EUR 435m at year-end. The average interest expense on bank loans was reduced to 3.4 % as of 31 December 2014 (previous year: 3.7 %), the entire cost of debt financing as of that date amounted to 3.7 % (previous year: 3.9 %).

In line with its strategy, TAG specialised in the acquisition, development and management of residential real estate. Besides the purchase and management (letting and administration) of residential real estate, the Group's business activities include the leasing and management of residential properties as well as targeted measures to develop inventories with the goal of maximising the value and returns of the portfolio. Beyond that, sales that make sense for rounding out the portfolio or, given favourable market opportunities, for releasing equity, comprise part of the business. The strategy centres on:

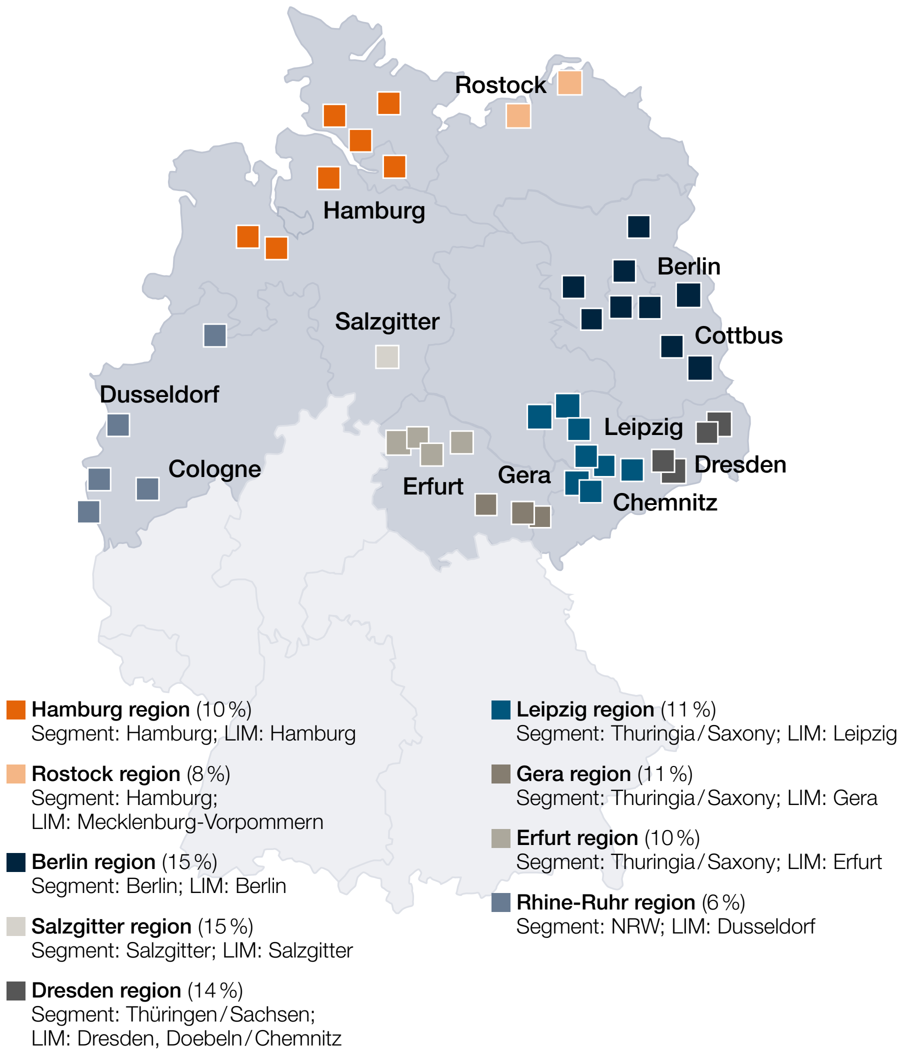
- cost-conscious implementation of potential rent increases, and reduction of vacancy
- investments in real estate inventories with potential for development and earnings
- strengthening tenant relations by steadily improving services, staying close to the customer, and operating local management units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

The foundations for a long-term increase in shareholder value are a high-quality, high-yield, actively managed real estate portfolio, secure cash flows, and secure debt financing of inventories – as well as, not least, clear and transparent corporate governance. At the same time, the TAG share should still be perceived by investors as a high-yield investment that pays strong dividends.

Portfolio

We concluded our focus on the residential real estate sector by selling the largest part of our commercial real estate portfolio in fiscal 2014. Acquisitions of further residential properties in our core regions significantly enlarged our residential portfolio.

The geographical distribution of the portfolio as of 31 December 2014 is shown in the table below. The individual regions correspond to the segments in the Segment reporting, which was redesigned as of 31 December 2014:



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

The key metrics for the individual segments are shown in the following table:

Region	Units	Floor area sqm	IFRS book value TEUR	In-place yield %	Vacancy 2014 sqm	Vacancy 2013 %	Net inplace rent EUR / sqm	Reletting rent EUR / sqm	L-f-l rental growth %	Maintenance EUR / sqm	Capex EUR / sqm
Berlin	9,702	567,586	480,990	6.8	4.4	4.5	5.12	5.76	2.0	5.21	8.62
Dresden	8,979	549,070	444,696	6.9	9.2	8.1	5.13	5.50	0.6	3.51	5.51
Erfurt	6,938	387,720	322,485	6.5	8.0	8.0	4.89	5.20	1.7	3.70	7.73
Gera	7,469	433,441	297,667	7.1	10.7	11.9	4.53	4.71	1.1	4.78	10.94
Hamburg	6,357	385,366	317,302	7.1	7.2	8.4	5.22	5.62	1.2	6.96	4.19
Leipzig	7,161	421,365	303,964	7.5	6.7	7.4	4.84	4.89	0.4	3.64	3.65
Rhine-Ruhr	3,685	238,445	228,865	6.6	2.6	3.9	5.44	6.07	1.1	10.39	3.92
Rostock	4,890	289,866	224,085	7.3	7.3	7.9	5.10	5.36	1.2	4.92	7.70
Salzgitter	9,173	562,838	360,916	7.7	15.5	18.6	4.84	4.92	1.3	10.06	12.46
residential units	**64,354**	**3,835,697**	**2,980,970**	**7.0**	**8.1**	**8.9**	**5.00**	**5.23**	**1.2**	**5.75**	**7.62**
Acquisitions	6,410	375,581	232,788	8.1	12.4		4.79			1.67	0.60
Commercial units (within residential portfolio)	1,288	163,141			17.3		7.55				
Total residential portfolio	**72,052**	**4,374,419**	**3.213,758**	**7.6**	**8.9**		**5.07**			**5.21**	**6.76**
Other*	478	62,251	157,511	4.8	17.2		12.25	8.22		21.30	9.06
Grand total	72,530	4,436,670	3,371,269	7.5	9.0	9.5	5.16	5.21	1.2	5.42	6.79

The operating business performed positively, in line with expectations. We were able to significantly improve our results, both in increasing average rent and further reducing vacancy. Across all residential units, vacancy – not including acquisitions during the year – fell from 8.9 % at the end of the previous year to 8.1 % in December 2014. Meanwhile, average rent increased from EUR 4.97 / sqm to EUR 5 / sqm. This corresponds to a rental increase, not including the effects of vacancy reduction and excluding acquisitions and sales during the fiscal year, of 1.2 % (like-for-like rental growth).

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, takes on certain tasks across the Group for the entire group of companies. Central departments such as Finance, Accounting, Tax, Controlling, Human Resources, IT, Procurement and Legal are located directly at TAG Immobilien AG. The TAG Group consists of additional subgroups, operating subsidiaries and the property companies, which each own real estate inventories and are included in TAG's consolidated statements.

As of 31 December, 2014 the Group consisted of around 70 fully-consolidated companies. TAG holds approximately 79 % of the voting rights in the subsidiary Colonia Real Estate AG, whose shares are listed in the Entry Standard of the Frankfurt Stock Exchange. 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 operating business is one of flat hierarchies and short decision-making channels. This organisation centres on the 'LIM' structure (Leiter/in Immobilienmanagement – Director 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. LIMs operate as asset managers of their respective residential inventory and are charged with managing their inventories with a view to condition, vacancy, modernisation measures and tenant satisfaction. Besides optimising returns, their main task is ensure smooth rental management, which in turn is handled by account managers who report to each LIM.

Due to this decentralised organisational structure, LIMs are directly involved in the inventory they supervise. They are responsible for budgets and cost compliance, as well as planning and carrying out inventory development measures. TAG currently has nine LIMs In the residential segment who manage the entire TAG portfolio that spans five regions. The LIMs report directly to the Management Board (specifically the COO). The LIMs meet regularly to network, exchange ideas and ensure the consistent implementation of the centrally set corporate strategy, as well as the Management Board's decisions. The expertise and experience of the LIMs is regularly put to use in purchases and acquisitions. Beyond that, a central property management department standardises processes, negotiates nationwide framework agreements, and reviews products and services across the Group.

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

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

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

- COO: Real Estate Management, Sales and Acquisitions, Shared Service Centre, Facility Management Services, Central Purchasing, Change Management, Business Apartments
- CFO: Investor and Public Relations, Group Accounting, Taxes, Controlling, Financing and Treasury, ERP/Data Management
- CLO: Human Resources, Legal, IT, Residential Real Estate Management, Compliance, Internal Audit

Research & Development

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

II. Business report

a) Economic Situation

The overall economy

The economy in 2014 was mixed and strongly influenced by extraordiary effects – the repercussions of the weak economy still prevalent in many European countries, US and European monetary policy, and the crises in the Middle East and Ukraine were key factors here. Interest rates and inflation were at historic lows. The oil price was also down significantly, as was the euro's exchange rate against the dollar. However, the DAX reached new highs. Against this background, the German economy showed moderate GDP growth of 1.5 %. The domestic economy showed a favourable development in consumption and an inflation rate of 0.2 %, the lowest recorded level since October 2009. Employment in Germany was at a record high, of around 43 m workers, which corresponds to an unemployment rate of 6.4 % at year-end, after 6.7 % the previous year. Growth of between 1.0 % (Council of Experts) and 1.5 % (IFO Institute) is predicted for 2015, mainly driven by private consumption, which is expected to increase by up to 1.9 %.

The German real estate market

Compared with the rest of Europe, Germany remains an attractive location for both residential and commercial real estate. For the first time since the financial crisis, the year's transactions exceeded EUR 50 billion. The German real estate market is regarded by national and international investors as a low-risk, high-yield investment vehicle compared to other asset classes – as borne out by the following overview of the number of residential real estate portfolios traded last year. This trend is supported by the unchanged extremely low interest rates and rising prices in 1A and 1B locations.

The German residential property market

Last year, the market volume for residential real estate portfolio transactions was EUR 12.8 billion, nearly reaching the record level seen in the previous year (EUR 13.8 billion). The number of residential units traded remained high at 225,800 in 201 transactions (previous year: 223,500 units in 217 transactions).

Overall, a shift in transactions was observed from cities to smaller towns, although Berlin was able to defend its leading position with the most traded residential units. 86 % of the residential units traded were located in B cities, and in upper and middle centres in northern and eastern Germany, such as Lüneburg, Wolfsburg, Dresden, Jena, Rostock and Leipzig. The average price paid per unit also fell by 15 % year-on-year in 2014 to approximately EUR 53,000. In comparison, in Berlin over EUR 76,000 was paid per unit, although here too, investments were increasingly in B locations and plainer inventories.

Listed real estate companies were once again the most heavily represented group of buyers by far. They invested more than EUR 6 billion, followed by regional building societies. German investors accounted for 77 % of the transaction volume, Austrian investors for 9 %, and American buyers for 5 %. The sellers were mainly private equity funds and other fund / asset managers, again mostly (51 %) from Germany.

For 2015, the transaction dynamic in the German real estate market will remain high, e.g. due to takeovers such as Gagfah SA by Deutsche Annington SE.

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

Northern Germany (Hamburg, Salzgitter and Rostock segments)
TAG's 'Northern Germany' administrative region with the city of Hamburg as its economic and cultural centre extends to Wilhelmshaven via Bremen, northward to Schleswig-Holstein and east to the coast of Mecklenburg-Vorpommern.

With around 1.7 m inhabitants, Hamburg is the second largest city in Germany after Berlin. Its attractiveness is reflected in, among other things, the steadily increasing population. About half of the city's households are single-person households. The sharp rise in the number of households in Hamburg combined with low construction activity and a low vacancy rate is causing an increase in rents.

TAG manages nearly 6,400 units in the Hamburg region. Vacancy here is 7.2 %; average rent is EUR 5.22 / sqm.

Salzgitter is located in southeastern Lower Saxony along the axis of the Hanover-Braunschweig-Göttingen-Wolfsburg metropolitan region. Approximately 4 m people live in this region, which covers an area of 19,000 km². Salzgitter itself is an expansive city, with 31 districts sprawling over 224 km². In December 2014, Salzgitter had a population of 101,213 inhabitants. A number of large international companies have offices in the region, including Salzgitter AG, Volkswagen, Alstom, and MAN, Bosch and IKEA, so that Salzgitter, with more than 50,000 jobs, is one of the leading industrial locations in Lower Saxony. At the end of December, the unemployment rate in Salzgitter was 9.2 %.

TAG's portfolio in the Salzgitter region comprises around 9,200 units. Vacancy is 15.5 %. Average net rent in TAG's Salzgitter region portfolio was EUR 4.84 / sqm at the end of 2014.

The hanseatic city of Rostock, situated on the shores of the Baltic, is increasingly becoming one of Mecklenburg-Vorpommern's most popular tourist cities. In 2013, the City of Culture received an award for 'best holiday destination'. Economically, the city is also on a clear upward trend. In 2013, in a comparison of the largest cities in eastern Germany, (excluding Berlin) Rostock produced the largest per-capita GDP (in the working population). This explains the significant influx into the hanseatic city. Rostock now has a population of around 204,000. The unemployment rate at the end of December was 10.4 %.

TAG's portfolio in the Rostock region grew last year from 1,390 units to around 4,900 units. Vacancy in the TAG region at year-end was 7.3 %, and average rent was EUR 5.10 / sqm. The market averages for Rostock are 3.8 % vacancy and EUR 5.69 / sqm rent (October 2014).

Berlin (Berlin segment)
The city on the Spree continues to show strong population growth and a high rate of incomers – 41,600 people moved to the German capital in 2014 and the population now totals approximately 3.53 m. This explains the shortage of apartments in Berlin. To meet the demand, nearly 20,000 apartments would have to be built annually, but in 2014 only 10,000 units were planned.

Population growth and increased migration from neighbouring European countries caused the vacancy rate in the capital to fall from 2.8 % to about 2.0 %, and rents rose in Berlin overall. Average rent in city-centre locations was EUR 9.20 / sqm, up by about 70 cents year-on-year. Unemployment at the end of December was 10.5 %.

In the spring of 2015, the government adopted a 'rental brake' policy to stem the price development described above: areas with an overstretched housing market will only be able to be let to new tenants at a mark-up of 10 % above the local rent. Berlin is a tenants' market, but not homogeneously so; each of the 12 districts has its own dynamic. In general, the supply of rental housing in the lower price segment has declined significantly since 2012 in almost all districts. The result is that the Greater Berlin Region is benefiting from the capital's appeal thanks to its proximity to Berlin City.

During the year under review, TAG reduced its portfolio in the Berlin region by around 3,500 units, mainly in city locations where sales opportunities could be profitably exploited. The inventory at year-end amounted to 9,702 units. Vacancy is at 4.4 %. TAG manages portfolios of approximately 1,000 units each in Berlin's 'greenbelt', including in Strausberg, Eberswalde and Bestensee. These small towns are easily reached by S-Bahn or regional Deutsche Bahn trains. In Nauen, a small town northwest of Berlin, TAG has a portfolio of approximately 3,000 units. The rent increases recorded in Berlin ensure that TAG can offer a sought-after product with an average rental price of EUR 5.12 / sqm.

Former East Germany (Dresden, Erfurt, Gera and Leipzig segments)
The investment potential in the eastern German residential real estate markets is becoming increasingly obvious. The focus for investment in the residential market in the former East Germany (excluding Berlin) is primarily based on the positive economic fundamentals. Contrary to all demographic predictions, the massive exodus has come to a standstill. For the first time since reunification in 2012, about as many people moved from western to eastern Germany as vice versa. The population is increasing, especially in university towns and cities with good educational and employment opportunities, such as Dresden, Leipzig, Magdeburg, Jena, Rostock and Chemnitz. Naturally, this population development trend is associated with future demand for living space. There is not only rising demand in the centres but also in the immediate surrounding regions, where vacancy is falling and rent levels are increasingly on the rise. At the same time, increasing investor demand is causing a rise in purchase price levels. For some locations, an average of 16 to 17 times annual net rental income is being charged – in 2010, this purchase price factor was still at 12.9 in Dresden and Leipzig, for example.

The former East Germany is an important location for the TAG portfolio, comprising more than 30,500 units, especially in Saxony and Thuringia, with a concentration in Dresden, Erfurt, Gera and Leipzig. Last year, TAG focused its investments on these areas, purchasing 9,000 units in places where it already has inventory.

Dresden
Dresden is one of the leading business hubs in Germany. Saxony's capital confirms the influx trend to the East – it currently has a population of 541,304. The university boosts its attractiveness and, in business, the renewable energy sector is a main contributor. The city has become a top location in the specialist areas of microelectronics, nanotechnology, new materials and life sciences. Unemployment at the end of December was 7.9 %.

The real estate market shows an upward trend not only in investor demand – the rental segment is also changing. Rents have been rising steadily for years, and now average EUR 5.70 / sqm (+30 cents within the past few years). TAG has 9,000 units in its Dresden region portfolio. Vacancy is 9.2 %, and average rent EUR 5.13 / sqm.

Leipzig
The Saxon university and tradeshow city is home to manufacturing plants of the car manufacturers Porsche and BMW. In addition to the automotive industry, Leipzig also sends a clear economic signal as an emerging location for innovative medium-sized IT, biotechnology and energy companies. The unemployment rate at the end of December was 7.7 %.

The positive economic developments in Leipzig are also reflected in the residential real estate sector. Average rent / sqm for a 30-sqm one-bedroom flat in 2013 was EUR 5.61. A year later the price was EUR 6.05.

TAG Immobilien AG has expanded its portfolio in Leipzig to more than 7,100 units, which are offered on the rental market at reasonable terms. The rental price is EUR 4.84 / sqm. Vacancy across the portfolio is 6.7 %.

Thuringia / Erfurt
Thuringia's capital Erfurt is considered a 'traffic hub' within Germany. Its central location is not only profitable for large logistics companies (DHL) – fast delivery options to the whole of Germany are helping to further enhance Erfurt's economic position and increase its GDP. The influx is unmistakable – the population now stands at 205,000. The unemployment rate at the end of December was 7.7 %.

This positive trend is also reflected in rising rents. TAG Immobilien AG expanded its portfolio in Erfurt to 7,000 units. Vacancy in the inventory is 8 %, and average rent is EUR 4.89 / sqm.

Gera
Gera is located just 20km from Hermsdorfer Kreuz, the intersection of the A9 Berlin-Munich and the A4 Dresden-Frankfurt/Main autobahns. The city has good innovative-technological development potential. Modern technology-driven companies – for example in the medical technology, microelectronics, software engineering and optics industries – have already settled here due to low wages and labour costs, reasonable land and real estate prices, and low utility and disposal costs. Unemployment at the end of December was 10.8%.

TAG's Gera inventories comprise close to 7,500 units. The vacancy rate here is 10.7%, and average rent is EUR 4.53/sqm.

North Rhine-Westphalia (Rhine-Ruhr segment)
The westernmost state in Germany, North Rhine-Westphalia is still the country's most populous, with a population of approximately 17.6m inhabitants in December 2013. NRW generates a GDP of around EUR 600 billion and is among the top federal states in Germany in economic terms. No state has a higher volume of trade. NRW is the most important energy location in Germany, and an important European energy region. In addition to being a centre for tradeshows and the chemicals industry, the region is also home to a variety of media and communications companies. The unemployment rate in NRW at the end of December was 7.8%.

