ANNUAL REPORT 2016

GROWING CASHFLOWS

TAG Immobilien AG

GROUP FINANCIALS

in TEUR	2016	2015 (adjusted)	2014
A. Key financial figures			
Rental income in total	275,193	259,284	257,373
Consolidated net profit	200,679	147,321	28,964
FFO I per share in EUR	0.72	0.62	0.58
FFO I in EUR m	97.0	76.3	74.5
Total assets	4,016,767	3,794,199	3,734,246
Equity	1,365,568	1,120,552	1,005,053
Equity ratio in %	34.0	29.5	26.9
LTV in %	57.1	62.7	65.3
B. Portfolio data	**12/31/2016**	**12/31/2015**	**12/31/2014**
Units	79,754	78,015	72,530
Real estate volume in TEUR	3,856,572	3,577,899	3,371,269
Vacancy in % (total)	6.5	8.2	9.0
Vacancy in % (residential units)	6.1	7.5	8.1
l-f-l rental growth in %	2.0	1.6	1.2
l-f-l rental growth in % (incl. vacancy reduction)	3.7	3.3	2.1
C. EPRA key figures	**12/31/2016**	**12/31/2015**	**12/31/2014**
EPRA EARNINGS per share in EUR	0.66	0.53	0.20
EPRA NAV per share in EUR	11.53	10.64	10.10
EPRA NNNAV per share in EUR	9.25	8.27	9.48
EPRA Net Initial Yields in %	7.1	7.1	7.0
EPRA 'topped up' Net Initial Yield in %	7.1	7.1	7.0
EPRA Vacancy Rate in %	6.3	7.4	8.4
EPRA Cost Ratio (incl. vacancy costs) in %	36.3	38.0	35.7
EPRA Cost Ratio (excl. vacancy costs) in %	32.5	33.9	31.4
D. Employees	**12/31/2016**	**12/31/2015**	**12/31/2014**
Number of employees	833	781	655

E. Capital market data	
Market cap at 12/31/2016 in TEUR	1,840,025
Share capital at 12/31/2016 in EUR	146,498,765
WKN/ISIN	830350/DE0008303504
Number of shares at 12/31/2016 (issued)	146,498,765
Number of shares at 12/31/2016 (outstanding)	142,343,641
Free Float in % (remainder treasury shares)	97.2
Index	MDAX/EPRA

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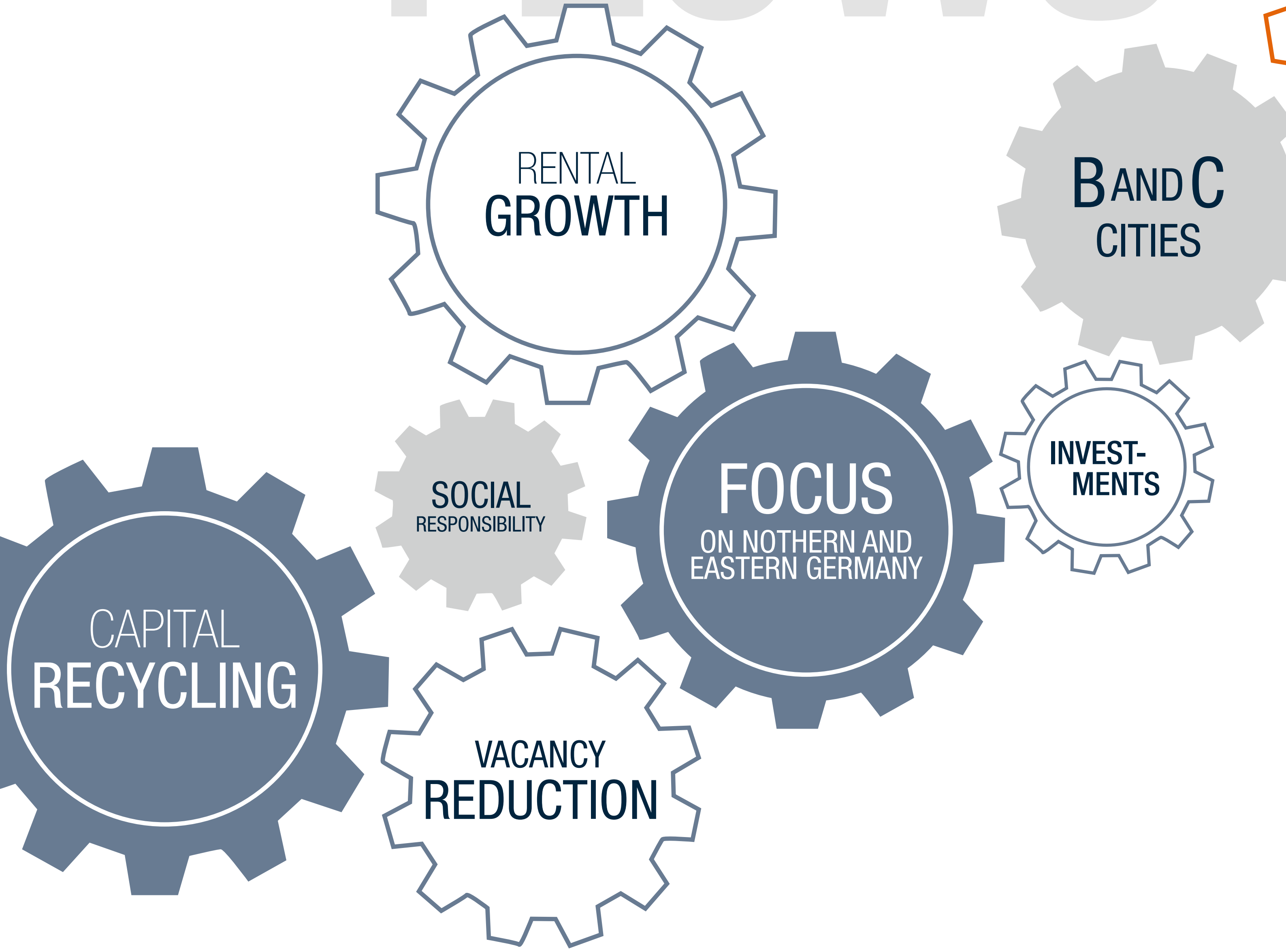
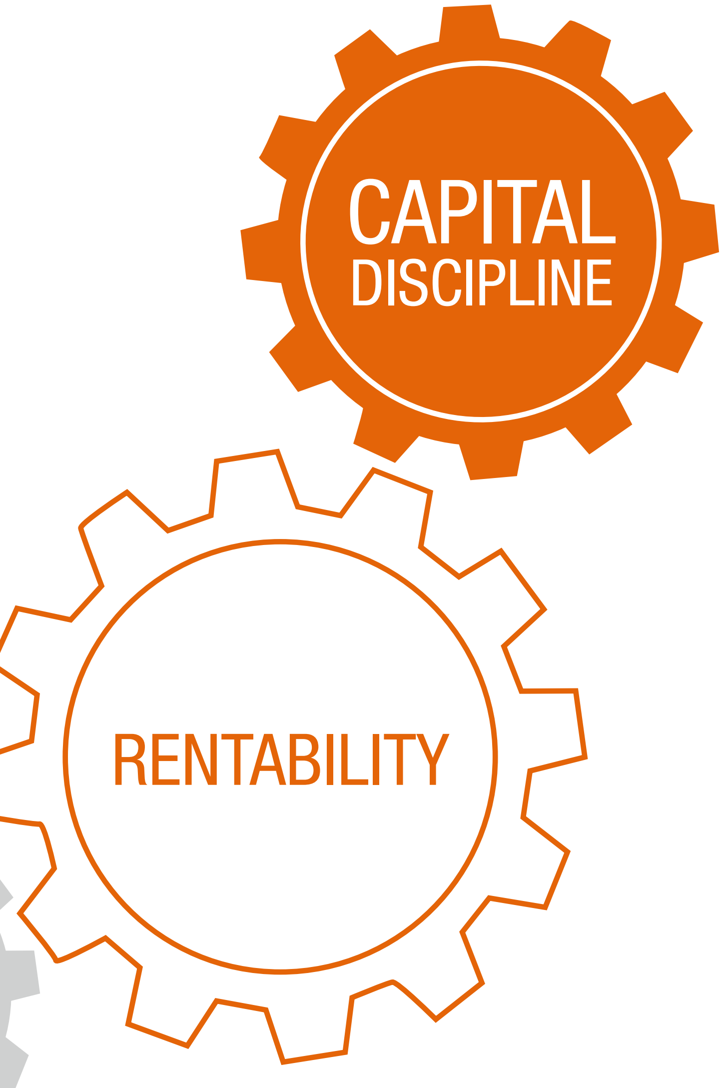
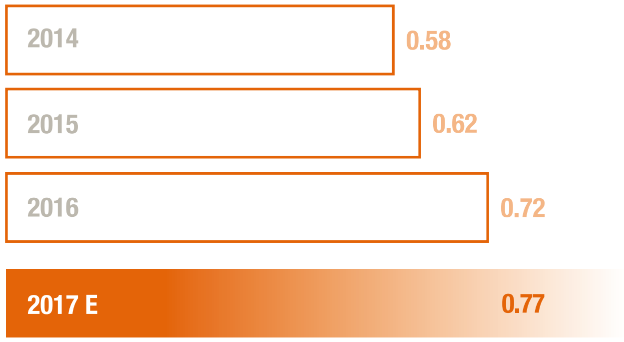
GROWING CASH FLOWS