TAG's NRW region portfolio comprised 3,685 units at the end of 2014. The average net rent excluding utility costs is EUR 5.44/sqm. Average vacancy in the units was only 2.6% in 2014, and was reduced again year-on-year (from 4%).

b) Business performance

Acquisitions

The following table shows details of the acquisitions completed in 2014:

Conclusion of the contract	Thuringia Feb. 2014	Saxony Sept. 2014	North/East Germany Nov. 2014	Others Aug./Nov. 2014	Total
Units	4,000	1,500	2,300	1,100	8,900
Floor area in sqm	236,000	85,400	150,200	68,500	540,100
Net actual EUR/sqm/month	5.24	5.20	5.22	–	–
Vacancy in%	10.7	12.9	3.7	–	–
purchase price in EURm	120.5	37.8	103.0	32.8	294.1
Net actual p.a. EURm	12.4	3.75	9.8	3.4	29.35
Location	Hermsdorf, Jena, Weimar, Erfurt, Chemnitz, etc.	Freiberg, Chemnitz, Dresden	Nordhausen, Stadtilm, Kiel, Itzehoe	Dessau, Görlitz, Schwerin	Diverse
benefits/encumbrances	Aug. 2014	Okt. 2014	Feb. 2015	Sept. 2014 / Feb. 2015	–
Multiples	9.7x	10.1x	10.5x	9.6x	10.0x

To complement these acquisitions, a portfolio in eastern Germany that had been contractually acquired in December 2013, and wherein first transfers were made as of 31 December 2013, was completely taken over during the first half of 2014. This resulted in the accrual of EUR 17.6m in the investment property sector. In the consolidated profit and loss account, this resulted in a gain of EUR 6.4m from the initial fair value measurement of these properties on the reporting date.

The purchase of approximately 4,000 units in Saxony and Thuringia in February 2014, most of which were taken over effective 1 August 2014, resulted in a valuation gain of 16.7m and the accrual of EUR 126.7 in the investment property sector.

In addition, TAG strengthened its real estate portfolio with another 270 units in Saxony-Anhalt in September 2014, and another 1,500 units in Saxony in October 2014. Overall, these transactions resulted in a valuation gain of EUR 3.4m, and the accrual of EUR 52.1m in the investment property sector.

In November 2014, three further portfolios were acquired, of which the Schwerin portfolio as of 31 December 2014 resulted in a valuation gain of EUR 1.1 m and the accrual of EUR 9.0 m in the in the investment property sector:

- Under a share deal, TAG acquired a residential real estate portfolio with a total of 2,300 residential units for a purchase price of EUR 103.0 m. The properties are located in various federal states in northern and eastern Germany. 626 residential units (about 27 %) are in the state of Thuringia, more specifically in Nordhausen and in Stadtilm near Erfurt. Another regional focus is northern Germany, with 1,064 units (approximately 47 %) located in Kiel and Itzehoe, among other places. However, the transfer of ownership rights, benefits and obligations of this portfolio, and thus its inclusion in TAG's consolidated financial statements, took place after the reporting date on 31 January 2015.
- In addition, a portfolio in Görlitz with 550 units and a rentable area of about 34,300 sqm was acquired at a purchase price of EUR 12.9 m. This was also transferred on 31 January 2015.
- Finally, a contract for about 300 residential units in Schwerin for a purchase price of EUR 8.6 m was notarised. The rentable area is around 16,450 sqm. This portfolio was transferred on 31 December 2014.

Sales

Residential real estate
The following table shows details of the residential real estate sales transacted in 2014:

	Berlin (Marzahn) Nov. 2014	Berlin (Staaken etc.) Dec. 2014	Others 2014	Total
Units	2,600	900	600	4,100
Net actual EUR/sqm/month	4.89	4.97 – 7.53	–	–
Net actual p.a. EUR m	9.4	4.1	0.9	14.4
Vacancy %	1.2	1.8 – 5.3	–	–
Selling price EUR m	170.4	76.0	24.4	270.8
Net (cash) earnings EUR m	85.5	29.3	9.8	124.6
Book profit (IFRS) EUR m	36.7	6.4	0.0	43.1
Location	Berlin (Marzahn)	Staaken / Lankwitz, Charlottenburg, Neukoelln	Diverse	–
benefits / encumbrances	Dec. 2014	Dec. 2014	2014	–
Multiples	18.1 x	18.5 x	27.1 x	18.8 x

In November and December 2014, approximately 3,500 units were sold in Berlin at a purchase price of EUR 170.4 m for a portfolio with 2,600 units in the Marzahn district of Berlin, and EUR 21.5 m for a portfolio in Staaken with 218 units. Moreover, a package sale of over 702 units in the Berlin districts of Lankwitz, Charlottenburg, and Neukölln was completed for a purchase price of EUR 54.5 m in December 2014. Overall, the sale of these units resulted in a book profit of EUR 43.1 m as of 31 December 2014.

In addition to these sales in Berlin, another 600 units were sold from TAG's inventories for EUR 24.4 m as part of an ongoing portfolio optimisation. This resulted in no significant net revenues from sales.

Commercial real estate
During the business year, TAG sold 80 % of its shares in TAG Gewerbeimmobilien GmbH, thereby completing its focus on the development and management of residential real estate. The deconsolidation of the company and subsequent removal of the commercial properties in question, with a book value of EUR 294 m, including related loans totalling EUR 166 m, from the consolidated financial statements, was completed on 30 May 2014.

The deconsolidation of TAG Commercial Real Estate GmbH resulted in a book profit of EUR 1.0 m and a residual purchase price receivable amounting to EUR 35.6 m as of 31 December 2014. This residual purchase price, which according to the contract may amount to a maximum of EUR 48.5 m, is dependent on future revenues from the sale of the properties by TAG Commercial Real Estate GmbH. If the company shows a negative economic development, the remainder of the purchase price may be waived completely. With this in mind, we decided to conservatively fully write off the remainder of the purchase price on the balance sheet date, resulting in a negative effect on earnings of EUR 35.6 m as of 31 December 2014. Any future cash inflows from the remainder of the purchase price will be included in the income statement. The remaining commercial real estate owned by the Group includes the owner-occupied company headquarters in Hamburg.

TAG still owns a 20 % stake in TAG Gewerbeimmobilien GmbH, which is now trading as Texas Gewerbeimmobilien S.à.r.L.. For further details, please refer to the remarks about the deconsolidation of this company in the Notes to the consolidated financial statements.

Besides the portfolio sale, two other commercial properties were sold for EUR 1.7 m during the current business year. These sales resulted in no significant net revenues.

In addition, on 31 December 2014 we revalued a (former) commercial property, which will be further developed into a student dormitory/boarding house as part of a joint development with a project partner, downgrading its value by EUR 8.9 m compared to the previous year to avoid risks from further construction delays.

Share buy-back

Given a high level of cash and cash equivalents, which was not matched by entirely attractive investment opportunities, on 11 September 2014, the TAG Supervisory Board and Management Board decided to buy-back own shares with the aim of sensibly using the Company's high level of cash and cash equivalents to create value for shareholders. The Share Buy-Back Offer was conducted as a public offer by way of a modified 'Dutch auction' with a price range of EUR 8.35 to EUR 9.35 per share. A total of 13,127,178 shares were repurchased at a price of EUR 9.30 per share. As of 31 December 2014, TAG held almost 10 % of the share capital via a number of own shares, which are held in part by a wholly-owned subsidiary.

Corporate bonds

In June 2014, TAG issued another corporate bond in the amount of EUR 125 m. The interest rate was 3.75 % p. a. for a term of six years. In February 2014, the capital of a corporate bond originally issued in August 2013 with a volume of EUR 200 m and an interest rate of 5.125 % was increased by another EUR 110 m to EUR 310 m. This increase was made at 103 % of nominal value, which results in an effective interest rate of 4.3 % p. a.

Ongoing project to standardize the processes and implementation of a new ERP software

The harmonisation of the IT landscape and adaptation of the standardisation of property management and accounting processes as part of the 'TAG 2.0' project began with the group-wide introduction of new ERP software in 2012. The existing ERP systems within the TAG Group are gradually being migrated to SAP Promos. By 1 January 2014 the successful rollout of SAP Promos had already taken place in about half of the inventory. Since 1 January 2015, the entire Group has been administered on this uniform management and accounting platform, resulting in further cost savings and efficiency gains, which will benefit our tenants and employees.

d) TAG Group's results of operations, financial position and net assets

Results of operations

Preliminary note
Following the deconsolidation of TAG Gewerbeimmobilien GmbH on 30 May 2014, the provisions of IFRS 5 for 'discontinued operations' were applied for the 2014 financial year. So in the consolidated profit and loss account, all income and expenses, including the sales profit attributable to discontinued operations, were shown in 'profit from discontinued operations after tax'. The previous year's figures in the consolidated income statement and consolidated segment report have been adjusted to reflect this new representation.

Net rental income
During the financial year, TAG increased its net rental income, i.e. the difference between rental revenues and rental expenses, for continuing operations from EUR 181.3m in the previous year to EUR 202.6m in 2014. The margin improved from 78.7% to 81.4%. This was mainly due to the increase in revenues from rent from continuing operations, which increased from EUR 230.4m in 2013 to EUR 248.9m. This corresponds to growth of EUR 18.5m or 8.0% and is mainly attributable to newly acquired inventories and the ongoing operative increase in rents.

The deviation from the projected rental income in the amount of approximately EUR 277m resulted primarily from the sale of the majority of the commercial portfolio and from the residential real estate portfolio that was transferred later than planned.

In proportion to rental revenues, rental expenses decreased by EUR 2.8m or 5.8% to EUR 46.3m. This increase in efficiency resulted primarily from the integration of acquired real estate inventories into existing structures.

In fiscal 2014, the Berlin segment continued to contribute the largest share of the segment result with around EUR 41m. In addition, the eastern German segments Dresden and Leipzig were key contributors to the result, at around EUR 30m and EUR 21m, respectively.

Results from sales of investment properties and properties held as inventories
At EUR 270.8m, revenues from sales in the field of continuing operations were significantly above the previous year's level of EUR 112.4m. This increase is primarily due to the sales that took place in the Berlin segment towards the end of the year.

Other operating income and revaluations
Other operating income is on par with the previous year at EUR 10.9m (previous year: EUR 10.5m from continuing operations). This is mainly related to the release of accrued liabilities, the elimination of liabilities from previous years, the value recovery from properties held as inventories, and gains from the sale of securities.

The revaluation of investment properties and first-time consolidation of newly acquired properties resulted in an overall positive valuation result of EUR 46.8m in 2014. The previous year's significantly lower valuation result of EUR 4.2 for continuing operations is related to the adapted valuation methodology for part of the residential real estate portfolio in fiscal 2013 due to the first-time application of IFRS 13.

Personnel expenses
The reporting period saw heightened personnel expenses to the tune of EUR 33.7m (previous year: EUR 29.5m). This was partly because of an increase in the number of employees due to the Company's growth, but mostly attributable to non-recurring effects due to a change on the Company's Management Board that took place in the first quarter of 2014, as well as the establishment of a separate ERP project team.

Other operating expenses
Other operating expenses increased to EUR 22.6m after EUR 18.4m the previous year. Here, too, the main reasons were additional expenses associated with the launch of the new ERP programme on 1 January 2014, and increased consulting expenses related to the establishment and implementation of a central Purchasing department.

Impairments on inventories and receivables
The impairment on inventories and receivables of EUR 13.0m (previous year: EUR 15.5m in continuing operations) is mainly attributable to a full write-off of the remaining purchase price for shares in POLARES Real Estate Asset Management, which were sold in fiscal 2012 for EUR 5.7m, which became necessary based on the commercial development of the company and thus of the buyer of the shares.

Net interest income and earnings from associated companies
Net borrowing costs, the result of offsetting interest income against interest expenditure, came to EUR -109.6m (previous year: EUR -98.8m in continuing operations). The average interest rate on loans, which was lower year-on-year (3.4% vs. 3.7% in fiscal 2013), had a positive effect. Countervailing effects are primarily related to prepayment penalties in connection with the sale of residential and commercial real estate.

Earnings before taxes (EBT)

Earnings before taxes in continuing operations increased significantly from EUR 34.5m in 2013 to EUR 121.2m in 2014. Apart from a EUR 21.3m increase in rental income, this increase was primarily fuelled by the net proceeds from sales of investment properties in the amount of EUR 40.3m.

Income taxes

Taxes on income and earnings amounted to EUR 53.2m in 2014, compared with after tax income of EUR 5.1m in 2013. The proportion of current tax income in this is EUR 0.9m (previous year: current tax expenses of EUR 0.3m).

The significantly increased deferred tax expenses in comparison with the previous year are partly due to the positive fair-value revaluation result of the fiscal year, and partly from valuation allowances for deferred taxes on tax loss carryforwards that cannot be used, temporarily due to newly established tax group relationships within the Group during the financial year.

Consolidated net profit

Overall, in fiscal 2014 TAG achieved consolidated net profit of EUR 67.8m from continuing operations (previous year: EUR 39.7m). Discontinued operations recorded a loss of EUR 38.9m (previous year: EUR 12.7m). In addition to valuation losses on derivatives that were reclassified (equity-neutral) from hedge accounting into the profit and loss account in the amount of EUR 6.1m, the result also includes sales profit from the deconsolidation of TAG Gewerbeimmobilen GmbH amounting to EUR 1.0m. In addition, a total write-off of the remaining receivables from the sale of the TAG Gewerbeimmobilen GmbH shares was recorded in the amount of EUR 35.6m.

Funds from Operations (FFO)

Under our definition to date, FFO I is calculated based on the Group's consolidated EBT, adjusted for non-cash items such as assessment results, depreciation, amortisation and non-cash interest expense and special effects that do not recur on a regular basis. FFO I is also adjusted for sales proceeds.

As with other indicators, e.g. NAV, we want to enable better future comparability to our competitors with regard to FFO, and have therefore redefined it since 30 September 2014. In the future, FFO I will result from FFO I as reported in the past, but with the additional deduction of current income taxes and other taxes, and waiving any elimination of impairment losses on rental receivables.

Since the 2014 financial year, we have also reported another AFFO (Adjusted Funds From Operations) as a further indicator. It is based on FFO I, but without the capitalised investments in the portfolio holdings ('Capex') listed on the balance sheet.

TAG's business activity also regularly includes property sales. For this reason, we also report another indicator, FFO II, which includes cash inflows from disposals (after repayment of any associated bank loans). The redefined FFO II is now based on the fixed FFO I and no longer takes into account the liquidity inflow, but rather the balance sheet profit from property sales.

in EUR m	2014 Total	2013 Total	Q4 2014	Q3 2014
Net income	**29.0**	**27.0**	**-34.5**	**49.3**
Taxes	54.1	-3.9	34.7	10.1
Net financial result	118.0	105.7	34.9	24.5
EBIT	**201.1**	**128.8**	**35.2**	**83.9**
Net financial result (cash) (without special effects)	-92.9	-96.5	-23.2	-22.6
Taxes (cash)	0.7	-1.1	-0.1	-0.3
Adjustments				
Valuation result	-46.8	15.9	4.7	-44.6
Revaluation of real estate inventory	-2.1	0.0	-1.3	-0.8
Deconsolidation commercial portfolio	-1.0	0.0	0.0	0.0
Depreciation	3.4	2.2	1.4	0.6
Impairment losses on receivables and inventories	49.0	17.4	37.9	1.8
One off's personnel-costs and project costs	9.7	0.0	5.6	1.0
Results from sales	-40.3	0.3	-40.9	-0.3
Impairment losses on rent receivables	-6.3	-5.3	-1.1	-1.6
FFO I (re-defined)	**74.5**	**61.7**	**18.2**	**17.1**
FFO I (as previously reported)	80.1	68.1	19.4	19.0
CAPEX	-31.6	-20.0	-9.9	-7.0
AFFO	**42.9**	**41.7**	**8.3**	**10.1**
FFO I incl. results from sales	40.3	-0.3	40.9	0.3
FFO II	**114.8**	**61.4**	**59.1**	**17.4**
Number of shares (outstanding) in thousand	118,586	131,298	118,586	118,185
FFO I per share in EUR (re-defined)	**0.63**	**0.47**	**0.15**	**0.14**
FFO I per share in EUR (as previously reported)	0.68	0.52	0.16	0.16
AFFO per share in EUR (re-defined)	**0.36**	**0.32**	**0.07**	**0.09**
Diluted number of shares (in thousands)	132,523	145,110	132,523	132,523
FFO I per share in EUR (re-defined) diluted	**0.61**	**0.49**	**0.15**	**0.14**
AFFO per share in EUR (diluted)	**0.37**	**0.35**	**0.07**	**0.09**

The redefined FFO I on 31 December 2014 was EUR 74.5m compared to EUR 61.7m in the same period of the previous year, and EUR 80.1m compared to EUR 68.1m in the prior year based on the past definition. FFO II, which also includes cash inflows from disposals, increased from EUR 61.4m in 2013 to EUR 114.8m in 2014. The increase is mainly due to the sale of residential properties in Berlin at the end of 2014, which contributed approximately EUR 40.2m to FFO II.

The Group had forecast FFO I of EUR 90m for the 2014 financial year (based on the previous definition). Based on the previous number of shares, this corresponded to a value of EUR 0.69 per share. TAG was unable to achieve the absolute amount of this target with FFO I of EUR 80.1m, but essentially achieved it on a per-share basis, at EUR 0.68 per share. As with rental income, the main reasons for falling short of the FFO target in absolute terms were the effects of the deconsolidation of most of the commercial portfolio, as well as the later-than-planned transfer of the residential real estate portfolio.

Assets position

Asset values
As of 31 December 2014, total assets amounted to EUR 3,734.2 m, compared to EUR 3,813.1 m on 31 December 2013. The decrease in total assets from the deconsolidation of TAG Gewerbeimmobilien GmbH on 30 May 2014 was partly compensated for by the effects of the aforementioned acquisitions of residential real estate portfolios and from capital gains on the existing portfolio.

In addition to investment properties of EUR 3,331.6 m (previous year: EUR 3,544.1 m) the Group's total real estate assets also include properties reported under property, plant and equipment of EUR 10.9 m (previous year: EUR 9.9 m), inventories of EUR 19.3 m (previous year: EUR 46.9 m) and real estate reported under non-current assets held for sale of EUR 9.5 m (previous year: EUR 6.0 m). As a result, as of 31 December 2014 total real estate assets amounted to EUR 3,371.3 m, compared to EUR 3,606.9 m at the end of last year.

Cash and cash equivalents totalled EUR 196.6 m as of 31 December 2014 compared to EUR 85.3 m as of 31 December 2013.

Investments
In fiscal 2014, TAG once again further strengthened its own residential real estate portfolio with acquisitions. The acquisition of residential portfolios in TAG's existing core regions added about 8,900 units to the inventories by the reporting date. In all, TAG invested EUR 205.4 m in the expansion of the residential portfolio that was recognized on the balance sheet as of 31 December 2014.

Apart from this, in 2014 TAG invested a total of EUR 55.0 m in the residential portfolio for routine maintenance and for modernisation and refurbishment (previous year: EUR 45.7 m). A total of EUR 23.9 m was spent on maintenance recognised as expenses, equivalent to EUR 5.21 / sqm. A total of EUR 31.1 m was spent on capitalisable investment, equivalent to EUR 6.76 / sqm.

Financial position

Equity
The equity ratio in fiscal 2014 was 26.9 % compared with 29.6 % at the end of last year. This equity ratio means that the TAG Group is solidly funded. During the reporting year, the share buy-back of 13,127,178 shares reduced shareholders' equity. Overall, at a price of EUR 9.30 per share, a total of EUR 122.1 m was spent on the buy-back.

Net Asset Value (NAV)
We adjusted and expanded the calculation of net asset value for the first time in the quarter ended 30 September 2014. Unlike our main competitors, we do not assess all of our investment properties with a flat-rate transaction allowance for incidental acquisition costs (usually 7-8 % of the fair value), but only in those markets where, based on publically available information, the majority of transactions that take place are actually asset deals, and therefore transaction costs are indeed to be expected at this level. We assess all other properties using our historic transaction costs for share deals (0.2 % of fair value). Secondly, in the past we completely eliminated deferred tax positions from NAV, while competitors, following EPRA recommendations, only eliminate those deferred taxes attributable to the valuation of investment properties and of derivative financial instruments.