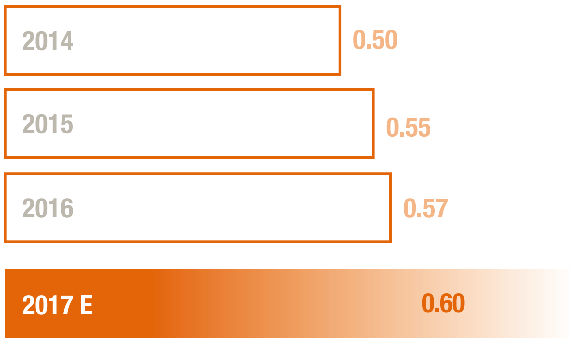


THE BEST STRATEGY FOR GROWING CASHFLOWS

FFO I
per share in EUR



Dividends
per share in EUR



EPRA NAV
per share in EUR

Bestensee (Brandenburg)

FORE
WORD

FOREWORD BY THE MANAGEMENT BOARD

**Dear Shareholders,
Ladies and Gentlemen,**

It wasn't so long ago that investments in residential properties in Germany's so-called 'B locations' were considered unattractive and very risky. In general, people doubted that towns and cities in eastern Germany in particular could actually provide the basic prerequisites for real estate investment, such as positive economic and population growth. As a result, most domestic and international investors concentrated on large metropolises for their residential property acquisitons.

At TAG Immobilien AG, this gave us an opportunity to invest early on in markets that were still at the very beginning of their development. We took advantage of this and between 2010 and 2012 expanded our portfolio from just over 4,000 to nearly 70,000 flats. We focused our strong growth at the time on those very B locations, which allowed us to invest in excellent micro locations at what are from today's point of view highly attractive purchase prices. The former East German states formed a particular investment focus; today, around 70% of our total portfolio is located in eastern Germany.

The picture has since changed considerably. Small- and medium-sized cities are increasingly benefiting from the disproportionately high demand for housing in urban areas where affordable living space in particular is becoming increasingly scarce. Many people are moving to the outskirts of big cities or to the centres of mid-sized cities to find attractive yet affordable housing. Even if the increase in rents and purchase prices there don't or only sometimes match those of Germany's top locations, they are nevertheless very attractive to us. Ultimately, the long-term advantageousness of an investment is determined by the attainable yield, i.e. the ratio of the expected rental or purchase price increases to the purchase price. In this respect, B locations, and particularly those in the former East Germany, show what we feel is a much better yield/risk profile – as also shown in the Housing Market Report Eastern Germany we published in October 2016.

Our figures today show that TAG's strategy was and still is correct. With a portfolio of some 80,000 residential units, our operations have a strong setup. Vacancy in TAG's residential units dropped to 6.1% at the end of the year from 7.7% at the beginning of the year. In the Salzgitter region alone, the vacancy rate was reduced by 4.6 percentage points – from 12.1% to 7.5% – within twelve months. At the same time, rental growth continued to develop dynamically. On a like-for-like basis, it was 3.7% p.a. including vacancy reduction effects, or 2.0% p.a. excluding these effects. Compared to the previous year (3.3% and 1.6% p.a.) this reflects substantial increases.