The following table shows the NAV calculation, taking into account deferred taxes in accordance with EPRA recommendations (newly defined NAV) as well as a flat-rate transaction cost deduction, which we provide as supplementary information:

in EUR m	12/31/2014	09/30/2014	12/31/2013
Equity (before minorities)	979.5	1,007.8	1,107.3
Deferred tax	152.1	126.2	120.1
Derivatives	7.4	8.0	13.8
EPRA NAV *(as previously reported)*	1,139.0	1,142.0	1,241.2
Deferred tax (except for investment properties and financial derivatives)	59.2	58.7	66.2
EPRA NAV (re-defined, **pre**-transaction costs)	1,198.2	1,200.7	1,307.4
Standardized purchasers costs	-185.1	-181.6	-159.0
EPRA NAV (post-standardized purchasers costs)	1.013.1	1,019.1	1,148.4
Number of shares (outstanding)	118,586	118,185	131,298
EPRA NAV per share in EUR (re-defined, **pre**-transaction costs)	10.10	10.16	9.96
EPRA NAV per share in EUR (re-defined, **post**-transaction costs)	8.54	8.62	8.75
EPRA NAV per share in EUR *(as previously reported)*	9.61	9.66	9.45
Number of shares (diluted)	132,523	132,523	145,110
EPRA NAV per share in EUR (re-defined, diluted)	9.85	9.89	9.76

The change of the redefined NAV per share in fiscal 2014 from EUR 9.96 to EUR 10.10 results – beyond the dividend of EUR 0.35 paid in fiscal 2014 – from the valuation adjustments made at year-end, e. g. to the balance of the purchase price from the sale of TAG Gewerbeimmobilien GmbH.

Financing

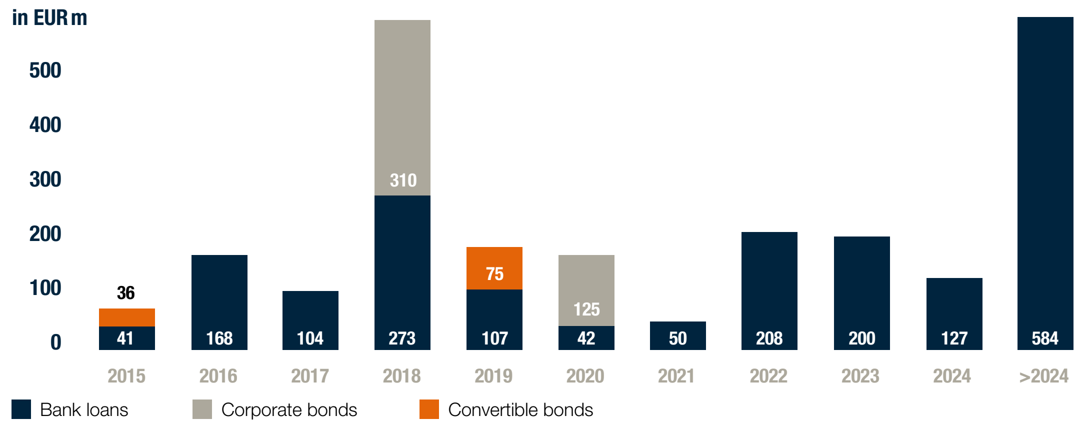
TAG bases its funding on four separate pillars. In addition to bank loans secured by land / property in its real estate companies and subsidiaries, the Company also uses capital market-based financing by issuing convertible and corporate bonds. TAG and its subsidiaries can also draw on credit lines at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

During the financial year, bank borrowings decreased from EUR 2,127 m to EUR 1,904 m. The deconsolidation of TAG Gewerbeimmobilien GmbH on 30 May 2014 reduced the Group's bank liabilities to EUR 166.1 m. Bank borrowings with maturities of less than one year stood at EUR 106.0 m at year-end 2014, vs. EUR 179.5 m the previous year. TAG was able to again achieve a reduction in interest rates by refinancing maturing loans in 2014. The average interest rate on bank borrowings was around 3.4 % as of 31 December 2014, taking into account interest rate hedges (previous year: 3.7 %).

In 2010 and 2012 TAG issued convertible bonds to finance its continued growth. The coupons on all convertible bonds range from 5.5 % to 6.5 %. The outstanding volume of convertible bonds amounted to EUR 32.3 m (previous year: EUR 35.1 m) on 31 December 2014 for the convertible bonds maturing in December 2015, and EUR 74.5 m (previous year: EUR 74.5 m) for the convertible bonds maturing in June 2019. As the bonds' conversion prices of the bonds amounted to EUR 6.67 and EUR 8.19, given the current market price (31 December 2014 EUR 9.62 per share), we expect a full conversion into equity at the end of their respective terms.

In June 2014, TAG issued another corporate bond in the amount of EUR 125 m. The interest rate is 3.75 % p. a. for a term of six years. Together with the increase in our corporate bonds by another EUR 110 m in February 2014, the combined book value of our bonds increased from EUR 197.0 m on 31 December 2013 to EUR 435.0 m at year-end 2014.

The following table shows the maturity of all liabilities as of 31 December 2014:



The Management Board assumes that all loans maturing in 2015 will be renewed as scheduled. TAG does not have any foreign currency financing. In the expectation of lower interest rates, the Company believes that in the long term, the Company's overall borrowing costs will be further reduced. Among other things, this is due to the fact that the interest rates on some of the loans that are due to mature are substantially higher than current market levels.

TAG has credit lines available at various banks (previous year: EUR 68 m) totaling EUR 24m. As of 31 December 2014, EUR 5.0 m had been drawn (previous year: EUR 46.5 m).

The TAG Group's debt ratio, which is reflected in the loan-to-value ratio (LTV), increased marginally to 62.2 % as of 31 December 2014 (previous year: 62.1 %). The LTV is obtained by dividing net liquidity (financial debt less cash and cash equivalents) by real estate assets. The LTV II, which includes financial debt as well as convertible bonds, increased slightly from 65.0 % to 65.3 % as at 31 December 2014.

Overall assessment of the economic situation

The Group's profitability is positive due to acquisitions in the real estate portfolio, successful refinancing during the previous year, and further vacancy reduction. The equity ratio remained sound at 26.9 % (previous year: EUR 29.6 %). TAG has sufficient liquidity and competitively financed.

Proposed dividend

In view of these results, TAG feels confident about proposing an increased dividend of EUR 0.50 per share for the 2014 financial year (previous year: EUR 0.35 per share) at the Annual General Meeting.

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

Employees

At the end of the 2014 financial year, TAG employed a total of 521 employees (previous year: 519 employees), excluding trainees / apprentices. A small part of the workforce is still employed by subsidiaries. In addition to these employees, the Group employed 134 caretakers (previous year: 98) as at 31 December 2014.

As the performance of each employee affects the success of the TAG Group, staff training and encouraging employee professional development is given a high priority. This is achieved through a number of training measures, which are becoming more and more important in the competition for qualified staff, if for no other reason than because of the demographic trend.

This is also true of the promotion of young talent. The TAG Group currently employs 45 apprentices and staff members completing dual degree programs in business administration with a focus on the real estate industry. TAG strives to offer these trained real estate professionals continued employment at its various locations once they graduate. The cooperation and sponsorship contract signed with the Technical University of Darmstadt also serves to advance the promotion of young talent that TAG supports.

The company's boards

The company's Chief Financial Officer, Mr Georg Griesemann, resigned from the board on 31 March 2014. On 26 February 2014, by resolution of the Supervisory Board, Mr Martin Thiel was appointed as CFO of TAG with effect from 1 April 2014.

On 31 October 2014, Mr Rolf Elgeti resigned from the Management Board, with the approval of the Supervisory Board. From 1 November 2014, Mr Elgeti's duties were equally divided among his fellow board members Claudia Hoyer (COO), Martin Thiel (CFO) and Dr Harboe Vaagt (CLO). The post of Chief Executive Officer (CEO) was left vacant.

The Chairman of the Supervisory Board, Dr Lutz R. Ristow, resigned from the Supervisory Board at the end of the Annual General Meeting on 13 June 2014 for age reasons. His deputy, Prof Dr Ronald Frohne, also resigned from his position at the end of this Annual General Meeting for personal reasons. Dr Hans-Jürgen Ahlbrecht and Dr Ingo-Hans Holz were elected by the Annual General Meeting to the Supervisory Board as successors. On 13 June 2014, Mr Lothar Lanz was elected as the new Chairman of the Supervisory Board and Dr Philipp Wagner his deputy.

At the extraordinary general meeting on 28 November 2014, Mr Elgeti was elected to the Supervisory Board following the proposal of shareholders holding more than 25 % of voting rights, and at the same time Dr Ingo-Hans Holz resigned from the Supervisory Board. In addition, at the meeting of 28 November 2014, the Supervisory Board elected Mr Elgeti Chairman of the Supervisory Board and Mr Lanz as Deputy Chairman.

f) Other financial and non-financial performance indicators

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

Vacancy, excluding acquisitions during the year, was reduced from 8.9 % on 31 December 2013 to 8.1 % on 31 December 2014. Overall vacancy in the Group decreased from 9.5 % to 9.0 %. In particular, vacancy was further reduced in Salzgitter – from 18.6 % in December 2013 to 15.5 % in December 2014.

Rent / sqm in the Group's residential units also developed positively (excluding acquisitions during the year) from EUR 4.97 in December 2013 to EUR 5.00 at year-end 2014. Due to the sale of most of the commercial portfolio, rent / sqm fell to EUR 5.16 across the Group in December 2014, vs. EUR 5.24 at the end of the previous year.

III. Material events occurring after the balance sheet date

Employee representatives Andrea Mäckler and Wencke Röckendorf resigned from the Company and from its Supervisory Board effective 31 December 2014 and 31 January 2015, respectively. New employee representatives will be elected to the Supervisory Board during the first half of 2015.

The portfolios in northern and eastern Germany (2,300 residential units) and Görlitz (about residential 550 units), which had already been contractually acquired at the end of fiscal 2014, were transferred to the Group on 31 January 2015.

In February 2015, TAG acquired 3.6m shares in the Colonia Real Estate AG subsidiary in exchange for two million of its own shares, and has thus increased its stake in the subsidiary from 79% on 31 December 2014 to 87% currently.

There have been no further material events since the reporting date.

IV. Forecast, opportunities and risk report

Forecast

The German economy is in good shape. Employment is at record levels, unemployment is falling, and developments in the job market have enabled tangible wage increases. Thanks to this development, gross domestic product rose by 1.5% last year. In the current year, the national budget will again be approximately balanced and a small surplus achieved structurally. A steady, consistent policy of debt limitation has created confidence among businesses, employees and investors, and is also an important basis for future investment and growth.

The economic outlook for Germany is slightly positive. Specifically, in its January 2015 annual forecast, the German government expressed its expectation that exports will remain an important mainstay and that a gross domestic product of about 1.5% can be achieved in the current year. Likewise, according to Bundesbank forecasts for next year, the German economy will be able to grow minimally overall, with economic growth at 1.0%. Despite the cautious estimates, Germany is likely to maintain its strong competitive position.

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 has now reached a size of around 72,500 units that allows us to effectively manage our inventory. For this reason, in the future we will focus much more on optimising the portfolio and effectively increasing our cash flows.

Consequently, this means that we will continue to take advantage of attractive opportunities in the market and invest in sites with development potential where we already have a presence in order to expand and further develop our residential portfolio. However, in 2014 the asking prices in some major bidding processes were not in line with our target returns. As before, our strategy when purchasing portfolios is determined by explicit 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.

As early as the 2013 financial year, we significantly reduced dilutive effects for our shareholders by repurchasing convertible bonds. With the share buy-back in October 2014, nearly 10% of the outstanding share capital was acquired. At a price of EUR 9.30 per share, TAG shares were purchased below NAV on that date, thereby creating even more value for our shareholders. A resolution at the extraordinary general meeting of 28 November 2014 authorised the Management Board to acquire own shares again, thereby providing the legal prerequisite for further share buy-backs. However, there are currently no plans to do so. Further repurchases will only be considered if they are economically expedient and there are no other ways of investing excess cash.

The mergers of competitors currently observed in the market such as the acquisition of GAGFAH by Deutsche Annington Immobilien SE do not change our current strategy. We will independently continue along our path as a company with high returns and dividends, and will resolutely increase the return per share.

Due to strong operating performance, the successful integration of acquired properties, and the reduction of administrative and finance costs, and excluding further acquisitions and sales, TAG forecasts FFO I per share of EUR 0.67 to EUR 0.69 for 2015 (according to the new definition), or (according to the past definition) EUR 0.71 to EUR 0.73 per share, and an EBT (excluding the evaluation results of investment properties) of EUR 70m to EUR 75m. For the NAV, under the same assumptions, according to the new definition and after deduction of a dividend of EUR 0.50, an increase of about EUR 0.20 to EUR 0.30 is expected. According to current plans, the LTV I (excluding convertible bonds) will be on par with this level as at 31 December 2014.

We expect vacancy in our residential units (not including new acquisitions during 2015) to further decrease by the same magnitude as in the past fiscal year, and average rent for these units to increase by between EUR 0.05 and EUR 0.10/sqm.

Risks and opportunities report

Risk management

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

The TAG Management Board is responsible for implementing a consistent and appropriate risk management process. Therefore, an early risk detection system in accordance with Section 91 (2) of the German Stock Corporation Act was introduced several years ago. In order to identify risks, TAG monitors the overall economy, as well as developments in the financial services and real estate sectors. Internal processes are also monitored constantly. On account of the constantly changing conditions and requirements, risk identification is an ongoing task that is integrated into operational processes. As a matter of principle, all organisational units are required to identify risks likely to arise from present or future activity. Regular meetings, controlling discussions, department meetings, one-on-ones and enquiries also help to identify risks.

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

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

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

Description of individual risks

Economic and sector risks

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

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

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

TAG's strategic concentration on dynamic urban centres and other selected locations limits these risks. Targeted acquisitions of residential real estate also strengthen its concentration on a high-quality, high-yield portfolio. To prepare for acquisition decisions, developments are monitored on an ongoing basis, and the property, location and tenants are analysed in detail. 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 taken into account in potential sales of inventories.

Regulatory and political risks

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

On 1 October 2014, the German Federal Cabinet agreed to a 'rental price brake'. The new regulations provide that in areas with an overstretched housing market, existing housing will only be able to be let to new tenants at a maximum of 10 % above the local comparative rent. It is expected that the rental price brake will become law in the first half of 2015. To become effective it also requires legal directives from the federal states that specify the areas in question.

Although the TAG portfolio is centred on dynamic metropolitan centres, because of the regional structure of the real estate portfolio, no significant impacts on the Company are expected.

Supply chain risks

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

In the residential segment, a standard credit check is performed on potential new tenants. In addition, one of TAG's strategic goals is to reduce vacancies through active asset and property management, thereby lowering vacancy costs while harnessing available rental potential. TAG uses active portfolio management that extends 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 default risks, we generally consider these to be marginal.

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

In 2013, due to the first-time application of IFRS 13 to determine fair value, the valuation of the real estate portfolio was adjusted. Since then, the amount of a potential buyer's deductible transaction costs has depended on the respective market of relevance for the asset in question. In the case of real estate portfolios, it is necessary to make a distinction between asset sales involving the direct sale of investment properties, and share deals, which entail the sale of shares in companies holding real-estate portfolios. Whereas asset deals are regularly subject to realty transfer tax as well as broker and notary fees, share deals can be structured in such a way as to avoid realty transfer tax and broker fees.

The German states were defined as sub-markets to determine the relevant market. On the basis of information provided by the relevant valuation committees on asset deals on the one hand, and freely available information on share deals on the other, it was not possible to unambiguously identify any main market for the eastern German states with the exception of Berlin, or for Lower Saxony. Accordingly, the market for share deals was assumed to be the most appropriate one for measuring the fair value of real estate holdings in these German states. The deductible market-specific transaction costs for a potential buyer under a share deal were assumed to equal 0.2 %. No other discounts or premiums were taken into account in determining the fair value for share deals. With respect to real estate holdings in the other German states, i. e. western German states with the exception of Lower Saxony, the market for asset deals was assumed to be the main market in the absence of any evidence to the contrary. The deductible transaction costs for these deals averaged 7.4 %.

The definition of the respective relevant market segments is the same as in the previous year. In the event that the market for asset deals was considered the main market for all German states, it would result in a devaluation of the residential real estate of around EUR 185 m (previous year: about EUR 159 m).

Financial risks

Overview
TAG's business activities expose it to various risks of a financial nature, particularly liquidity and interest-rate risks. In accordance with the guidelines issued by the Company's managing bodies, risk management is 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.

Liquidity risks
Extensive liquidity planning instruments, both short- and medium-term, are used to ensure that current business transactions are based on forecast data. Extensive liquidity reports are regularly submitted to the Management Board.

Moreover, TAG is dependent on securing external capital on 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 sales of distressed assets would lead to considerable financial disadvantages for TAG. TAG uses current market conditions to restructure key loan agreements long-term in order to mitigate this risk.

The Group has loans totalling around EUR 1,518 m (previous year: EUR 1,583 m), for which financial covenants specifying certain capital service ratios and equity / debt ratios have been agreed. If any of these covenants are breached, premature loan repayments may become necessary. As of 31 December 2014, the Company was in compliance with the financial covenants stipulated in the loan agreements.

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

Interest rate risks
The Group's activities primarily expose it to risks arising from changes in interest rates. The Group uses derivative financial instruments to the extent necessary for managing existing interest rate risks. These chiefly include interest swaps to minimise exposure in the event of rising interest rates. The TAG group uses derivatives based on hedged assets to actively manage and reduce interest rate risks.

The Group's integrated interest and credit management actively works with the Business Planning Department. This makes it possible to structure derivatives in such a way that they generate the greatest possible benefits and maximum stability for the Group's present and future. Future changes in market interest rates may cause the derivatives to have an adverse effect on the hedge accounting reserve in equity or consolidated net earnings.

Currency risks
There are no foreign-currency transactions or currency risks, as nearly all business is conducted in euros. A very small amount of business is denominated in Swiss francs.

Other risks

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

There are legal risks associated with the Group's past activities in the property development business. As the pro-consumer and pro-buyer judiciaries often do 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 period of five years are possible. A number of these proceedings are still pending in the courts for cases where the work was completed over ten years ago. There is also the risk of environmental contamination claims or hazards arising from construction material warranties in connection with the sale of real estate, which may exceed the corresponding rights of recourse available. Occasionally, claims are asserted against TAG subsidiaries by purchasers in connection with lost tax advantages, compensation, and in some cases, the rescission of contracts entered into many years ago. Appropriate provisions have been created to cover risks in connection with legal disputes, claims for damages, and warranty claims.

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

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

Opportunities for future development

TAG Immobilien AG further strengthened and expanded its market position last year. As a result, the increase in the number of units also led to an increase in real estate volume, rental revenue and FFO. Thanks to the Group's decentralised structure with its headquarters in Hamburg and branches in Berlin, Düsseldorf, Döbeln, Leipzig, Erfurt, Salzgitter and Gera, TAG can identify market trends at an early stage and address them more quickly than competitors are able to.

The TAG group's portfolio is located in various regions where there is still growth potential to be harnessed. A good variety of apartment sizes and micro-locations within the regions, along with modern, efficient tenant relationship management, enable the consistent generation of returns and cashflows from the portfolio.

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

Apart from implementing our growth strategy and improving our capital market position, TAG also has a solid funding structure. Most of the Group's financing is long-term. As of 31 December 2014, the average interest rate on total debt (bank loans, corporate bonds and convertible bonds) stood at 3.7 % (previous year: 3.9 %). The average bank loan term was 11.0 years (previous year: 9.4). TAG's business model – in particular its successful implementation of its growth strategy and active asset management, which is reflected in the continuous reduction of vacancy – is well established on the capital markets and with the banks.

All of 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 markets as well as from banks.

Overall assessment

In line with the stable performance during the reporting period, the overall risk situation has not changed fundamentally compared with the previous year. Using the monitoring system described above and the available instruments, TAG Immobilien AG took the necessary measures to identify and prevent, at an early stage, risks that could threaten the existence of the Company.

At this time, the Management Board is unaware of any risks that could threaten the existence of the Company. The Company is convinced that it will continue to be able to make use of the opportunities and challenges arising in the future without exposing itself to undue risk.

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

The structure of TAG's accounting-related internal monitoring system is derived 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 with an external service provider, and rental accounting at the Group's shared service centres, or, if only to a very minor extent at this point, by external real estate management companies – the Accounting department at Group headquarters bears the final responsibility.

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

In fiscal 2014, the Accounting department primarily used three ERP software packages certified by independent auditors to prepare the financial statements. Since 1 January 2015, the entire Group has used one shared ERP system (SAP Promos).

External service providers are involved in preparing the quarterly and annual financial statements. For instance, independent appraisers investigate reports on the fair value of the real estate. The fair value of interest swaps and pension provisions are also calculated with the assistance of external experts. Risks arising from interest rate swaps are monitored on an ongoing basis. The efficiency of interest rate swaps relative to the hedged loans is reviewed quarterly.

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

TAG Immobilien AG is a capital market-oriented Company as defined in Section 264d of the German Commercial Code. Therefore, information on equity, the equity structure, and voting rights is 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 2014:

Composition of share capital

The Company's share capital stands at EUR 131,298,317.00 as of 31 December 2014, up from EUR 130,737,996.00 as of 31 December 2013. It is divided into 131,298,317 shares. The computed pro rata amount of share capital attributable to each share is EUR 1.00. All shares carry the same rights and each share entitles the owner to one vote. Dividends are determined by the number of shares held.

Limitations on voting rights and transfer of shares

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

Direct or indirect voting shares exceeding 10 %

The Company is aware of the following direct or indirect holdings of more than 10 % of its voting rights as of 31 December 2014, based on reports it has received pursuant to the German Securities Trading Act (WpHG):

- Ruffer LLP, London, United Kingdom
- Flossbach von Storch Invest S.A., Luxembourg-Strassen, Luxembourg, and Flossbach von Storch AG, Cologne, Germany
- Sun Life Financial Inc., Toronto, Canada, Sun Life Global Investments Inc., Toronto, Canada, Sun Life Assurance Company of Canada, U.S. Operations Holdings, Inc., Wellesley Hills, MA, USA, Sun Life Financial (U.S.) Holdings Inc., Wellesley Hills, MA, USA, Sun Life Financial (U.S.) Investments LLC, Wellesley Hills, MA, USA, Sun Life of Canada (U.S.) Financial Services Holding, Inc., Boston, MA, USA, and Massachusetts Financial Services Company (MFS), Boston, MA, USA
- Pension institution of the federal and state governments, Karlsruhe, Germany

The Company has not been notified of other direct or indirect interests in TAG's capital that meet 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 since the departure of Mr Elgeti from The Management Board on 31 October 2014. The Management Board consists of at least two people. The Supervisory Board can revoke the appointment of Management Board members and the Chairman of the Management Board if there is good cause.

Amendments to the Articles of Association are based on Sections 179 and 133 of the German Stock Corporation Act and the provisions of the Articles of Association. Any amendment to the Articles of Association requires a resolution by the [Annual] General Meeting. However, the Company's Supervisory Board is authorised in accordance with Section 11 of the Articles of Association to resolve amendments that only affect the Articles of Association. Section 20 of the Articles of Association provides that in accordance with Section 179 (2) sentence 2 of the German Stock Corporation Act – in the absence of mandatory legal provisions to the contrary – a shareholders' resolution to change the Articles of Association can in principle passed by a simple majority of the votes cast and the share capital represented in the vote.

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

Authorisation of the Management Board to issue new shares (authorised and contingent capital) and repurchase shares

In a resolution passed at the Annual General Meeting on 14 June 2012, the 'Authorised Capital 2012/I' was agreed and the Management Board, subject to the Supervisory Board's approval, was authorised to increase the Company's share capital by a total amount of no more than EUR 40 m by issuing up to 40,000,000 no-par-value ordinary shares on a cash and/or non-cash basis, once or on repeated occasions, on or before 13 June 2017. The Management Board partially made use of this authorisation in 2012. Following this action, EUR 8,190,307.00 is still available.

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

The Company has had a variety of contingent assets/capital underpinning the convertible bonds issued by the Company in recent years, which have changed due to the exercise of conversion rights in financial year 2014:

- Contingent capital 2009/I, which dates back to the shareholders' resolution of 27 August 2009, is the basis of the EUR 12.5 m convertible bond issued by the Company in 2009 and expired in 2012, and of a convertible bond of EUR 30 m issued in 2010 (WKN A1ELQF). The exercise of conversion rights from the EUR 30 m convertible bond increased the share capital by 532,958 par value shares. The remaining convertible bonds with a nominal value of EUR 27,266,300.00 were fully repurchased in 2013. As a result, contingent capital 2009/I decreased to EUR 5,566,989.00 in the year under review.
- Contingent capital 2010/I dating back to the shareholders' resolution of 25 June 2010 increased the share capital by another 9.8 m shares. This contingent capital serves to underpin the EUR 66.6 m convertible bond (WKN A1E89W). The exercise of conversion rights has increased the share capital from this convertible bond by 414,542 shares. Contingent capital 2010/I therefore decreased to EUR 9,358,095.00 in the year under review.
- Contingent capital 2011/I dating back to the shareholders' resolution of 26 August 2011 increased the share capital by a further 15 m shares. It serves to underpin the EUR 85.3 m convertible bond (WKN A1PGZM). No conversion rights have been exercised to date.
- Contingent capital 2013/I dating back to the shareholders' resolution of 14 June 2013 increased the share capital by a further 13 m shares. This capital increase will only be carried out to the extent that the convertible and/or option bonds with a total nominal amount of up EUR 160 m are issued by 13 June 2018, and the bearers or creditors of such bonds are granted conversion or option rights to new shares in TAG based on the authorising resolution of 14 June 2013.

In a resolution passed at the Annual General Meeting on 13 June 2014, the Company was authorised to repurchase shares representing up to 10% of the available share capital on the effective or upon exercise of this authorisation, whichever is lower, up until 12 June 2019. The Company has made use of this authorisation to repurchase a total of 13,127,178 shares, i.e. almost 10% of the share capital. On the reporting date, 6,400,000 shares were held by a wholly owned subsidiary, the remaining shares are directly held by TAG Immobilien AG. Following this share buy-back, the extraordinary general meeting on 28 November 2014 issued a new authorization to repurchase shares representing up to 10% of the available share capital on the effective date or upon exercise of this authorisation, whichever is lower, up until 27 November 2019. The Company may not utilise this authorisation for the purpose of trading its own shares.

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

TAG has lines of credit totalling EUR 6.35 m (previous year: EUR 8 m), which require the bank's approval in the event of a change of shareholder, and 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 outstanding convertible bonds in the amounts of EUR 66.6 m (WKN A1E89W) and EUR 85.3 m (WKN A1PGZM), maturing in December 2015 and June 2019 respectively, provide for an early right of cancellation in the event of a change of control, which is defined as a takeover of more than 30% of the voting rights in TAG. The corporate bonds totalling EUR 435 m issued in August 2013 and June 2014 also have special change-of-control provisions, which obligate the Company to repurchase the bonds at terms stated in detail in the terms of the bond.

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

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

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

VII. Corporate Governance Statement In Accordance With § 289a HGB (German Commercial Code)

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

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

In accordance with the provisions of the Act on Appropriateness of Management Board Remuneration, the members of the Management Board receive a fixed and a variable remuneration component. This system was applied for the first time for 2010, and was partly revised for the 2014 financial year by adding additional parameters into the tax base and increasing the (capped) maximum bonus payable.

The Supervisory Board calculates the variable remuneration component after the annual financial statements have been approved. In doing so, it takes account of the tasks of the Management Board as a whole and of the individual members, their personal performance, and the Group's business success and outlook. The variable components of the Management Board's remuneration are calculated for the previous business year based the following criteria, which are each given equal weighting:

- Development of the share price during the fiscal year
- Development of the net asset value (NAV) per share during the year
- Development of the dividends per share during the year
- Development of the FFO I per share during the year
- Development of EBT (earnings before taxes) during the year, net of any results from reassessments of the investment properties and from the fair-value reassessment of derivative financial instruments.

These figures are calculated relative to the figures for the previous year as of 31 December and based on the IFRS consolidated financial statements. In the event of any extraordinary development in the individual criteria, the Supervisory Board may change their individual weighting. The variable remuneration is paid in instalments, i. e. over a period of three years, and may be adjusted accordingly if there is any deterioration in the Company's performance. This ensures that an allowance is made for long-term business performance.

Upon the ordinary termination of office on the part of any member of the Management Board, such member receives the outstanding part of the variable remuneration for which entitlement has accrued. The variable remuneration has been capped at TEUR 250 (prior year: TEUR 125 to TEUR 250) or, in the case of the chairman of the Management Board (CEO), at TEUR 1,000 (prior year: TEUR 500). In exceptional cases, the Supervisory Board may pass other resolutions to allow for special circumstances and/or special achievements by the individual members of the Management Board.

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

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

The contracts with the members of the Management Board do not provide for any pension entitlements. In the event of a premature termination of the contract for other reasons, the contracts entered into with Dr Vaagt, Ms Hoyer and Mr Thiel state that the compensation payable to them is to be capped at a value equalling two annual salaries and shall not exceed the amount due for the remaining period of the contract.

The members of the Management Board receive further benefits as other remuneration, some of which are classified as non-cash benefits and are taxed accordingly. In particular, these include a Bahn-Card (for discounted rail travel), accident and liability insurance, and refunds of travel expenses. In addition, Mr Elgeti received the premium for a life insurance policy.

The non-performance-based remuneration takes the form of a fixed annual salary paid out in equal monthly instalments. Ms Claudia Hoyer and Dr Vaagt each use a company car, which in part constitutes a non-cash benefit and is taxed accordingly. Please refer to the notes to the consolidated financial statements for details of the remuneration of members of the Management Board.

Hamburg, 6 March 2015

Claudia Hoyer

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

CONSOLIDATED BALANCE SHEET

Assets in TEUR	Notes	12/31/2014	12/31/2013 (adjusted)
Non-current assets			
Investment properties	(1)	3,331,600	3,544,075
Intangible assets	(2)	3,831	5,142
Property, plant and equipment	(3)	14,422	13,028
Investments in associates	(4)	146	119
Other financial assets	(5)	12,659	18,178
Deferred taxes	(6)	58,981	50,341
		3,421,639	**3,630,883**
Current assets			
Land with unfinished and finished buildings	(7)	19,308	46,874
Other inventories	(7)	677	618
Trade receivables	(8)	70,693	16,221
Income tax receivables	(6)	1,953	3,293
Derivative financial instruments	(21)	3,551	8,884
Other current assets	(9)	10,269	14,984
Cash and cash equivalents	(10)	196,646	85,326
		303,097	**176,200**
Non-current assets held-for-sale	(11)	**9,510**	**5,969**
		3,734,246	**3,813,052**

Equity and liabilities in TEUR	Notes	12/31/2013 (adjusted)	31.12.2013 (angepasst)
Equity			
Subscribed capital	(12)	118,586	131,298
Share premium	(13)	607,860	705,898
Other reserves	(14)	-5,665	-10,930
Unappropriated surplus	(15)	258,728	281,040
Attributable to the equity-holders of the parent company		979,509	1,107,306
Attributable to non-controlling interests	(16)	25,544	20,060
		1,005,053	**1,127,366**
Non-current liabilities			
Bank borrowings	(17)	1,797,751	1,947,049
Liabilities from corporate bonds	(19)	434,972	197,006
Liabilities from convertible bonds	(20)	69,925	106,125
Derivative financial instruments	(21)	5,447	13,519
Retirement benefit provisions	(18)	6,317	5,618
Other non-current liabilities	(22)	3,445	293
Deferred taxes	(6)	211,120	170,438
		2,528,977	**2,440,048**
Current liabilities			
Other provisions	(23)	16,429	24,214
Income tax liabilities	(6)	6,925	9,423
Bank borrowings	(17)	105,959	179,534
Trade payables	(24)	9,147	11,385
Derivative financial instruments	(21)	5,481	9,166
Liabilities from corporate bonds	(19)	8,764	4,100
Liabilities from convertible bonds	(20)	35,539	190
Other current liabilities	(25)	11,972	7,626
		200,216	**245,638**
		3,734,246	**3,813,052**

CONSOLIDATED INCOME STATEMENT

in TEUR	Notes	01/01–12/31/2014	01/01–12/31/2013 (adjusted)
Total revenues		**521,581**	**345,372**
Rental revenues	(26)	248,875	230,441
Rental expenses	(26)	-46,261	-49,099
Net rental income		202,614	181,342
Revenues from the sale of inventory real estate	(27)	14,317	9,586
Expenses on the sale of inventory real estate	(27)	-13,694	-9,199
Net revenues from sale of inventory real estate		623	387
Revenues from the sale of investment properties	(27)	256,525	102,798
Expenses on the sale of investment properties	(27)	-216,186	-103,081
Net revenues from the sale of investment properties		40,339	-283
Revenues from property management	(28)	1,864	2,547
Expenses for the provision of property management	(28)	-378	-223
Net income from property management		1,486	2,324
Other operating income	(29)	10,943	10,525
Fair-value remeasurement of investment properties	(30)	19,249	-4,258
Measurement gains/losses on newly acquired investment properties	(30)	27,550	8,419
Total measurement gains/losses on investment properties		46,799	4,161
Gross profit		**302,804**	**198,456**
Personnel expenses	(31)	-33,747	-29,502
Depreciation/amortisation	(32)	-3,375	-2,245
Impairment losses on receivables and inventories	(33)	-13,014	-15,487
Other operating expenses	(34)	-22,590	-18,383
EBIT		**230,078**	**132,839**
Net profit from investments	(35)	727	714
Share of profit or loss of associates	(4)	27	50
Impairment of financial assets	(36)	0	-238
Loss absorption	(37)	0	-8
Interest income	(38)	3,990	9,779
Borrowing costs	(38)	-113,631	-108,607
EBT		**121,191**	**34,529**
Income taxes	(6)	-53,162	5,103
Other taxes	(39)	-200	61
Consolidated net profit from continuing operations		**67,829**	**39,693**
Discontinued operation			
Post tax result of discontinued operation		-38,865	-12,698
Consolidated net profit		**28,964**	**26,995**
of which attributable to non-controlling interests	(16)	5,319	-1,052
of which attributable to equity holders of the parent company		23,645	28,047
Earnings per share (in EUR)			
Basic earnings per share	(40)	0.18	0.21
Diluted earnings per share	(40)	0.18	0.21

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	Notes	01/01–12/31/2014	01/01–12/31/2013
Net profit as shown in the income statement		**28,964**	**26,995**
Unrealised gains and losses from hedge accounting	(14)	9,485	13,207
Deferred taxes on unrealised gains and losses	(6)	-3,087	-3,378
Other comprehensive income after taxes		6,398	9,829
Total comprehensive income		**35,362**	**36,824**
of which attributable to non-controlling interests	(16)	5,898	-510
of which attributable to equity holders of the parent company		29,464	37,334

CONSOLIDATED CASHFLOW STATEMENT

in TEUR	Notes	01/01–12/31/2014	01/01–12/31/2013
Consolidated net profit (continuing and discontinued operations)		28,964	26,995
Net interest income/expense through profit and loss	(38)	109,641	105,063
Current income taxes through profit and loss	(6)	925	1,128
Depreciation, amortisation and financial assets	(32)	3,375	2,484
Share of profit or loss of associates and other financial assets	(4)	-27	-649
Total measurement gains/losses of investment properties	(30)	-46,799	15,876
Losses from the disposal of discontinued operations		34,024	0
Losses from deconsolidation		0	-708
Gains/losses from the disposal of investment properties	(1, 27)	-40,339	446
Gains/losses from the disposal of property, plant and equipment	(3)	0	-5
Impairments on inventories and receivables	(33)	13,014	17,361
Changes in deferred income taxes	(6)	46,100	-1,760
Changes in provisions	(18)	-6,963	-8,366
Interest received		1,749	1,760
Interest paid		-89,124	-99,422
Income tax refunds received		2,121	176
Income taxes paid		-1,256	-837
Changes in receivables and other assets	(7, 8, 9, 10)	-5,857	15,266
Changes in payables and other liabilities	(18, 22, 23, 24, 25)	30,990	480
Cashflow from operating activities		**80,538**	**75,288**

in TEUR	Notes	01/01–12/31/2014	01/01–12/31/2013
Payments received from the disposal of investment properties (less selling costs)	(1, 27)	149,184	112,698
Payments made for investments in investment properties	(1)	-241,498	-88,492
Payments received from the disposal of discontinued operations less cash and cash equivalents		70,282	4,443
Payments received from the disposal of property, plant and equipment	(3)	0	8
Payments received from the disposal of financial assets		0	291
Payments made for investments in intangible assets and property, plant and equipment	(2, 3)	-3,458	-7,716
Payments received from the disposal of other financial assets	(5)	741	1,144
Payments received from the disposal of non-current assets held for sale	(11)	44,871	0
Cashflow from investing activities		**20,122**	**22,376**
Purchase of treasury shares	(12)	-122,083	0
Costs related to purchase of treasury shares (net of income tax)	(12)	-699	-351
Payments received from the issuance of corporate bonds	(19)	238,300	200,000
Costs associated with the issuance of corporate bonds	(19)	-371	-3,247
Payments made for repurchase of convertible bonds	(20)	0	-107,143
Dividends paid		-45,954	-32,684
Payments received from bank borrowings	(17)	170,529	625,701
Payments made for repaying bank borrowings	(17)	-227,324	-732,395
Transfer to restricted cash accounts for repaying bank borrowings		-20,548	0
Payments made for increasing shares without a change of status	(12)	-158	-256
Cashflow from financing activities		**-8,308**	**-50,375**
Net change in cash and cash equivalents		92,352	47,289
Cash and cash equivalents at the beginning of the period		79,008	31,712
Currency translation	(14)	73	7
Cash and cash equivalents at the end of the period		**171,433**	**79,008**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

		Attributable to the parent's shareholders								
				Other reserves						
in TEUR	Notes	Sub-scribed capital	Share premium	Reta-ined ear-nings	Hedge accounting reserve	Currency transla-tion	Inappro-priated surplus	Total	Non-con-trolling interests	Total equity
Amount on 01/01/2014		**131,298**	**705,898**	**527**	**-11,546**	**89**	**281,040**	**1,107,306**	**20,060**	**1,127,366**
Consolidated net profit		0	0	0	0	0	23,645	23,645	5,319	28,964
Other comprehensive income		0	0	0	5,819	0	0	5,819	579	6,398
Total comprehensive income		0	0	0	5,819	0	23,645	29,464	5,898	35,362
Acquisition of treasury shares	(12, 15)	-13,127	-108,475	-481	0	0	0	-122,083	0	-122,083
Deferred taxes convertible bonds		0	8,714	0	0	0	0	8,714	0	8,714
Increase in shares wit-hout any change of status		0	-158	0	0	0	0	-158	-414	-572
Conversion of bonds	(11, 18)	415	2,354	0	0	0	0	2,769	0	2,769
Costs related to purchase of treasury shares (net of income taxes)	(12)	0	-473	0	0	0	0	-473	0	-473
Dividends paid		0	0	0	0	0	-45,957	-45,957	0	-45,957
Currency translation	(13)	0	0	0	0	-73	0	-73	0	-73
Amount on 12/31/2014		**118,586**	**607,860**	**46**	**-5,727**	**16**	**258,728**	**979,509**	**25,544**	**1,005,053**
Amount on 01/01/2013		**130,738**	**739,971**	**527**	**-20,833**	**96**	**285,678**	**1,136,177**	**20,279**	**1,156,456**
Consolidated net profit		0	0	0	0	0	28,047	28,047	-1,052	26,995
Other comprehensive income		0	0	0	9,287	0	0	9,287	542	9,829
Total comprehensive income		0	0	0	9,287	0	28,047	37,334	-510	36,824
Increase/decrease in shares without any chan-ge of status		0	-116	0	0	0	0	-116	291	175
Repurchase of converti-ble bonds		0	-36,110	0	0	0	0	-36,110	0	-36,110
Conversion of bonds		560	2,390	0	0	0	0	2,950	0	2,950
Costs of issuing equity (net of income taxes)		0	-237	0	0	0	0	-237	0	-237
Dividends paid		0	0	0	0	0	-32,685	-32,685	0	-32,685
Currency translation		0	0	0	0	-7	0	-7	0	-7
Amount on 31/31/2013		**131,298**	**705,898**	**527**	**-11,546**	**89**	**281,040**	**1,107,306**	**20,060**	**1,127,366**