It should be emphasised that these successes in vacancy reduction and rental growth continued to be achieved with targeted, moderate investments. Total maintenance and capex in 2016 averaged EUR 15.41 per sqm, compared to EUR 15.15 per sqm in the previous year. Thanks to strong demand at our locations and the good quality of our portfolio, we are able to realise strong internal growth even without major investment programmes. As a result, we clearly exceeded our FFO forecast of EUR 84.0 million to EUR 85.0 million and EUR 0.67 per share, which was already raised during the year to EUR 97.0 million, or EUR 0.72 per share.

There have also been positive developments on the equity and financing side since the last Annual Report. We were able to increase net asset value (NAV) per share to EUR 11.53, following EUR 10.64 at the beginning of the year, and reduce the loan to value (LTV) ratio by 5.6 percentage points to 57.1% in 2016. Besides the strong operating result, the early conversion of the last outstanding convertible bond we initiated in July 2016 and the placement of treasury shares in March 2016 contributed to this. Average cost of debt fell from 3.45% to 3.15% p.a. In view of the upcoming refinancings in 2017 and 2018 of EUR 550 million in bank loans and a corporate bond of EUR 310 million, with high interest rates from today's perspective of 3.5% and 4.8% p.a., we can expect further significant cost savings in this area.

The MDAX-listed TAG share ended 2016 at EUR 12.56, reflecting a price increase of 9% compared to the beginning of the year. Taking into account the dividend of EUR 0.55 per share paid out in June 2016, this results in an overall share performance of 14% for 2016. If 2015 is included in the calculation, the overall performance is at close to 40% in two years. So the TAG share is well positioned on the capital market. This is also confirmed by the successful placements of treasury shares we were able to carry out in March 2016, and a few weeks ago in March 2017 with substantial premiums on NAV and only small discounts on the then current share prices.

Due to TAG's positive performance, which accelerated again at the end of the year, and supported by the acquisition of around 3,100 residential units at the turn of 2016/2017, we have already increased the 2017 FFO forecast published in November 2016 to between EUR 110.0 million and EUR 112.0 million, or EUR 0.77 per share (previously: EUR 104.0 million to EUR 106.0 million or EUR 0.74 per share). The dividend per share will also increase more steeply than was originally planned, to EUR 0.57 for 2016 and EUR 0.60 for 2017. We continue to have the highest dividend yield of any German residential property company.

We sincerely thank you, our shareholders, for your confidence in us. Together with our great and dedicated employees, we will do our very best in 2017 to ensure a continuation of the successful developments of the past few years!

Yours sincerely,

Claudia Hoyer
COO

Martin Thiel
CFO

Dr Harboe Vaagt
CLO


Chemnitz (Sachsen)

SUSTAINABILITY REPORT

SUSTAIN ABILITY

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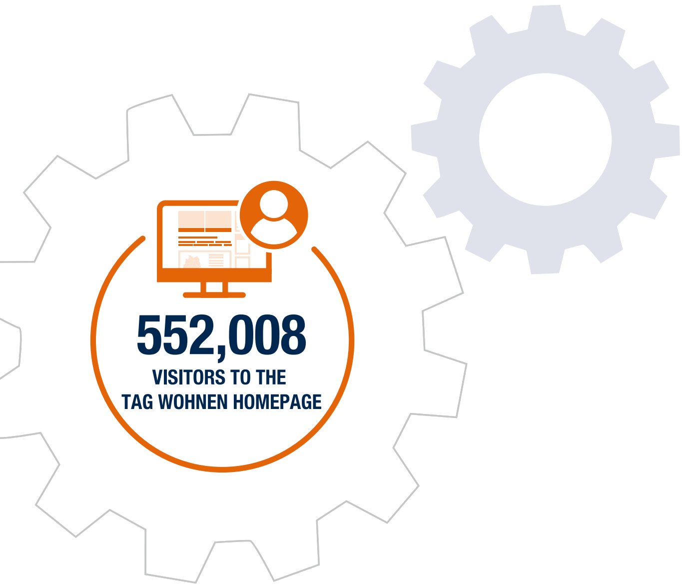


This report continues the analyses and considerations from our Sustainability Report for financial year 2015 and takes a special look at our tenants, whose satisfaction is an important yardstick for our work.

Larger housing companies have long borne a high level of social responsibility that extends far beyond property management. Landlords increasingly design not only the pure housing offering, but also everything that goes into making people feel at home: well-kept surroundings, recreational facilities, social assistance offerings, an intact infrastructure, and prospects for the future. For this reason, TAG continues to focus on its regional orientation and active networking and cooperation with stakeholders at its individual locations.

By effectively strengthening our locations and strategically catering to the requirements of the regional market, we create a future-proof home market. This in turn guarantees our shareholders investment security and enables attractive dividends in the medium and long term.

Strategy

WE DEVELOP FUTURE-PROOF PROPERTIES

As an active asset management, TAG practices sustainable property development geared toward long-term economic success.

At present, our growth strategy is aimed at optimising our overall portfolio. This means that we focus especially on emerging regions with good yield prospects, for example cities with rapidly growing populations. We also prefer to purchase properties in regions where we can use our existing administrative structure, thereby increasing the efficiency of existing resources.

In the 2016 financial year, we bought 1,651 flats – 1,240 of them in Thuringia, where we already manage around 18,000 flats. Our portfolios in Dessau-Rosslau and North-Rhine Westphalia (NRW) also grew. While the NRW portfolios already have a high occupancy rate, the purchased portfolio acquired in the former East Germany with a vacancy of up to 11% offers great development potential which we will optimally exploit.

One of TAG's special competencies is the successful development of such inventory. For example, at the end of 2014, we acquired 625 flats in the Kappel district of Chemnitz with 37,100 sqm of living space. Previously, we had identified a demand for larger family homes in Chemnitz and successfully tested our first layout conversions. The newly acquired portfolio offered the opportunity for a more complex development of larger living space, especially because the district is particularly suitable for families due to its location and infrastructure. The arrangement of the buildings gives rise to spacious courtyards that are perfect for children to play in. So we invested EUR 40,000 in upgrading the playgrounds. We comprehensively renovated and upgraded the building at Usti nad Labem Strasse 303-313 in 2016 to create 66 individual 2- to 7-room flats with up to 130 sqm of living space. Most of the flats have balconies, and there are, for example large, bright eat-in kitchens, spacious bathrooms with a washing machine section or a separate shower cubicle, utility rooms, and even flats with a dressing room or two bathrooms. Two maisonette flats with nearly 130 sqm of living space each are also a new highlight in the prefabricated panel housing estate. One of the two maisonette flats was already let during the renovation. Concurrent with the renovation project, which was largely completed in November 2016, individual flats in other properties were renovated for new lettings, residential areas and stairs were renovated, repairs were carried out, and waste collection sites were refurbished. With the renovation of another apartment block, our efforts in the neighbouring sports club and the establishment of social offerings for children and young people, we are developing a family neighbourhood for the future here.

‘As a family with 3 children, it wasn’t easy for us to find a flat close to schools and kindergartens. Now we have found one where both are within walking distance. The infrastructure here is really very good. We especially like the playgrounds and greenscapes behind the block, and our little pug is pretty happy about them, too. When we looked around for a new flat, it was very important to us that the kitchen should have a window and enough space for a dining table, so that the whole family could eat together. We also love the large living room in our flat and the bedroom balcony. It’s the flat of our dreams!’