CONSOLIDATED SEGMENT REPORT

		Segment by LIM Region									Other activities	Consoli-dation	Total
in TEUR		LIM Berlin	LIM Dres-den	LIM Rhine-Ruhr	LIM Erfurt	LIM Gera	LIM Ham-burg	LIM Leipzig	LIM Ro-stock	LIM Salz-gitter	(Commercial/ residential Inv./ Serv. Apart.)	Conso/ TBB (2013)	Total
Segment revenues	**2014**	**48,412**	**34,432**	**16,784**	**23,898**	**24,609**	**24,444**	**25,225**	**16,545**	**29,287**	**14,489**	**-752**	**257,373**
	2013	46,307	29,787	16,314	22,027	21,482	23,214	22,600	15,861	27,701	26,154	-455	250,991
Rental revenues	2014	48,412	34,432	16,784	23,898	24,609	24,444	25,225	16,545	29,287	14,489	-752	257,373
	2013	46,307	29,787	16,314	22,027	21,482	23,214	22,600	15,861	27,701	26,154	-455	250,991
Segment expenses	**2014**	**-7,571**	**-4,389**	**-5,492**	**-4,936**	**-5,036**	**-5,450**	**-4,180**	**-3,293**	**-11,504**	**-3,359**	**1,245**	**-53,966**
	2013	-9,502	-4,856	-5,328	-4,481	-3,609	-6,747	-4,191	-3,010	-11,844	-4,836	237	-58,166
Rental expenses	2014	-2,574	-2,040	-1,887	-2,539	-2,573	-1,963	-1,667	-1,289	-4,530	-2,116	641	-22,539
	2013	-2,546	-1,700	-1,963	-2,434	-1,334	-2,586	-2,056	-737	-6,012	-2,866	237	-23,996
Maintenance	2014	-4,279	-2,268	-2,483	-1,497	-2,241	-2,725	-2,059	-1,436	-5,662	-1,249	604	-25,296
	2013	-5,617	-2,976	-2,720	-1,877	-2,096	-2,924	-1,764	-1,773	-4,654	-1,504	0	-27,904
Impairment losses on receivables	2014	-779	-384	-1,127	-932	-428	-779	-491	-579	-1,323	-10	0	-6,832
	2013	-1,406	-201	-669	-180	-189	-1,276	-401	-500	-1,188	-683	0	-6,691
Miscellane-ous income/ expenses	2014	62	303	5	33	205	17	37	11	11	17	0	701
	2013	67	20	24	10	10	38	31	0	10	217	0	425
Segment results I	**2014**	**40,841**	**30,043**	**11,293**	**18,963**	**19,573**	**18,994**	**21,044**	**13,252**	**17,783**	**11,130**	**493**	**203,408**
	2013	36,804	24,931	10,986	17,546	17,873	16,467	18,410	12,851	15,858	21,318	-218	192,825
Segment assets	**2014**	**488,495**	**515,383**	**233,135**	**359,470**	**371,158**	**338,369**	**337,773**	**235,535**	**360,916**	**131,035**	**0**	**3,371,269**
	2013	665,542	444,682	224,734	317,597	297,006	333,436	306,761	220,337	359,544	140,537	296,623	3,606,799

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

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 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) in the form required to be applied in the European Union. In addition, the provisions contained in Section 315a (1) of the German Commercial Code were observed. The requirements set forth in the standards applied have been fulfilled and result in the presentation of a true and fair view of the net assets, financial position and results of operations of the Group.

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

IFRS 10	Consolidated Financial Statements Redefines the concept of control depending on the power exercised over potential subsidiaries and participation in varying returns.
IFRS 11	Joint Arrangements Distinguishes between joint operations, i.e. the direct proportionate share in rights and obligations, and joint ventures, i.e. a share in net assets.
IFRS 12	Disclosures of interests in other entities Provides for additional disclosure requirements over and above IAS 27, IAS 28 and IAS 31.
Amendments to IFRS 10, IFRS 11 and IFRS 12	Transitional provisions Clarification and exemptions in connection with transition to IFRS accounting.
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities Definition of investment entities and exemption from the scope of IFRS 10.
Amendments to IAS 27	Separate financial statements Reduction in the scope of the standard to include subsidiaries, joint venture associates in separate financial statements.
Amendments to IAS 28	Investments in associates and joint ventures Guidance on the extended application of the equity method.
Amendments to IAS 32	Netting of financial assets and liabilities Clarification of the criteria for offsetting financial instruments.
Amendments to IAS 36	Disclosures on the recoverable amount of non-financial assets Amendments to disclosure requirements for impairment testing.
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting Guidance on the criteria for the continuation of hedge relationship despite novation of derivatives.

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

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

Standard	Index	Application mandatory for accounting periods commencing on or after
Endorsed by the EU		
IFRIC 21	Levies	06/17/2014
IFRS improvements cycle 2011–2013	Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	01/01/2015
EU endorsement pending		
IFRS 9	Financial instruments	01/01/2018
IFRS 14	Regulatory deferral accounts	01/01/2016
IFRS 15	Revenue from Contracts with Customers	01/01/2017
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between related companies / joint ventures	01/01/2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: exception from consolidation	01/01/2016
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations	01/01/2016
Amendments to IAS 1	Disclosures in the notes	01/01/2016
Amendments to IAS 16 and IAS 38	Clarification of the permissible depreciation method	01/01/2016
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	01/01/2016
Amendments to IAS 19	Defined benefit plans: employee contributions	07/01/2014
Amendments to IAS 27	Equity method of accounting in separate financial statements	01/01/2016
IFRS improvements cycle 2010-2012	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38	07/01/2014
IFRS improvements cycle 2012–2014	Amendments to IFRS 5, IFRS 7, IAS19 and IAS 34	01/01/2016

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

The fiscal year of the parent company, the consolidated subsidiaries, joint ventures and associates, all of which are domiciled in Germany - with the exception of three subsidiaries in Switzerland, the Netherlands and Luxembourg - is the calendar year. Uniform recognition and 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 stated in thousands of euros (TEUR). As a result, rounding differences may occur.

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

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

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

TAG's consolidated financial statements and the Group management report were prepared by the Management Board and released for publication on 6 March 2015 subject to approval by the Supervisory Board.

Consolidation

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

The purchase method of accounting as defined in IFRS 3 is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition plus non-controlling interests over the net assets of the subsidiary acquired is recognised directly in the income statement. The cost of business combinations is recorded in profit and loss.

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

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

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

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

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

Non-controlling interests in consolidated equity capital and consolidated net profit are recorded under "Non-controlling interests" in the consolidated balance sheet and the consolidated income statement. The effects of purchase accounting recognised directly in the income statement are also included in the calculation of the share in consolidated net profit attributable to non-controlling interests.

In the year under review, the 50.4 % share held by third parties in TAG Beteiligungsverwaltungs GmbH, Hamburg, and, hence, the non-controlling interests in various companies within the TAG Group was acquired. In the absence of any indication to the contrary, TAG directly or indirectly holds 100 % of the capital of the companies listed.

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

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

- TAG Immobilien AG, Hamburg (parent company)
- TAG Leipzig-Immobilien GmbH, Hamburg
- TAG Finance Holding GmbH (formerly: TAG Logistik Immobilien Verwaltungs GmbH), Hamburg
- TAG Beteiligungsverwaltungs GmbH, Hamburg (100 %, previous year: 49 %)
- TAG Wohnen & Service GmbH, Hamburg
- TAG Dresdner Straße GmbH & Co. KG, Hamburg
- TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, Hamburg
- TAG Stuttgart-Südtor Verwaltungs GmbH, Hamburg
- Ingenieur-Kontraktbau Gesellschaft für Ingenieurfertigbau mit beschränkter Haftung i.L., Leipzig
- Patrona Saxoniae GmbH & Co. KG, Hamburg
- Patrona Saxoniae Grundbesitz GmbH, Hamburg

- Wenzelsplatz GmbH & Co. Nr. 1 KG, Hamburg
- Wenzelsplatz Grundstücks GmbH, Hamburg
- Fürstenberg'sche Häuser GmbH, Hamburg
- TAG Nordimmobilien S.à r.l., Luxemburg
- TAG Chemnitz-Immobilien GmbH, Hamburg
- TAG Sachsenimmobilien GmbH, Hamburg
- TAG Marzahn-Immobilien GmbH, Hamburg
- TAG SH-Immobilien GmbH, Hamburg
- TAG Magdeburg-Immobilien GmbH, Hamburg
- TAG Grebensteiner-Immobilien GmbH, Hamburg
- TAG Klosterplatz-Immobilien GmbH, Hamburg
- TAG Wolfsburg-Immobilien GmbH, Hamburg
- Wasserkraftanlage Gückelsberg OHG, Leipzig (99,5 %)
- TAG Beteiligungs und Immobilienverwaltungs GmbH, Hamburg
- TAG NRW-Wohnimmobilien und Beteiligungs GmbH, Hamburg
- TAG 1. NRW-Immobilien GmbH, Hamburg
- TAG 2. NRW-Immobilien GmbH, Hamburg
- TAG Spreewaldviertel-Immobilien GmbH, Hamburg
- TAG Stadthaus Am Anger GmbH, Hamburg
- FC REF I GmbH, Hamburg (80 %)
- FC REF II GmbH, Hamburg (80 %)
- Bau-Verein zu Hamburg Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg
- Bau-Verein zu Hamburg „Junges Wohnen" GmbH, Hamburg
- Bau-Verein zu Hamburg Wohnungsgesellschaft mbH, Hamburg
- BV Hamburger Wohnimmobilien GmbH, Hamburg
- BV Steckelhörn GmbH & Co. KG, Hamburg
- BV Steckelhörn Verwaltungs GmbH, Hamburg
- G+R City Immobilien GmbH, Berlin
- URANIA Grundstücksgesellschaft mbH, Hamburg
- VFHG Verwaltungs GmbH, Berlin
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin
- Wohnanlage Ottobrunn GmbH, Hamburg
- Colonia Real Estate AG, Hamburg (79 %)
- Colonia Wohnen GmbH, Hamburg (79 %)
- Colonia Portfolio Ost GmbH, Hamburg (79 %)
- Colonia Portfolio Berlin GmbH, Hamburg (79 %)
- Colonia Wohnen Siebte GmbH, Hamburg (79 %)
- Colonia Immobilien Verwaltung GmbH, Hamburg (79 %)
- Colonia Portfolio Hamburg GmbH & Co. KG, Hamburg (79 %)
- Colonia Portfolio Bremen GmbH & Co. KG, Hamburg (79 %)
- Grasmus Holding B.V., Maastricht / Netherlands (80 %)
- Emersion Grundstückverwaltungs-Gesellschaft mbH, Hamburg (80 %)
- Domus Grundstückverwaltungs-Gesellschaft mbH, Hamburg (80 %)
- Gimag Immobilien AG, Zug / Switzerland (74 %)
- Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg (98 %)
- TAG Potsdam-Immobilien GmbH Immobilien GmbH, Hamburg („TAG Potsdam")
- TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Berlin (95 %)
- TAG Wohnungsgesellschaft Berlin Süd-West mbH, Hamburg (95 %)
- TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH, Hamburg
- TAG Wohnungsgesellschaft Sachsen mbH, Hamburg
- TAG Wohnungsgesellschaft Thüringen mbH, Hamburg (94 %)
- TAG Wohnungsgesellschaft Gera-Bieblach Ost mbH, Hamburg (94 %)
- TAG Wohnungsgesellschaft Gera-Debschwitz mbH, Hamburg (94 %)
- TAG Wohnungsgesellschaft Altenburg mbH, Hamburg (94 %)
- TAG Immobilien Wohn-Invest GmbH, Hamburg
- TAG Immobilien Service GmbH, Hamburg
- TAG Infrastruktur GmbH, Hamburg
- TAG Wohnen GmbH, Hamburg
- TAG TSA Wohnimmobilien GmbH, Hamburg

TAG Administration GmbH, Hamburg, and TAG Beteiligungs GmbH & Co. KG, Hamburg, were merged with TAG Beteiligungs- und Immobilienverwaltungs GmbH effective 1 January 2014. Similarly, TAG Wohnungsgesellschaft Sachsen-Anhalt GmbH, Halle, was merged with TAG Potsdam-Immobilien GmbH effective 1 January 2014.

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

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

The following combined financial information on these associates is available as of 31 December 2014:

Associates	Assets TEUR	Liabilities TEUR	Revenues TEUR	Net profit / loss TEUR
GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG	834 (previous year: 5,794)	634 (previous year: 5,647)	5,809 (previous year: 399)	48 (previous year: 100)
Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH	34 (previous year: 34)	0 (previous year: 0)	0 (previous year: 0)	0 (previous year: 1)
Texas Gewerbeimmobilien S.à.r.L.*	294,355 (previous year: 314,509)	283,712 (previous year: 303,865)	24,303 (previous year: 25,902)	0 (previous year: 0)

* Based on annual financial statements as of 31 December 2013 prepared in accordance with German GAAP (HGB)

In the year under review, Park- und Gewerbehaus Bestensee GmbH, which had not been consolidated due to its subordinate importance, was merged with its parent company with retroactive effect from 1 January 2014. It had equity of TEUR 26 as of 31 December 2013.

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

Non-consolidated companies	Share held %	Net profit/loss 2014 TEUR*	Equity 12/31/2014 TEUR*
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	100	12	267
Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	100	1	54
Trinom Hausverwaltungs GmbH i.L., Leipzig **	100	5	-2

* Disclosures in accordance with the German Commercial Code
** Figures for 2012

Vivere Beteiligungs GmbH, Berlin, was sold for TEUR 25 effective 30 June 2014.

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

In a contract dated 28 March 2014, TAG sold 80% of its shares in TAG Gewerbeimmobilien GmbH to a fund initiated by Apollo Global Management. The contract was closed on 30 May 2014, at which time the transfer of the shares took legal effect and control was lost. TAG Gewerbeimmobilien GmbH was deconsolidated on that date. As of that date, the remaining 20% share is recognised using the equity method of accounting, meaning that the company is now reported as an associate. The fair value of this investment was recognised at EUR 1.00 following deconsolidation. Deconsolidation resulted in the disposal of the following net assets:

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

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

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

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

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

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

	2014 TEUR	2013 TEUR
Revenues	10,348	34,764
Expenses	-13,869	-46,209
EBT	**-3,521**	**-11,445**
Income taxes and other taxes	-784	-1,253
Net profit/loss after tax on discontinued operations	**-4,305**	**-12,698**
Proceeds from sale	1,004	0
Impairment of outstanding purchase price consideration	-35,564	0
Net profit/loss after tax of discontinued operations (total)	**-38,865**	**-12,698**
Earnings per share of discontinued operations		
Basic (in EUR)	-0.30	-0.10
Diluted (in EUR)	-0.30	-0.10

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

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

The following cash flows are allocated to the discontinued operations:

	2014 TEUR	2013 TEUR
Cashflow from operating activities	3,591	7,551
Cashflow from investing activities	1,705	9,900
Cashflow from financing activities	-1,328	-17,344
Total cashflow from discontinued operations	3,968	107

Recognition and measurement principles

Principles

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

Investment properties

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

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

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

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

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

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

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

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

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

Intangible assets

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

Intangible assets with a definite useful life are written down on a straight-line basis over their expected useful life (generally three to eight years) and tested for impairment in the event of any indication of any impairment in their value. The amortisation period and method are reviewed at the end of each year at minimum, and any resultant changes treated as a change to the estimate. There are no intangible assets with indefinite lives.

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

Property, plant and equipment

Property, plant and equipment are shown at cost less cumulative systematic depreciation and cumulative impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets in question, which is generally 3 to 13 years in the case of business and operating equipment, and 30 to 50 years in the case of real estate. The depreciation methods and useful lives are reviewed at the end of each fiscal year and adjusted if necessary. The carrying amounts of property, plant and equipment are reviewed for any impairment upon any evidence indicating that the carrying values exceed the recoverable values. Impairment losses on real estate are identified using external valuation reports, which are prepared on the basis of the discounted cash flow method. Impairment losses on property, plant and equipment are recorded in the income statement within amortisation and depreciation expense.

Investments in associates

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

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

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

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

Non-derivative financial assets

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

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

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

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

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

Land with unfinished and finished buildings and other inventories

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

Income tax receivables and liabilities as well as deferred income taxes

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

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

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that realisation of the related income tax benefit through future taxable profits is probable within a forecast period of five years. Deferred income taxes were recognised in 2014 at an amount calculated in the applicable forecast.

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

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

Cash and cash equivalents

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

Non-current assets held for sale and related liabilities

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

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

Differentiation of equity capital

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

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

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

Hedges (cash flow hedge accounting)

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

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

Financial liabilities

When liabilities are initially recognised, they are measured at the fair value of the consideration given net of transaction costs on the trading day. After initial recognition, liabilities are measured at amortised cost using the effective interest rate method.

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

Retirement benefit provisions

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

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

Other provisions

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

Leases

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

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

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

Revenue recognition

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

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

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

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

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

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

Government grants

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

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

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

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

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

Currency translation

The consolidated financial statements are prepared in euros. The euro is the currency of the primary economic environment in which the Group operates and is therefore the functional currency. Foreign-currency transactions are translated into the functional currency of the applicable Group company at the exchange rate applying on the date of the transaction. Monetary foreign-currency items are subsequently translated at the applicable end-of-year exchange rate. Any exchange rate differences arising in the settlement of foreign-currency transactions or from the translation of monetary foreign-currency items are recorded within other operating expenses or income in the income statement.

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

Material judgements and estimates

Discretionary decisions

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

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

Estimates

The Group makes estimates and assumptions concerning the future. The resultant accounting estimates may deviate from the ensuing actual results. Estimates and assumptions entailing a significant risk in the form of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed below.

- The fair value of investment properties is determined solely on the basis of the results of the independent valuers who are retained for this purpose. It is calculated using the discounted cash flow method on the basis of expected future cash flows. Accordingly, the valuers must estimate certain factors, such as future rent income and the applicable discount rates, which TAG estimates in conjunction with the valuers and which have a direct bearing on the fair value of the investment properties. In addition, transactions costs in an amount considered to be probable by TAG are included. The fair values of these properties as of the reporting date stood at EUR 3,331.6m (previous year: EUR 3,544.1m).
- The estimate of the net proceeds from the sale of real estate held as inventories entails uncertainty, particularly with respect to the realisable prices. As of the reporting date, the carrying amount of the land with unfinished and finished buildings stood at EUR 19.3m (previous year: EUR 46.9m).
- For the purpose of testing the other financial assets for any evidence of impairment, the carrying amounts at which the other financial assets (loans) are recognised are compared with the fair values at the end of each year. For this purpose, the appropriateness of the carrying amounts is assessed on the basis of information available on the associates and borrowers. In the event of any evidence of an impairment of the fair values, the carrying amounts are adjusted accordingly. The carrying amount of the financial assets stands at EUR 12.7m as of the reporting date (previous year: EUR 18.2m) and is made up of investments in and loans to real estate companies as well as other non-current receivables.
- The sale of TAG Gewerbe resulted in a residual purchase price receivable of a nominal amount of around EUR 48.5m, which will be settled using income from the sale of individual items of commercial real estate provided that a defined revenue threshold is exceeded. As the amount and timing of the possible income are subject to high uncertainty, this receivable is recognised at an amount of EUR 1 as of 31 December 2014. If future sales proceeds exceed the revenue threshold, this will result in corresponding income for TAG.
- The sale of POLARES Real Estate Asset Management GmbH in 2012 resulted in a residual purchase price receivable of around EUR 11.7m. This receivable was replaced by a debt warrant in 2014. Depending on the company’s future business performance, this receivable, or parts of it, may be reinstated.
- With respect to other provisions, various assumptions have been made, e.g. with respect to the probability and amount of utilisation of provisions for repairs, damages and litigation risks. For this purpose, account is taken of all information available as of the balance sheet date. Other provisions are valued at EUR 16.4m as of the reporting date (previous year: EUR 24.2m).