The Unger/Mieniets family, Chemnitz (5-room flat, 121 sqm)

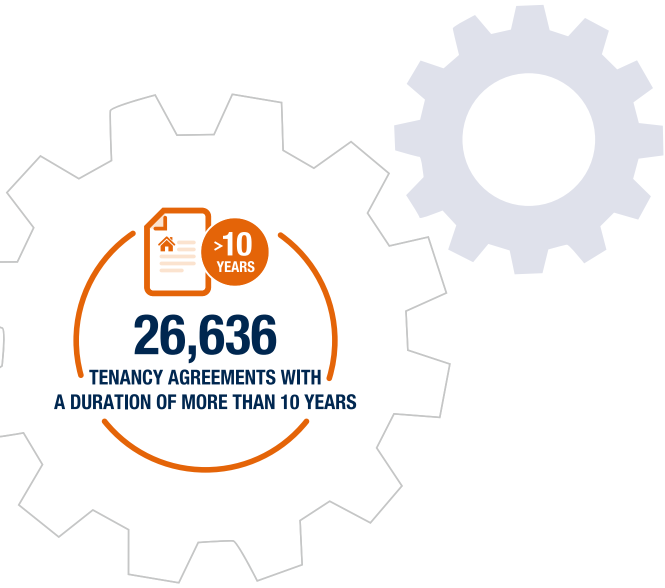
We use Innovative layout adaptations to transform seemingly stereotypical prefabricated flats into individual, contemporary homes, thereby achieving long-term tenancy.

Chemnitz (Sachsen)

In the small Saxon town of Döbeln, which has a solid future thanks to its location in the heart of the region, we have raised a property in the town centre to a new level of quality. We turned a mundane prefabricated panel construction building into an attractive multifamily home with spacious 2- to 4-room flats in the middle price segment, which in turn reflects the central location.

With this kind of complex conversion, but also with energy-based refurbishments, for example in Norderstedt and Neubrandenburg, we are steadily and sustainably upgrading our properties.

A TU Darmstadt study commissioned by TAG in 2016 shows that just 3% of existing homes in Germany are adequately equipped for the needs of the elderly and disabled. Demographic change and the associated high average age of the population also affects TAG's neighbourhoods. That is why we take care of older target groups in various ways - especially those who need disabled access. On the one hand, we support home adaptations for existing tenants; on the other, we are also building senior-friendly housing in suitable locations. For instance, in 2016, we began to modernise a 'central corridor' building in Hermsdorf, Thuringia to make it fully senior-friendly, and provide disabled access within the building and flats.



Strategy and Environment

WE HAVE A PASSION FOR QUALITY AND SERVICE

In the long term, a service mentality towards our tenants, prudent management of our properties, and innovative ideas to improve the quality of living not only contribute to business success, but also to a lasting, positive reputation.

In 2016 we opened our 65th tenant's office in Nordhausen. Regular contact with prospective tenants and our tenants on the premises strengthens trust in us as a landlord and allows for quickly clearing up many everyday issues in one-on-one conversations. This also gives us a visible presence, which facilitates contact with regional networks whose cooperation we in turn need for services and neighbourhood planning.

Our principle of being close to our tenants helps minimise churn, e.g. people moving away because of their age. In many German residential areas, the average age is very high: in the Lusan district of Gera, one of our largest cohesive districts, the average age is over 50; at our Bestensee location, almost a quarter of the residents are pensioners – reason enough to counteract age-driven tenant churn in good time. This is why we are setting up an independent living counselling service at some locations, where tenants can find out about bathroom conversion options and other in-home aids. They receive advice and support from our employees in this, as well as in applying for grants from nursing care insurance companies. We specifically train our employees for this. For example, Lower Saxony's youngest independent living counsellor works at TAG. After three years of training as a property agent, she completed additional training as a certified independent living advisor for seniors and people with disabilities. Since then, the 23-year-old has been working in the Letting department at the Salzgitter site, where she also coordinates our senior citizen relations.

'One thing is certain for us, we want to stay in our own home as long as we can. I'm still fit. Only my husband has not been able to cope so well since his illness. So we dropped into the Bestensee tenant office to look at TAG's bathroom ideas. The independent living counsellor concluded that our bathroom could be converted. Now we really enjoy using our senior-friendly bathroom every day'.

Bettina and Peter Schalk, Bestensee

We help elderly people with improvements to their living conditions – this reduces tenant churn and strengthens our image long-term.