Changes compared with the previous year

Contrary to previous practice, ancillary borrowing costs (e.g. the cost of raising loans) are no longer reported as other operating expenses but as borrowing costs in the consolidated income statement; the comparison figures for the previous year have been duly restated. This change does not have any impact on profit and loss but now more accurately reflects the economic nature of these ancillary costs. As a result, other operating expenses for the previous year have dropped by TEUR 1,189 from TEUR 19,572 to EUR 18,383. At the same time, borrowing costs have risen by TEUR 1,189 from TEUR 107,418 to TEUR 108,607.

In June 2014, the IFRS Subcommittee of the German Accounting Standards Committee issued guidance on the measurement of unused tax losses in the light of the minimum taxation rules in Germany. On the basis of this guidance, a differentiated view was taken of the tax bases and an examination performed of the reversal times for deferred income tax assets and liabilities impacting the ability to offset the tax bases. These changes to the measurement methods were also applied retrospectively for the previous year, causing the offset amount for 2013 to drop by TEUR 33,947.

NOTES ON THE BALANCE SHEET

1. Investment properties

Remeasurement gains of EUR 209.3 m (previous year: EUR 97.1 m) and remeasurement losses of EUR 162.5 m (previous year: EUR 92.9 m) were recognised in 2014. Remeasurement of investment properties in continuing operations totalled EUR 46.8 m (previous year: EUR 4.2 m).

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

Investment properties	Residential real estate*	Commercial real estate*
	TEUR	TEUR
Amount on 01/01/2013	**3,107,457**	**348,210**
Additions as a result of miscellaneous acquisitions	65,744	0
Trailing transaction costs	22,009	739
Transfers from inventories	31,408	0
Transfers from property, plant and equipment	-2,117	0
Transferred to available-for-sale assets	-3,200	-2,050
Sales	-2,049	-6,200
Change in market value (including discontinued operations)	-9,946	-5,930
Amount on 12/31/2013	**3,209,306**	334,769
Sale of TAG Gewerbe	40,852	-334,769
Additions as a result of miscellaneous acquisitions	210,077	0
Trailing transaction costs	30,373	0
Transfers from inventories	16,125	0
Reclassified as property, plant and equipment	-1,155	0
Transferred to available-for-sale assets	-59,311	0
Sales	-161,466	0
Change in market value	46,799	0
Amount on 12/31/2014	**3,331,600**	**0**

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

In the year under review, investment properties with a carrying amount of EUR 3,331.6 m (previous year: EUR 3,544.1 m) were secured by real-property liens or the assignment of rental income.

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

Investment properties	2014 TEUR	2013 TEUR (adjusted)
Rental income	246,569	226,291
Operating expenses (maintenance, facility management, land taxes, etc.)	-45,168	-47,936
Total	**201,401**	**178,355**

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

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

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

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

Segment	Berlin		Dresden		Rhine / Ruhr	
	2014	2013	2014	2013	2014	2013
Market value (in EUR m)	470.7	644.7	512.9	439.6	233.1	224.7
Net rental without heating (in TEUR)	3,951	3,899	2,882	2,684	1,403	1,365
Vacancy (in %)	4.8	4.6	9.8	8.8	4.0	4.1
Valuation parameters (average)						
Net market rental income to market rental (in %)	90.3	92.8	94.1	95.9	93.1	94.0
Increase in market rental per year (in %)	0.7	0.6	0.6	0.7	1.0	1.0
Maintenance costs EUR / sqm	7.5	7.4	7.9	7.9	8.1	8.1
Administration costs EUR per unit	204.7	181.2	230.5	209.1	250.7	226.8
Structural vacancy (in %)	3.0	3.0	3.8	3.7	1.9	1.9
Discount rate (in %)	5.9	6.0	6.3	6.2	6.5	6.4
Capitalisation rate (in %)	5.2	5.4	5.6	5.6	5.5	5.4

Segment	Erfurt		Gera		Hamburg	
	2014	2013	2014	2013	2014	2013
Market value (in EUR m)	359.4	313.8	370.6	291.3	326.8	319.9
Net rental without heating (in TEUR)	2,136	1,874	2,352	1,799	2,017	1,990
Vacancy (in %)	8.2	8.6	14.2	11.2	8.1	8.3
Valuation parameters (average)						
Net market rental income to market rental (in %)	93.7	95.3	90.7	92.0	93.5	93.5
Increase in market rental per year (in %)	0.7	0.7	0.5	0.5	0.8	0.8
Maintenance costs EUR / sqm	7.8	7.8	7.4	7.4	7.2	7.2
Administration costs EUR per unit	221.0	203.8	221.3	201.5	227.9	210.0
Structural vacancy (in %)	2.3	2.2	5.3	5.3	2.6	2.6
Discount rate (in %)	6.3	6.4	6.3	6.2	6.1	6.2
Capitalisation rate (in %)	5.6	5.7	5.8	5.8	5.2	5.3

Segment	Leipzig		Rostock		Salzgitter		Others	
	2014	2013	2014	2013	2014	2013	2014	2013
Market value (in EUR m)	335.2	302.8	234.6	218.7	360.9	359.5	127.2	429.1
Net rental without heating (in TEUR)	2,161	1,989	1,377	1,358	2,289	2,365	442	2,125
Vacancy (in %)	8.2	7.8	7.9	8.0	17.3	18.6	13.7	10.0
Valuation parameters (average)								
Net market rental income to market rental (in %)	94.5	97.7	94.0	94.6	93.1	115.9	98.4	97.1
Increase in market rental per year (in %)	0.4	0.4	0.5	0.5	0.5	0.5	0.9	1.1
Maintenance costs EUR / sqm	7.4	7.2	7.7	7.7	7.7	7.7	4.7	5.5
Administration costs EUR per unit	224.8	198.2	222.2	198.4	208.8	197.7	128.5	148.9
Structural vacancy (in %)	4.7	4.6	3.2	3.1	7.2	8.7	1.4	0.2
Discount rate (in %)	6.1	6.1	6.2	6.2	6.3	6.0	5.8	6.3
Capitalisation rate (in %)	5.7	5.7	5.7	5.7	5.8	5.4	4.6	5.1

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

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

The relevant market was deemed to be constituted by the submarkets of the German states. On the basis of information provided by the relevant valuer committees on asset deals on the one hand and freely available information on share deals on the other, it was not possible to unambiguously identify any main market for the eastern German states with the exception of Berlin or for Lower Saxony. Accordingly, the market for share deals was assumed to be the most appropriate one for measuring the fair value of real estate holdings in these German states. The deductible market-specific transaction costs of a potential buyer under a share deal were assumed to equal 0.2 %. No other discounts or premiums were taken into account in determining the fair value for share deals. With respect to real estate holdings in the other German states, i. e. western German states with the exception of Lower Saxony, the market for asset deals was assumed to be the main market in the absence of any evidence to the contrary. The average deductible transaction costs for these stand at an average of 7.4 %.

The assumptions underlying the measurement of the fair value of the real estate were made by the independent valuer on the basis of his professional experience and are subject to uncertainty. If the discount and capitalisation rates were 0.5 % higher, the fair value would decline by EUR 276.0 m; if the discount and capitalisation rates were 0.5 % lower, the fair value would increase by EUR 331.0 m. Changes in future net rental income exert a corresponding influence depending on rental income, vacancies and administration and maintenance costs. If the market for asset deals were deemed to be the main market for all German states, the fair value of the residential real estate would be roughly EUR 185 m (previous year EUR 159 m) lower. If no main market were identifiable for all the German states, meaning that the market for share deals would be deemed to be the most appropriate market for measuring fair value, the fair value of the residential real estate would rise by around EUR 75 m (previous year: EUR 52 m).

2. Intangible assets

The table below analyses the movements in intangible assets.

Historical cost	TEUR
Amount on 01/01/2013	**2,515**
Additions	4,161
Amount on 12/31/2013	**6,676**
Additions	1,020
Amount on 12/31/2014	**7,696**

Cumulative depreciation	TEUR
Amount on 01/01/2013	**470**
Additions	1,064
Amount on 12/31/2013	**1,534**
Additions	2,331
Amount on 12/31/2014	**3,865**
Carrying amount on 12/31/2013	**5,142**
Carrying amount on 12/31/2014	**3,831**

Intangible assets comprise almost solely software licences. Of this, the costs of the new ERP software, which has been in use since 1 January 2014, come to TEUR 3,415.

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

3. Property, plant and equipment

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

Property, plant and equipment Historical cost	Real estate TEUR	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2013	**8,635**	**4,269**	**12,904**
Additions	2,126	1,428	3,554
Disposals	0	-28	-28
Stand per 31.12.2013	**10,761**	**5,669**	**16,430**
Additions	1,155	1,683	2,838
Disposals	-2	-880	-882
Amount on 12/31/2014	**11,914**	**6,472**	**18,386**

Property, plant and equipment Accumulated depreciation	Real estate TEUR	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2013	**706**	**1,534**	**2,240**
Additions	174	997	1,171
Disposals	0	-9	-9
Amount on 12/31/2013	**880**	**2,522**	**3,402**
Additions	184	1,242	1,426
Disposals	-2	-862	-864
Amount on 12/31/2014	**1,062**	**2,902**	**3,964**
Carrying amount on 12/31/2013	**9,881**	**3,147**	**13,028**
Carrying amount on 12/31/2014	**10,852**	**3,570**	**14,422**

Within property, plant and equipment, land with a carrying amount of TEUR 10,852 (previous year: TEUR 9,881) is secured with real estate liens and the assignment of rental income.

4. Investments in associates

Changes in investments in associates resulted solely from changes in the share held in associates' capital.

5. Other financial assets

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

Historical costs	TEUR
Amount on 01/01/2013	**25,742**
Additions	154
Disposals	-946
Amount on 12/31/2013	**24,950**
Additions	353
Disposals	-12,552
Amount on 12/31/2014	**12,751**

Accumulated depreciation	TEUR
Amount on 01/01/2013	**228**
Additions	6,918
Disposals	-374
Amount on 12/31/2013	**6,772**
Additions	6,990
Disposals	-13,670
Amount on 12/31/2014	**92**
Carrying amount on 12/31/2013	**18,178**
Carrying amount on 12/31/2014	**12,659**

In 2013, an impairment of TEUR 6,680 was recognised on the non-current receivable arising from the sale of shares in POLARES Real Estate Asset Management GmbH. In 2014, the remaining carrying amount of the receivable of TEUR 5,000 was derecognised. These impairments are reported in the income statement under impairments on inventories and receivables. The original receivable was replaced by a debt warrant. Depending on the company's potential future business, this receivable, or parts of it, may be reinstated.

6. Current and deferred income tax assets and liabilities

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

	2014		2013 (adjusted)		Change
Deferred income taxes	**TEUR Assets**	**TEUR Equity and liabilities**	**TEUR Assets**	**TEUR Equity and liabilities**	
Unused tax losses (incl. interest carried forward)	52,670	0	70,722	0	-18,052
Investment properties	196	-215,594	0	-192,216	-23,183
Intangible assets	153	0	329	0	-176
Property, plant and equipment	0	-728	0	-2,754	2,026
Other financial assets	288	-1,680	0	-795	-597
Liabilities	190	-4,589	0	-4,239	-160
Provisions	6,899	-478	7,318	0	-897
Liabilities from convertible bonds	6,470	-38	0	-4,381	10,813
Derivative financial instruments	4,105	-3	5,919	0	-1,817
Total	70,971	-223,110	84,288	-204,385	-32,043
Offset	-11,990	11,990	-33,947	33,947	
Deferred income taxes recorded on the face of the balance sheet	58,981	-211,120	50,341	-170,438	
Change in 2014:					-32,043
reported through equity (no deconsolidation):					-8,743
reported through equity (deconsolidation):					2,890
deconsolidation of TAG GI:					-11,823
discontinued operations:					-4,368
Change in cash:					-54,087

The measurement method applied by the TAG Group was modified in 2014 in response to guidance issued by IFRIC on the measurement of deferred income tax assets arising from unused tax losses in connection with minimum taxation requirements. Consequently, the offsetting of deferred income tax assets and liabilities was also modified, resulting in an offsetting amount of TEUR 11,990 as of 31 December 2014 (previous year: TEUR 33,947).

The sum total of changes in deferred income taxes differs by TEUR 22,044 from the deferred income tax expense included in the income statement. This reflects the inclusion of tax-neutral items within equity (TEUR 5,853) and the deconsolidation of the discontinued operations comprising TAG Gewerbeimmobilien GmbH (TEUR 16,192). The deconsolidation effects particularly refer to deferred income tax liabilities in connection with investment properties, and deferred income tax assets in connection with derivative financial instruments.

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

Income taxes	2014 TEUR	2013 TEUR
Current income tax expense	925	-324
Deferred income taxes	-54,087	5,427
Total	**-53,162**	**5,103**

Tax liabilities chiefly comprise income tax expenses for prior years.

Current tax expense includes tax expense of TEUR 1,640 (previous year: tax reimbursements of TEUR 148) for prior years. Deferred income tax liabilities of TEUR 975 relate to prior periods (previous year: deferred income tax assets of TEUR 2,334). An amount of TEUR 36,035 of the deferred income tax liabilities results from changes in temporary differences. The change in deferred income taxes recognised on unused tax losses stands at TEUR 18,052 (previous year: TEUR 5,642).

Expected and actual net tax expense is reconciled as follows:

Actual net income tax expense	2014 TEUR	2013 TEUR
Earnings before income taxes (EBT after other taxes)	120,991	34,590
Expected net tax expense (32,275 %)	-39,050	-11,164
Reconciled with tax effects from:		
Income and expenses from earlier years	665	2,482
Impairment of deferred income taxes and utilisation of previously unrecognised unused tax losses / interest brought carried forward	-17,271	-4,736
Tax-free returns and non-deductible expenses	-4,032	-9,617
Effects of trade tax exemption	18,451	10,247
Net gains / losses from consolidation	-11,819	7,994
Differences in tax rates compared with the previous year	0	450
Others	-106	-25
Actual net income tax expense	**-53,162**	**5,103**

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

The theoretical tax rate is calculated as follows:

Theoretical tax rate	2014 %	2013 %
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 43.9 % (previous year: -14.8 %). Deferred income taxes of TEUR -5,853 (previous year: TEUR -3,252) were recognised within other comprehensive income in the year under review.

Excluded from deferred income tax assets are unused corporate tax losses of EUR 169 m (previous year: EUR 85 m) and unused trade tax losses of EUR 166 m (previous year: EUR 106 m) as well as interest carried forward of EUR 13 m (previous year: EUR 41 m) as utilisation currently does not appear to be likely. The sum total of unrecognised temporary differences in connection with shares in subsidiaries, associates and joint ventures stands at EUR 26 m (previous year: EUR 17 m). The Group does not expect any burden from this, as there are currently no plans for these to be reversed.

7. Land with unfinished and finished buildings and other inventories

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

Land with unfinished and finished buildings	2014 TEUR	2013 TEUR
Amount on 01 / 01	**46,874**	**89,642**
Additions	5,672	173
Reversal of impairments	267	0
Impairments	0	-3,585
Disposals	-12,243	-7,948
Reclassification as investment properties	-26,462	-31,408
Reclassification from investment properties	5,200	0
Amount on 12 / 31	**19,308**	**46,874**
Of which is secured with real property liens and the assignment of rental income	**19,308**	**46,874**

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

Other inventories are primarily comprised of heating materials.

8. Trade receivables

Trade receivables break down as follows:

Trade receivables	2014 TEUR	2013 TEUR
Rental receivables	13,579	12,568
Receivables from the sale of properties	54,969	1,259
Others	2,145	2,394
Total	**70,693**	**16,221**

For the most part, payments have already been remitted to notary escrow accounts for the receivables from the sale of land outstanding as of the reporting date.

Impairments of trade receivables are analysed in the following table:

Individual impairments	TEUR
Amount on 01/01/2013	15,353
Utilised	-4,553
Reversed	-1,995
Additions	7,326
Amount on 12/31/2013	16,131
Utilised	-6,415
Reversed	-5,006
Deconsolidation of TAG Gewerbe	-270
Additions	8,952
Amount on 12/31/2014	13,392

In the year under review, impairments of TEUR 6,047 (previous year: TEUR 5,153) were recognised on trade receivables in the income statement due to insufficient credit worthiness on the part of customers. These impairments are reported in the income statement under impairments on inventories and receivables.

9. Other current assets

Other current assets break down as follows:

Other current assets	2014 TEUR	2013 TEUR
Rechargable retirement benefit obligations	4,621	3,831
Creditors with debit accounts	628	1,767
Insurance claims	500	0
Reveivables from associates	473	294
Prepaid expenses	349	375
Current loans to third parties	22	1,309
Receivables from affiliated companies	0	730
Others	3,676	6,678
Total	10,269	14,984

10. Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash at banks. The cash flow statement includes the cash in hand and cash at banks less short-term overdraft facilities at banks. In this respect, cash and cash equivalents in the cash flow statement differ from the corresponding item reported in the balance sheet. The two items are reconciled in the notes to the cash flow statement.

As of the reporting date, cash and cash equivalents of TEUR 2,062 (previous year: TEUR 632) were subject to drawing restrictions. The amount reported concerns the bank balances temporarily pledged due to the breach of a loan covenant (coverage/investment rate).

11. Non-current assets held for sale

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

	TEUR
Amount on 01/01/2013	111,631
Reclassification of investment properties as assets held for sale	5,250
Sale of Tegernsee-Bahn Betriebsgesellschaft mbH	-5,932
Impairments	-96
Disposals as a result of sale	-104,884
Amount on 12/31/2013	5,969
Reclassification of investment properties as assets held for sale	59,311
Disposals as a result of sale	-54,770
Deconsolidation of TAG Gewerbe	-1,000
Amount on 12/31/2014	9,510

The assets held for sale as of the reporting date solely comprise investment properties.

Most of the investment properties included here are located in Berlin (TEUR 7,480; previous year: TEUR 3,200) and Dresden (TEUR 2,030; previous year: TEUR 0). In the previous year, an amount of TEUR 2,705 was reported within discontinued operations (commercial real estate).

12. Subscribed capital

TAG's fully paid up share capital amounted to EUR 131,712,859.00 as of 31 December 2014 (previous year: EUR 131,298,317.00) and was divided into 131,712,859 (previous year: 131,298,317) no-par-value shares with equal voting rights. They are bearer shares.

In the year under review, the Company's subscribed capital was increased by a total of EUR 414,542.00 on multiple occasions through the conversion of convertible bonds.

In 2014, TAG bought back a total of 13,127,178 of its own shares at a price of EUR 9.30 per share. Accordingly, TAG holds treasury stock of just under 10% of its share capital.

Authorisation of the Management Board to issue of new shares

Authorised capital 2012 / I

In a resolution passed at the annual general meeting held on 14 June 2012, the shareholders authorised the Management Board subject to the Supervisory Board's approval to increase the Company's share capital by a total amount of no more than EUR 40m by issuing up to 40,000,000 no-par-value ordinary shares on a cash and / or non-cash basis once or on repeated occasions on or before 13 June 2017. The Management Board made use of this authorisation in a resolution passed on 19 September 2012 and issued new shares worth EUR 1,809,693.00 on a non-cash basis. The new shares were entered in the commercial register on 15 November 2012. Moreover, in a resolution dated 19 November 2012, authorisation was granted for the issue of new capital of up to EUR 30m on a cash basis. This was entered in the commercial register on 11 December 2012. Authorised capital 2012 / I of around EUR 8,190,307.00 is thus still available as of 31 December 2014.

Authorised capital 2013 / I

In a resolution passed at the annual general meeting held on 14 June 2013, the shareholders authorised the Management Board subject to the Supervisory Board's approval to increase the Company's share capital by a total amount of no more than EUR 20m by issuing up to 20,000,000 no-par-value ordinary shares on a cash and / or non-cash basis once or on repeated occasions on or before 13 June 2018. The Management Board did not make use of this authorisation in 2014. Authorised capital 2013 / I of EUR 20,000,000.00 is thus still available as of 31 December 2014.

Contingent capital 2009 / I

At the annual general meeting held on 27 August 2009, the shareholders authorised the Management Board subject to the Supervisory Board's approval to issue convertible and / or option bonds on or before 26 August 2014. The Management Board also made use of this authorisation with the Supervisory Board's approval in resolutions passed on 17 December 2009 and 15 April 2010 and issued two convertible bonds of EUR 12.5m and EUR 30m, respectively. Accordingly, the authorisation of 27 August 2009 was utilised in full. The bearers or creditors of these convertible bonds are granted conversion or option rights on new shares in TAG with a proportionate share in its share capital of up to EUR 8.6m in accordance with the terms and conditions determined. Following the exercise of conversion rights under the convertible bonds issued in December 2009 and April 2010, the Company's share capital increased by 3,038,262 shares. Accordingly, contingent capital 2009 / I dropped to EUR 5,566,989.00 as of the end of the year.

Contingent capital 2010 / I

At the annual general meetings held on 25 June 2010 and on 14 June 2012, the shareholders additionally authorised the Management Board subject to the Supervisory Board's approval to issue convertible and / or option bonds. The bearers or creditors of the convertible and / or option bonds issued on the basis of this authorisation are granted conversion and / or option rights on new shares in TAG with a proportionate share in its share capital of up to EUR 9.8m in accordance with the terms and conditions determined. In resolutions passed by the Management Board and approved by the Supervisory Board on 14 October 2010 and 15 November 2010, use was also made of this authorisation and a convertible bond in a nominal amount of EUR 66.6m was issued. The contingent capital 2010 / I underlying this convertible bond would thus increase the share capital by up to EUR 9.8m upon the exercise of the conversion rights. This means that the authorisation has been utilised in full. Conversion rights for 414,542 shares were exercised under this convertible bond in 2014. Accordingly, contingent capital 2010 / I dropped to EUR 9,358,095.00 as of the end of the year.

Contingent capital 2011 / I

At the annual general meeting held on 26 August 2011, the shareholders additionally authorised the Management Board subject to the Supervisory Board's approval to issue convertible and / or option bonds with a total nominal amount of up to EUR 150m on or before 25 August 2016, and to grant the bearers or creditors of such bonds conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to EUR 15m in accordance with the terms and conditions determined. In connection with the contingent capital which had been approved in the previous year, the shareholders passed a resolution at the meeting held on 14 June 2012 providing once more for the possibility of excluding the shareholders' preemptive subscription rights upon this convertible bond being issued in accordance with the shareholders' resolution. Finally, in a resolution passed by the Management Board and approved by the Supervisory Board on 25 June 2012, use was made of this authorisation and a convertible bond in a nominal value of EUR 85.3m was issued.

The holders of these convertible bonds have not yet exercised any conversion rights. A volume of around 9,700,000 shares has been reserved for the convertible bond issued on 25 June 2012. Accordingly, the unused contingent capital stands at around 5,300,000 shares.

Contingent capital 2013 / I

At the annual general meeting held on 14 June 2013, the shareholders additionally authorised the Management Board subject to the Supervisory Board's approval to issue convertible and / or option bonds with a total nominal amount of up to EUR 160m on or before 13 June 2018 and to grant the bearers or creditors of such bonds conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to EUR 13m in accordance with the terms and conditions determined. The Company had not utilised this authorisation as of the end of the year.

Profit-participation rights

In a resolution passed by the shareholders at the annual general meeting on 14 June 2012, the Management Board was authorised subject to the Supervisory Board's approval to issue once or repeatedly profit-participation rights free of any conversion or option rights with respect to the Company's shares on or before 13 June 2017. The total nominal amount of the profit-participation rights which may be granted in accordance with this authorisation may not exceed an amount of EUR 100m. The Company had not utilised this authorisation as of 31 December 2014.

Treasury stock

In a resolution passed at the annual general meeting on 13 June 2014, the Company was authorised until 12 June 2019 to buy treasury stock in an amount of up to 10 % of the existing share capital existing upon the authorisation taking effect – or if less – upon the authorisation being exercised. The Company has made use of this authorisation, acquiring a total of 13,127,178 of its own shares, equivalent to almost 10 % of its share capital. Of these, 6,400,000 shares are held by a wholly owned subsidiary, while TAG Immobilien AG holds the remaining amount. Following the execution of this buy-back transaction, a resolution was passed at an extraordinary shareholder meeting held on 28 August 2014, authorising the Company until 27 November 2019 to buy treasury stock in an amount of up to 10 % of the existing share capital existing upon the authorisation taking effect - or if less - upon the authorisation being exercised. The authorisation may not be utilised by the Company to trade in treasury stock.

13. Share premium

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

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

The share premium dropped by TEUR 108,475 due to the aforementioned buy-back of the Company's own shares. At the same time, it increased by TEUR 2,354 (previous year: TEUR 2,390) as a result of the conversion of the bonds. Equity issue costs of TEUR 699 (previous year: TEUR 351), net of the related income tax benefits of TEUR 226 (previous year: TEUR: 114), were reported within the share premium.

14. Other reserves

Other reserves break down as follows:

Other reserves	2014 TEUR	2013 TEUR
Legal reserves	46	46
Other retained earnings	0	481
Retained earnings	**46**	**527**
Hedge accounting reserve	-5,727	-11,546
Currency translation reserve	16	89
Total	**-5,665**	**-10,930**

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

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

Hedge accounting reserve	2014 TEUR	2013 TEUR
Amount on 01/01	**-11,546**	**-20,833**
Deconsolidation of TAG Gewerbe	6,342	0
Unrealised gains and losses	4,958	8,332
Recorded in profit and loss	-5,478	4,333
Deferred income tax effect	-3	-3,378
Amount on 12/31	**-5,727**	**-11,546**

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

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

15. Unappropriated surplus

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

The Management Board plans to propose a dividend of EUR 0.50 (previous year: EUR 0.35) per share for 2014 for approval at the upcoming annual general meeting. This proposal is subject to the approval of the Supervisory Board and the shareholders.

16. Non-controlling interests

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

17. Bank borrowings

Bank borrowings chiefly consist of liabilities arising in connection with the acquisition of investment properties or the acquisition and development of available-for-sale properties. Financing is usually agreed on a non-current basis for investment properties and on a current basis for land available for sale. Lending terms and conditions (interest rates, repayments) are adjusted at regular intervals. Repayments are generally between 1 % and 2 % p. a. Bank borrowings break down as follows: for the most part, collateral takes the form of real property liens, the assignment of rental income and pledges on investments in affiliated companies. The banks may only liquidate this collateral in the event of a material breach of the loan contract (e. g. failure to comply with financial covenants).

18. Retirement benefit provisions

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

Retirement benefit provisions	TEUR
Opening amount on 01/01/2013	**5,126**
Utilised	-688
Reversed	-2
Disposal of plan assets	1,001
Added	181
Amount on 12/31/2013	**5,618**
Utilised	-399
Added	1,098
Amount on 12/31/2014	**6,317**

In 2013, TAG Potsdam-Immobilien GmbH transferred active plan assets of TEUR 1,001 to the seller of the share in TAG Potsdam, as this company was legally entitled to hold these claims. On the other hand, TAG Potsdam-Immobilien GmbH continued to recognise the provisions in full. The provisions for this subsidiary stand at TEUR 4,639 (previous year: TEUR 3,831). A corresponding reimbursement claim of TEUR 4,621 against the seller (previous year: TEUR 3,831) is reported within other assets.

The allocation in 2014 primarily comprises interest expense as well as actuarial gains or losses. As the reimbursement claim is subject to the same factors, the effects are mostly reported within equity. Any additional effects are included within personnel expenses to simplify matters.

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

	2014	2013
Interest rate in %	2.02	3.50
Rate of salary increase in %	1.50	1.50
Retirement age	In accordance with social code VI	

Of the retirement benefit provisions, an amount of TEUR 358 (previous year: TEUR 411) is due for payment within one year. These amounts together with other retirement benefit obligations are reported within non-current liabilities. The table below sets out movements in the net liabilities recognised:

	2014 TEUR	2013 TEUR
Recognised on the face of the balance sheet as of 01/01	**5,618**	**5,126**
Staff costs	86	179
Reimbursement recognised within equity	1,012	0
Pension payments	-399	-688
Disposal of plan assets	0	1,001
Amount on 12/31	**6,317**	**5,618**

As in the previous year, the present value of the defined-benefit obligation corresponds to the liability shown in the consolidated balance sheet. A reconciliation statement has therefore been dispensed with. The present value of the defined-benefit obligation as of the applicable reporting date stood at TEUR 5,126 in 2012, TEUR 1,760 in 2011, TEUR 1,801 in 2010 and TEUR 1,880 in 2009.

19. Liabilities from corporate bonds

On 7 August 2013, the Company issued 200,000 corporate bonds with a nominal amount of EUR 1,000.00 each. The nominal amount stands at TEUR 200,000. It has a coupon of 5.125 % p. a. and a term of five years.

In February 2014, the bond which had originally been issued in August 2013 with a volume of EUR 200 m and a coupon of 5.125 %, was increased by a further EUR 110 m to EUR 310 m. This increase was issued at 103 % of the nominal, resulting in an effective coupon of 4.3 %.

In June 2014, TAG issued an additional bond of EUR 125 m. It has a coupon of 3.75 % and a term of six years.

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

20. Liabilities from convertible bonds

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

Liabilities from corporate bonds TEUR	2014		2013	
	Non-current	Current	Non-current	Current
TAG Immobilien AG convertible bond EUR 66.6 m	0	32,018	34,102	131
Convertible bond EUR 85.3 m	69,925	34	68,908	34
Colonia Real Estate AG convertible bond EUR 11.4 m	0	3,487	3,115	25
Total	**69,925**	**35,539**	**106,125**	**190**

On 13 May 2010, the Company issued 300,000 convertible bonds with a nominal amount of EUR 100.00 each. The nominal amount of the bearer bonds stands at TEUR 30,000. The convertible bond has a coupon of 6.375 % p. a. and expires on 13 May 2015. The initial conversion price for the Company's bearer shares is EUR 5.47. In October 2013, the Company called in the outstanding convertible bonds effective 2 December 2013. Consequently, the Company bought back bonds with a nominal value of TEUR 27,266. As of 31 December 2014, bonds with a nominal value of TEUR 12,266 had been redeemed.

A further 9,000,000 convertible bonds with a nominal value of EUR 7.40 each were issued on 10 December 2010. The nominal amount of the bearer bonds stands at TEUR 66,600. The convertible bond has a coupon of 6.5 % p.a. and expires on 10 December 2015. The initial conversion price for the Company's bearer shares is EUR 7.40. 414,542 of these convertible bonds (TEUR 2,769) were converted at a price of EUR 6.93 and EUR 6.67 into the Company's shares in the year under review. The Company had bought back further bonds with a nominal value of TEUR 31,344 in 2013.

A further 853 convertible bonds with a nominal value of EUR 100,000.00 each were issued on 28 June 2012. The nominal amount of the bearer bonds stands at TEUR 85,300. The convertible bond has a coupon of 5.5 % p.a. and expires on 28 June 2019. The initial conversion price for the Company's bearer shares is EUR 8.85. Of these, the Company had bought back further bonds with a nominal value of TEUR 10,800 in 2013.

In May 2010, Colonia issued a convertible bond in a total nominal amount of EUR 11.4 m with a coupon of 5.875 %. The initial conversion price stands at EUR 6.01 per Colonia share. Following the acquisition of the majority of the voting rights in Colonia by TAG AG on 15 February 2011, it disclosed the change of control and the resultant right of termination accruing to the holders of the convertible bond it had issued. Thereupon, convertible bonds with a nominal value of TEUR 8,089 were prematurely converted and those with a nominal value of TEUR 231 prematurely repaid.

21. Derivative financial instruments

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

22. Other non-current liabilities

This item comprises the outstanding purchase price consideration of TEUR 3,257 from the purchase of TAG Stadthaus am Anger, which is due for payment in 2023, as well as phased retirement obligations.

23. Other provisions

Other provisions break down as follows:

Other provisions TEUR	Amount 01/01/2014	Utilised	Reversed	Added	Amount 12/31/2014
Outstanding invoices	13,015	10,994	2,039	9,395	9,377
Repairs	921	77	0	785	1,629
Legal, consulting and auditing costs	1,288	913	224	1,477	1,628
Bonus	2,764	2,377	18	1,156	1,525
Outstanding construction costs	1,063	305	210	28	576
Outstanding services in connection with sold land	556	333	163	227	287
Property transfer tax	2,487	2,487	0	0	0
Others	2,120	1,263	298	848	1,407
Total	**24,214**	**18,749**	**2,952**	**13,916**	**16,429**

Provisions for outstanding invoices primarily relate to maintenance and renovation. The provisions for outstanding construction costs relate to expected obligations with respect to construction services which have not yet been invoiced. The provisions for repairs relate to obligations to remedy any faults exhibited by sold real estate.

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

24. Trade payables

Trade payables break down as follows:

Trade payables	2014 TEUR	2013 TEUR
Liabilities under prepayments less unsettled operating costs	5,629	3,197
Liabilities under construction expenses	1,464	12
Liabilities under guarantee retentions	588	870
Outstanding purchase price consideration from acquisition of real estate	0	3,239
Others	1,466	4,067
Total	**9,147**	**11,385**

As the planned discharge of the outstanding purchase price consideration from the purchase of TAG Stadthaus am Anger was not executed, this item was reclassified within other non-current liabilities.

25. Other current liabilities

This item breaks down as follows:

Debtors with credit balances	6,949	4,166
Advance prepayments received	2,575	239
Prepaid expenses	323	444
Others	2,125	2,777
Total	**11,972**	**7,626**

NOTES ON INCOME STATEMENT

26. Rental revenues and expenses

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

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

Rental expenses break down as follows:

Rental expenses	2014 TEUR	2013 TEUR (adjusted)
Maintenance expenses	24,248	26,407
Non-rechargeable ancillary expenses	11,214	12,210
Operating costs of vacant real estate	10,799	10,482
Total	**46,261**	**49,099**

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

27. Revenues and expenses from the sale of real estate

Income from the sale of real estate is mostly generated from the sale of investment properties and chiefly relates to properties in the greater Berlin region.

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

28. Revenues and expenses from services

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

29. Other operating income

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

Other operating income	2014 TEUR	2013 TEUR (adjusted)
Income from the reversal of provisions	2,952	4,675
Income from the attribution of tangible real estate assets	2,102	0
Income from the sale of securities held as current assets	962	0
Income from the derecognition of liabilities	532	169
Income from impaired receivables	323	314
Deconsolidation of TBB	0	708
Other off-period income	1,914	1,426
Others	2,158	3,233
Total	**10,943**	**10,525**

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

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

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

31. Personnel expenses

Personnel expenses break down as follows:

Personnel expenses	2014 TEUR	2013 TEUR (adjusted)
Operating units	22,580	20,969
Administration	11,167	8,533
Total	**33,747**	**29,502**

32. Depreciation / amortisation

Depreciation / amortisation breaks down as follows:

Depreciation / amortisation	2014 TEUR	2013 TEUR (adjusted)
Amortisation of intangible assets	1,949	1,063
Depreciation of property, plant and equipment	1,426	1,182
Total	**3,375**	**2,245**

33. Impairments of inventories and receivables

This item breaks down as follows:

Impairments	2014 TEUR	2013 TEUR (adjusted)
Impairments of rental receivables	6,047	5,153
Impairment of the receivable from the sale of the shares in POLARES Real Estate Asset Management GmbH	5,682	6,680
Impairments of inventory real estate	1,285	3,654
Total	**13,014**	**15,487**

34. Other operating expenses

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

Other operating expenses	2014 TEUR	2013 TEUR (adjusted)
Legal, consulting and auditing costs	7,548	5,968
IT costs	3,065	2,372
Costs of premises	2,030	2,153
Travel expenses (incl. motor vehicles)	1,297	1,545
Telephone costs, postage, office material	1,247	1,179
Advertising	881	818
Other ancillary staff costs	843	890
Investor relations	761	628
Project initiation costs	743	129
Trailing costs for sold real estate	601	507
Others	3,574	2,194
Total	**22,590**	**18,383**

In the year under review, other operating expenses included payments under operating leases of TEUR 2,996 (previous year: TEUR 3,104) for copiers, motor vehicles and office space.

35. Share of profit or loss of associates

Investment income of TEUR 727 (previous year: TEUR 714) relates to long-term non-controlling interests.

36. Impairment of financial assets

In the previous year, this item solely comprises impairments recognised on shares in associates.

37. Loss absorption

In the previous year, this item concerned the absorption of the loss of a non-consolidated subsidiary which was merged with a Group company in 2014.

38. Net borrowing costs

Net borrowing costs consist of the following items:

Net borrowing costs	2014 TEUR	2013 TEUR (adjusted)
Interest rate derivatives		
Non-cash income	1,046	6,385
Other financial assets		
Non-cash income	1,850	1,888
Other interest income	1,094	1,506
Interest income	**3,990**	**9,779**
Interest rate derivatives		
Non-cash expenses	-6,360	-2,151
Other expenses	-5,460	-12,494
Other financial liabilities		
Premature termination compensation	-10,678	-1,781
Non-cash expenses	-8,810	-11,424
Other expenses	-82,323	-80,757
Borrowing costs	**-113,631**	**-108,607**
Total	**-109,641**	**-98,828**

39. Other taxes

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

40. Earnings per share

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

Earnings per share	2014	2013
Consolidated net profit (in TEUR)		
Consolidated net profit excluding non-controlling interests	23,645	28,047
Interest expense on convertible bonds	7,571	15,001
Consolidated net profit excluding non-controlling interests (diluted)	31,216	43,047
Number of shares (in thousands)		
Weighted number of shares outstanding	128,846	130,812
Effect of conversion of convertible bonds	11,944	21,379
Weighted number of shares (diluted)	140,790	152,191
Earnings per share (in EUR)		
Basic	0.18	0.21
Diluted*	0.18	0.21

* As the convertible bonds shown in the reconciliation statement reduce the dilution effects, these effects have not been included in the calculation of diluted earnings per share. A potential dilution effect in future periods cannot be ruled out.

NOTES ON THE CASH FLOW STATEMENT

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

Cash and cash equivalents as reported in the cash flow statement	2014 TEUR	2013 TEUR
Cash and cash equivalents as reported in the balance sheet	196,646	85,326
Overdraft facilities with banks	0	-1,653
Cash at banks subject to drawing restrictions	-25,213	-4,665
Total	**171,433**	**79,008**

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.

In 2014, TAG sold its majority interest in TAG Gewerbeimmobilien GmbH and hence the majority of its commercial portfolio. In accordance with IFRS 5, this commercial real estate is reported as discontinued operations following the sale of this company. The Group's remaining commercial real estate activities are of only minor importance.

In 2013 and 2014, TAG additionally enhanced the regional management of its residential real estate portfolio and added new regions to its internal management process in the fourth quarter of 2014 in view of the growing volume of real estate held.

The "Other activities" segment includes service business as before and now also the remaining commercial real estate activities and the boarding houses operated by the Group.

In view of this, segment reporting was modified effective 31 December 2014 to reflect the changes in the internal reporting structures. The figures as of 31 December 2013 have been duly reconciled with the new presentation.

The figures disclosed in the segment report are based solely on the IFRS accounting rules. Rental income as well as the corresponding expenses and the real estate assets are shown. In accordance with the regional distribution of the residential real estate as of 31 December 2014, the following segments have been defined: Berlin, Dresden, Rhein-Ruhr, Erfurt, Gera, Hamburg, Leipzig, Rostock, Salzgitter and other activities.

The main sales of residential real estate in the year under review with a transfer of rights and obligations on or before 31 December 2014 relate to the Berlin segment. The real estate assets reported for the Berlin segment dropped from TEUR 665,542 in the previous year to TEUR 488,495 as of 31 December 2014.

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

DISCLOSURES ON FINANCIAL INSTRUMENTS

Risks as a result of financial instruments

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

Capital risk management

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

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

	2014 TEUR	2013 TEUR (adjusted)
Equity	1,005,053	1,127,366
Total assets	3,734,246	3,813,052
Equity ratio in %	**26.9**	**29.6**

Fair value of assets and liabilities

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

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

If input factors for different hierarchical levels are applied, the fair value is calculated on the basis of the lower hierarchical level. There were no transfers between the individual hierarchical levels in 2014.