In 2015, our tenant survey confirmed that a reduction in utility costs is still especially important to tenants – so this topic, too, is also part of our company's service concept. One part of the utility costs that can be relatively easily influenced is waste disposal. Awareness-building about waste separation and modern waste management are very helpful here. In Musterknaben eG, we have found an innovative partner to support us in educating the tenants at various locations and advising us regarding regional waste management. In Gera, for example, we were able to reduce our waste by 5,248 cbm. This lowers our tenants' utility costs while also benefitting the environment.

As part of our process optimisation efforts, we have been working on three other action areas that will secure a better quality of supply on better terms in the long run – also for our tenants.

With our subsidiary Energie Wohnen Service GmbH, we are able to optimise our fuel purchasing, and by having our technical facilities professionally maintained, we reduce energy consumption long-term. Ultimately, the successive modernisation of our heating systems also benefits the environment. The newly founded Multimedia Immobilien GmbH has taken over the basic supply of flats with TV connections, which means that a large proportion of the tenants now receive better service packages for their TV and internet. By having our own TAG Immobilienservice GmbH provide caretaker services, we will be able to ensure better quality standards in the future. In addition, we have expanded the range of services provided by caretakers in many places, e.g. to include stairwell cleaning, garden maintenance and winter road clearance. Caretakers who are continually responsible for 'their territory' also have a lasting influence on tidiness and cleanliness.

Bestensee (Brandenburg)

Strategy and Society

WE PROMOTE QUALITY OF LIFE IN NEIGHBOURHOODS

Stable neighbourhoods, a sense of community, a wide range of leisure activities and social assistance ensure quality of life in our residential areas. That is why we are investing in sustainable neighbourhood development - together with municipalities, clubs and associations.

From numerous conversations with tenants and partners, we sense that there is a growing longing for functioning neighbourhoods and a sense of community. We are increasingly seeing the use of such services, which increases tenant satisfaction and creates a sense of belonging.

Wherever we manage large, cohesive portfolios at a location, we also get involved in neighbourhood management. We start by looking for existing on-site offerings that are worth supporting. If we discover gaps in this respect, we recruit partners and jointly establish recreational and social activities in the district.

For example, we bring older people out of their isolation with 'activity lounges'. We operate these lounges and other communal centres in cooperation with organisations such as the Workers' Welfare Federal Association (Arbeiterwohlfahrt), the Workers' Samaritan Federation (Arbeiter-Samariter-Bund), Caritas, Johanniter Unfallhilfe and Volkssolidarität. We provide the premises free of charge and help finance the project personnel, and our partners organise events and excursions and provide additional advice and services. Increasingly, our events bring different generations together in the lounges, and tenants can get involved with their own ideas and hobbies. If we are able to promote personal initiatives and active neighbourhood assistance, we will have a lasting effect in improving life in the neighbourhoods.

Because quality of life in a residential environment is also determined by infrastructure, outdoor facilities, employment opportunities, etc., we seek contact with other actors on the ground. We work closely with municipal planners and local authorities and get involved in the design of green spaces and play areas. We also coordinate the implementation of social services and leverage synergies for joint projects.

Naturally, we also support culture, sports and education – especially in the immediate neighbourhood, so that our commitment benefits our tenants as directly as possible, and the younger generation in particular will have better prospects for the future.

'Without the lounge, I'd be long gone. I never really felt comfortable in Döbeln because I had no contacts and was lonely. I wanted to go back to the Ruhr, but then I discovered the activity lounge and decided to stay. I like cooking with the others. My kitchen is rather small and cooking for myself isn't much fun'.

Manfred Wallat, TAG tenant from Döbeln

By working with partners to create recreational and community services in the neighbourhoods, we contribute to the lasting development of the location.


Ferienprogramm Jumpers Erfurt

Society

WE HELP
CREATE OPTIONS FOR PEOPLE

Preventing boredom and a lack of options is also part of our service concept. That is why we sought and found a partner that opens up opportunities for children and gives them guidance in their daily lives. We have already set up children's and family centres in Salzgitter and Gera with the 'Jumpers – Jugend mit Perspektive e.V.' association, which offers extensive after-school activities for children, and also provides advice and assistance with school and family problems.

Because the projects are so well received, we are expanding the centre in the Lusan district of Gera, which opened in 2015. As the landlord of around 5,000 prefabricated flats here, we feel a special sense of responsibility. In 2016, a football pitch was opened – and a parents‘ lounge is currently being created.