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

	Fair value hierarchy	2014 TEUR	2013 TEUR
ASSETS			
Investment properties	Level 3	3,331,600	3,544,075
Derivatives with no hedging relationship	Level 2	3,551	8,794
Derivatives with a hedging relationship	Level 2	0	97
EQUITY AND LIABILITIES			
Derivatives with no hedging relationship	Level 2	856	1,063
Derivatives with a hedging relationship	Level 2	10,072	21,623

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

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

31 December 2014	Carrying amount TEUR	IAS 39 Categoriy*	Fair value TEUR	Fair value hierarchy
ASSETS				
Other financial assets				
Investments	5,646	AfS	n/a	n/a
Other financial assets	7,013	LaR	7,013	Level 2
Trade receivables	70,693	LaR	70,693	Level 2
Other current assets	10,269	LaR	10,269	Level 2
Cash and cash equivalents	196,646	LaR	196,646	Level 2
EQUITY AND LIABILITIES				
Bank borrowings	1,903,710	AmC	1,983,490	Level 2
Liabilities from convertible bonds	105,464	AmC	112,277	Level 2
Liabilities from corporate bonds	443,736	AmC	466,515	Level 2
Other non-current liabilities	3,445	AmC	3,445	Level 2
Trade payables	9,147	AmC	9,147	Level 2
Other current liabilities	11,972	AmC	11,972	Level 2
31 December 2013				
ASSETS				
Other financial assets				
Investments	5,734	AfS	n/a	n/a
Other financial assets	12,444	LaR	12,444	Level 2
Trade receivables	16,221	LaR	16,221	Level 2
Other current assets	14,498	LaR	14,498	Level 2
Cash and cash equivalents	85,326	LaR	85,326	Level 2
EQUITY AND LIABILITIES				
Bank borrowings	2,126,583	AmC	2,068,515	Level 2
Liabilities from convertible bonds	106,315	AmC	115,014	Level 2
Liabilities from corporate bonds	201,106	AmC	206,000	Level 2
Other non-current liabilities	293	AmC	293	Level 2
Trade payables	11,385	AmC	11,385	Level 2
Other current liabilities	7,626	AmC	11,726	Level 2

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

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

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

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

Net profit / loss from financial instruments

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

31 December 2014	IAS 39 Category*	Interest TEUR	Impairments TEUR	Others TEUR
Loans and receivables	LaR	1,818	-47,294	0
Investments	AfS	0	0	727
Financial liabilities	AmC	-107,459	0	0
Derivative financial instruments with no hedging relationship	HfT	-5,448	0	0
31 December 2013 (adjusted)				
Loans and receivables	LaR	2,555	-11,832	0
Investments	AfS	0	-238	764
Financial liabilities	AmC	-92,295	0	0
Derivative financial instruments with no hedging relationship	HfT	-7,319	0	0

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

Purposes of financial risk management

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

Interest risk

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

The Group uses derivative financial instruments to the extent necessary for managing existing interest risks. These include interest rate swaps, albeit only in a small volume, as well as caps to minimise the risk of changing interest rates and sensitivity in the event of rising interest rates. The Group does not enter into or trade in any financial instruments, including derivative financial instruments for speculative purposes. Payer swaps constitute synthetic fixed-rate agreements in connection with an underlying variable. Under these contracts, fixed interest rates calculated on the basis of agreed nominal amounts are swapped for variable ones. In this way, the Group is able to reduce its exposure to changes in the money market and also facilitate the planning of debt servicing with respect to the hedged tranches. The Group's interest management works actively with credit management and Group planning. As a result, it is possible to structure derivatives in such a way that they generate the greatest possible benefits and maximum stability for the Group's current and future status.

As of 31 December 2014, Group companies held interest derivatives (mainly payer swaps) of a nominal EUR 236.1 m (previous year: EUR 375.8 m). These interest-rate swaps break down as follows:

Interest rate hedges	Nominal volume		Market values	
(in TEUR)	2014	2013	2014	2013
Interest rate swaps	224,655	344,669	-10,929	-22,595
■ due for settlement in less than 1 year	25,237	32,366	-198	-905
■ due for settlement in 1 – 5 years	199,418	306,178	-10,731	-21,724
■ due for settlement in more than 5 years	0	6,125	0	34
Caps	11,453	31,135	39	267
■ due for settlement in less than 1 year	0	0	0	0
■ due for settlement in 1 – 5 years	11,453	20,846	39	8
■ due for settlement in more than 5 years	0	10,289	0	259
Total	**236,108**	**375,804**	**-10,890**	**-22,328**

Derivative financial instruments with a nominal value of EUR 35.8 m (previous year: EUR 56.1 m) and a fair value of EUR -0.8 m (previous year: EUR -0.8 m) are not included in a hedge relationship. In addition, derivative financial assets include an option of EUR 3.5 m (previous year: EUR 8.5 m). The table also shows the periods in which the hedged payment flows arise in essentially identical parts. The Group assumes that the payment flows will also be included in net profit / loss for this period.

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

	2014 TEUR	2013 TEUR
Change in market value in the event of a 0,5 pp increase in interest levels	1,965	4,319
Change in market value in the event of a 0,5 pp decrease in interest levels	-1,938	-4,368

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

If interest rates on constant liabilities to banks are assumed to increase (decrease) by 0.5 percentage points, net interest results deteriorate (improve) as follows:

Interest sensitivity	2014 TEUR	2013 TEUR (adjusted)
Net borrowing costs in the year under review	-109,641	-98,828
Average interest rate for non-current loans in %	3.1	3.4
Average interest rate for current loans in %	4.2	4.3
Change in net borrowing costs in the event of a general 0,5 pp increase in interest rate	-1,719	-1,778
Change in net borrowing costs in the event of a general 0,5 pp decrease in interest rate	1,719	1,778

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

Credit risk

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

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

The carrying amount of the financial assets recognised in the consolidated financial statements less any impairments constitute the Group's maximum credit risk. In the previous year, there were additional guarantees of TEUR 1,268 for non-consolidated companies. This does not include any collateral received.

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

	Offset on the face of the balance sheet			Not Offset on the face of the balance sheet		
in TEUR	Carrying amount gross	Offset amount	Carrying amount Net	Financial instruments	Collateral	Total value Net
31 December 2014						
Financial assets						
Derivatives	39	0	39	-39	0	0
Financial liabilities						
Derivatives	10,928	0	10,928	-39	0	10,889
31 December 2013						
Financial assets						
Derivatives	364	0	364	-364	0	0
Financial liabilities						
Derivatives	22,692	0	22,692	-364	0	22,328

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 cash flows and the reconciliation of the maturities of financial assets and liabilities.

The following tables set out the contractual durations of the Group's bank borrowings. These are based on the non-discounted cash flows of financial liabilities as of the earliest day on which the Group is under any settlement obligation.

Bank borrowings	2014 TEUR	2013 TEUR
Due for settlement in less than 1 year	105,959	179,534
1 to 5 years	650,901	772,339
More than 5 years	1,146,850	1,174,710
Total	**1,903,710**	**2,216,583**

In addition, there are estimated future payment outflows from interest on financial liabilities due for settlement in less than one year of around EUR 63 m (previous year: around EUR 71 m), in more than one but less than five years of around EUR 170 m (previous year: around EUR 197 m), and in more than five years of around EUR 414 m (previous year: around EUR 353 m).

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

Residual maturity of financial assets	2014 TEUR	2013 TEUR
Due for settlement in less than 1 year	281,159	126,165
1 to 5 years	0	3,000
More than 5 years	12,659	14,547
Total	**293,818**	**143,712**

The Group is able to utilise overdraft facilities. The total amount not utilised as of the balance sheet date stands at EUR 19 m (previous year: EUR 22 m). The Group expects to be able to settle its liabilities from operating cash flow, the inflow of financial assets due for settlement, and existing credit facilities at all times.

Finance risk

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

In addition, a loan of around EUR 1,518 m (previous year: EUR 1,583 m) has been raised within the Group for which financial covenants specifying certain capital service ratios and equity / debt ratios have been agreed. If any of these covenants are breached, premature loan repayments may be necessary. As of 31 December 2014, the financial covenants stipulated in the loan contracts were complied with.

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

Collateral

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

OTHER DISCLOSURES

Contingent liabilities and other financial obligations

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

Other financial obligations	2014 TEUR	2013 TEUR
Rentals for business premises	2,632	3,381
Others (e. g. manager contracts, leases, rental guarantees)	4,492	7,894
Total	**7,124**	**11,275**

One part of the other financial obligations of TEUR 4,092 (previous year: TEUR 6,233) is due for settlement in less than one year, a further part of TEUR 3,027 (previous year: TEUR 4,971) between one and less than five years and a further part of TEUR 5 (previous year: TEUR 72) in more than five years.

Minimum lease payments under operating leases

There are fixed future claims to minimum lease payments under long-term operating leases of EUR 1.8m (previous year: EUR 66m) chiefly relating to commercial tenants. Of this, an amount of EUR 0.5m (previous year: EUR 12m) is due for settlement in less than one year, EUR 0.8m (previous year: EUR 26m) between one and five years and EUR 0.5m (previous year: EUR 27m) in more than five years. It is customary for leases to have fixed minimum terms of up to ten years. In some cases, the tenants are offered renewal options. In such cases, rental adjustment clauses reduce the market risk of long-term fixed prices.

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

Material transactions with related persons

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

Business relations with associates

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

Business relations with other related parties

- Nörr LLP, Frankfurt am Main, with which Prof. Dr. R. Frohne, a former member of the Supervisory Board, is related, received payments of TEUR 325 in the year under review (previous year: TEUR 304) for the provision of legal advice. Net outstanding invoices were valued at TEUR 0 as of 31 December 2014 (previous year: TEUR 5).
- Guarantees of around EUR 55m were initially still outstanding for bank loans granted to TAG Gewerbeimmobilien GmbH, which had been sold and has since been renamed Texas Gewerbeimmobilien S.à.r.L. As the underlying loans were discharged in 2014, these obligations have expired.
- In the second quarter of 2014, TAG AG acquired 1% of TAG Beteiligungs- und Immobilienverwaltungs GmbH from TAG Beteiligungsverwaltungs GmbH, in which Dr. Harboe Vaagt held a share of 16.8% as of that date, for a price of TEUR 704.
- In 2014, 50.4% of the capital of TAG Beteiligungsverwaltungs GmbH was acquired for a sum of TEUR 142, which matched the market value. Of this, TEUR 47 was paid to Management Board member Dr. Harboe Vaagt.

Fees payable to statutory auditors

The fees of TEUR 1,038 (previous year: TEUR 885) paid to the independent auditors KPMG for the entire Group include fees for the audit of the financial statements of TEUR 884 (previous year: TEUR 695), fees for other attestation activities of TEUR 109 (previous year: TEUR 68), fees for other tax consulting activities of TEUR 43 (previous year: TEUR 119) and fees for other services of TEUR 2 (previous year: TEUR 4), plus value added tax in all cases. The other attestation activities primarily relate to the Company's interim financial statements for the first half of the year. In the previous year, they were chiefly provided in connection with the issue of bonds.

Headcount

The Group had a total headcount of 521 as of 31 December 2014 (previous year: 519). The annual average stood at 531 (previous year: 448). In addition, a further average of 131 (previous year: 100) people were employed as janitors.

Supervisory Board

Members of the Supervisory Board and offices held by them in other supervisory boards or comparable domestic and international corporate governance bodies in fiscal 2014:

- Rolf Elgeti, businessman, Potsdam (Chairman from 28 November 2014)
  - Estavis AG, Berlin (until 10 January 2014)
  - Sirius Real Estate Limited
- Dr Lutz R. Ristow, businessman, Hamburg (Chairman until 13 June 2014)
  - Colonia Real Estate AG, Hamburg (until 12 June 2014)
  - LURIS AG, Hamburg (Chairman)
- Prof Dr Ronald Frohne, attorney and public auditor, New York, USA (Deputy Chairman until 13 June 2014)
  - Würzburger Versicherungs-AG, Wuerzburg
  - TELLUX-Beteiligungsgesellschaft mbH, Munich
  - AGICOA, Geneva, Switzerland
  - CAB, Copenhagen, Denmark
- Lothar Lanz, businessman, Berlin (Chairman until 28 November 2014, Deputy Chairman from 28 November 2014)
  - ESMT European School of Management and Technology, Berlin (until April 2014)
  - Axel Springer Digital Classifieds GmbH, Berlin (until April 2014)
  - Axel Springer International Finance B.V., Netherlands (until April 2014)
  - Ringier Axel Springer Management AG, Switzerland (until April 2014)
  - Ringier Axel Springer Media AG, Switzerland (until April 2014)
  - Dogan TV Holding A.S., Turkey
  - Axel Springer SE, Berlin (seit dem 16. April 2014)
  - Zalando SE, Berlin (seit dem 10. Februar 2014)
- Dr Philipp K. Wagner, attorney, Berlin
  - Estavis AG, Berlin (until 10 January 2014)
  - Colonia Real Estate AG (from 12 June 2014)
- Dr Hans-Jürgen Ahlbrecht, former managing director of DaimlerChrysler Immobilien GmbH, Berlin (from 13 June 2014)
  - Flaskamp Ummen AG, Berlin (until 30 June 2014)
- Dr Ingo-Hans Holz, businessman, Berlin (from 13 June until 28 November 2014)
- Andrea Mäckler, office assistant, Hamburg, staff representative (until 31 December 2014)
- Wencke Röckendorf, office assistant, Hamburg, staff representative (until 31 January 2015)

The remuneration paid to the Supervisory Board in the year under review came to TEUR 306 (previous year: TEUR 288), excluding value added tax.

Management Board

The members of the Management Board and the offices which they hold in other supervisory boards or comparable domestic and non-domestic supervisory bodies in 2014 are set out below:

- Claudia Hoyer, Chief Real Estate Officer, Berlin
- Martin Thiel, Chief Financial Officer, Hamburg (from 1 April 2014)
- Dr Harboe Vaagt, responsible for legal and organisation matters, Halstenbek
  - Colonia Real Estate AG (Chairman from 12 June 2014)
- Rolf Elgeti, Chairman of the Management Board, Potsdam (until 31 October 2014)
  - Estavis AG, Berlin (until 10 January 2014)
  - Sirius Real Estate Limited, Guernsey, UK
- Georg Griesemann, Chief Financial Officer, Hamburg (until 31 March 2014)

Remuneration paid to the Management Board in 2014 came to TEUR 3,831 (previous year: TEUR 2,346) and breaks down as follows:

in TEUR	Claudia Hoyer COO				Martin Thiel CFO (from 04/01/2014)				Dr Harboe Vaagt CLO			
	2013 (Actual)	2014 (Actual)	2014 (Min.)	2014 (Max.)	2013 (Actual)	2014 (Actual)	2014 (Min.)	2014 (Max.)	2013 (Actual)	2014 (Actual)	2014 (Min.)	2014 (Max.)
Incentives granted												
Fixed remuneration	233	307	307	307	0	270	270	270	353	410	410	410
Ancillary benefits	14	14	14	14	0	5	5	5	14	14	14	14
Total	**247**	**321**	**321**	**321**	**0**	**275**	**275**	**275**	**367**	**424**	**424**	**424**
One-year variable remuneration	42	77	0	77	0	58	0	63	42	77	0	77
Multi-year variable remuneration	83	153	0	153	0	115	0	125	83	153	0	153
Total	**125**	**230**	**0**	**230**	**0**	**173**	**0**	**188**	**125**	**230**	**0**	**230**
Total remuneration	**372**	**551**	**321**	**551**	**0**	**448**	**275**	**463**	**492**	**654**	**424**	**654**
Inflow												
Fixed remuneration	233	307	307	307	0	270	270	270	353	410	410	410
Ancillary benefits	14	14	14	14	0	5	5	5	14	14	14	14
Total	**247**	**321**	**321**	**321**	**0**	**275**	**275**	**275**	**367**	**424**	**424**	**424**
One-year variable remuneration	21	42	0	42	0	0	0	0	42	42	0	42
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
Total	**21**	**42**	**0**	**42**	**0**	**0**	**0**	**0**	**42**	**42**	**0**	**42**
Total remuneration	**268**	**363**	**321**	**363**	**0**	**275**	**275**	**275**	**409**	**466**	**424**	**466**

in TEUR	Rolf Elgeti CEO (until 10/31/2014)				Georg Griesemann CFO (until 03/31/2014)				Hans-Ulrich Sutter CFO (until 06/30/2012)			
	2013 (Actual)	2014 (Actual)	2014 (Min.)	2014 (Max.)	2013 (Actual)	2014 (Actual)	2014 (Min.)	2014 (Max.)	2013 (Actual)	2014 (Actual)	2014 (Min.)	2014 (Max.)
Incentives granted												
Fixed remuneration	600	522	522	522	240	776*	776	776	0	0	0	0
Ancillary benefits	8	6	6	6	9	5	5	5	0	0	0	0
Total	**608**	**528**	**528**	**528**	**249**	**781**	**781**	**781**	**0**	**0**	**0**	**0**
One-year variable remuneration	167	290	0	290	125	0	0	125	0	0	0	0
Multi-year variable remuneration	333	579	0	579	0	0	0	0	0	0	0	0
Total	**500**	**869**	**0**	**869**	**125**	**0**	**0**	**125**	**0**	**0**	**0**	**0**
Total remuneration	**1,108**	**1,397**	**528**	**1,397**	**374**	**781**	**781**	**906**	**0**	**0**	**0**	**0**
Inflow												
Fixed remuneration	600	522	522	522	240	776	776	776	0	0	0	0
Ancillary benefits	8	6	6	6	9	5	5	5	0	0	0	0
Total	**608**	**528**	**528**	**528**	**249**	**781**	**781**	**781**	**0**	**0**	**0**	**0**
One-year variable remuneration	245	290	0	290	24	125	0	125	0	0	0	0
Multi-year variable remuneration	322	1,334	0	1,334	0	49	0	49	0	250	0	0
Total	**567**	**1,624**	**0**	**1,624**	**24**	**174**	**0**	**174**	**0**	**250**	**0**	**0**
Total remuneration	**1,175**	**2,152**	**528**	**2,152**	**273**	**955**	**781**	**955**	**0**	**250**	**0**	**0**

* including termination benefits

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

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

Material events after the balance sheet date

At the same time as they left the Company, Andrea Mäckler and Wenke Röckendorf stepped down from the Supervisory Board as staff representatives effective 31 December 2014 and 31 January 2015, respectively. Replacements will be elected in the first half of 2015.

The portfolios acquired at the end of 2014 in Northern and Eastern Germany (roughly 2,300 residential units) and in Görlitz (roughly 550 residential units) were duly transferred to the Group effective 31 January 2015.

In February 2015, TAG acquired 3.6 m shares in its subsidiary Colonia Real Estate AG in a swap for two million of its own shares. Accordingly, its share in this company has increased from 79 % as of 31 December 2014 to 87 %.

No reportable events occurred after the reporting date.

Hamburg, 6 March 2015

Claudia Hoyer
COO

Martin Thiel
CFO

Dr Harboe Vaagt
CLO

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the Group's assets, financial position and earnings situation, and the Group management report includes a fair review of the development and performance of the business and the Group's situation, as well as a description of the principal opportunities and risks associated with the expected development of the Group.

Hamburg, 6 March 2015

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

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the TAG Immobilien AG, Hamburg, comprising Consolidated balance sheet, Consolidated income statement, Consolidated statement of comprehensive income, Consolidated cashflow statement, Statement of changes in consolidated equity, Consolidated segment report and Notes to the consolidated financial statement together with the group management report for the business year from 1 January 2014 to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Hamburg, 10 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

NOTES

GROWTH THROUGH IMPROVED QUALITY IN RESIDENTIAL PORTFOLIOS

SOCIAL PROJECTS

perfectly fits with existing structure

ABBA **A** locations in **B** cities, **B** locations in **A** cities

total return per share

10x acquisition multiples

4.100 SALES

pure play residential

cash for future reinvestments

RENT INCREASE

LIMs de-centralized organization

High selling prices

vacancy reduction

8.900 ACQUISITIONS

18.8x **DISPOSAL MULTIPLES**

real estate group

TAG regions North- and East Germany

EFFICIENCY

high total return

value creation and active asset management

TAG FINANCIAL CALENDAR

26 March 2015	Publication of Annual Report 2014
07 May 2015	Publication of Interim Report – Q1 2014
19 June 2015	Annual General Meeting – Hamburg
06 August 2015	Publication of Interim Report – 2. Quartal 2015
05 November 2015	Publication of Interim Report – 3. Quartal 2015

Otto-Rothe-Straße, Gera

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The English version of the annual report 2014 is a translation of the German version of the annual report.
The German version of this annual report is legally binding.

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