In 2016, another Jumpers lounge was opened in the south of Erfurt. Studies by the Institute for Communal Planning and Development had revealed that there was still an unmet need here. Now Jumpers is looking after children in the neighbourhood with two social education workers and two voluntary social service (FSJ) employees. After only a few weeks, about 40 children were regularly coming to the lounge, and since then they have been using the homework help and recreational offerings, making music, being 'roving reporters' and experiencing values such as responsibility, reliability, community and success first hand. The parents are also opening themselves up to the project, and some are now gaining a fresh perspective on their lives and hope for the future. Jumpers also focuses on immigrant children, integrating them into their programme offerings and thus promoting the natural growing together of the young generation. We support Jumpers financially and have 'inspired' many more actors and partners, so that Jumpers is finding more and more supporters.

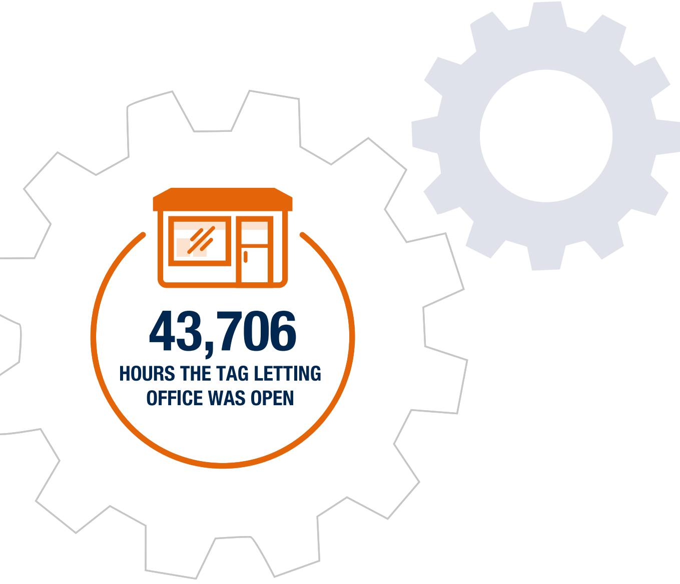
'Every day, we see how grateful the children are for our services here. Their many and spontaneous comments repeatedly confirm this to us. For example, asked about their best holiday, one of our Jumpers children said, the nicest holidays were with Jumpers because we went swimming and then spent the night here! Or when one of the dads built a railway here with the children and spent a lot of time with them, a little boy said, I want a dad like that too! Even a simple 'thank you for the nice trip' on the way back from the swimming pool to our Jumpers lounge shows that the investment in this project is worthwhile'.

Sophia Haufe, social education worker at the Jumpers Children‘s and Family Centre in Erfurt

In Jumpers, we have a found a very special partner that also shares an important goal with us: to give children and young people prospects so that our society and our locations have a hopeful and worthwhile future.

Such initiatives also help with the integration of refugees. TAG is committed to the integrated housing of refugee families with a residence permit. In Salzgitter, for example, we rented flats to Syrian families that are near the activity lounge where Germans and immigrants meet to play, do handicrafts, cook and eat together.

A pilot project was launched in Salzgitter in 2016 that promotes the integration of refugees in an even more purposeful and lasting way. To this end, TAG concluded a cooperation agreement with the Jobcenter (local employment agency), Musterknaben eG, and regional protagonists from the Workers' Welfare Federal Association, the Caritas association and Diakonie. The Jobcenter assigns asylum seekers with sufficient knowledge of German or English to this organisation. The trainees are introduced to various areas of work for 16 weeks, gaining basic knowledge in various activities and in handling technical machines. They also receive daily language coaching with a focus on the vocabulary needed for their work. They are to carry out work such as gardening and landscape maintenance, stairwell and building cleaning, janitorial services, household cleaning and caretaking services in the neighbourhood they live in. In this way, they increasingly come into contact with local residents, reducing inhibitions and prejudices. Not only that, the participants learn what order, cleanliness and team spirit mean for people in the neighbourhood. They learn to separate their waste and other routine standards that are part of living in Germany. After three months, further qualifications for the project participants are discussed with the Jobcenter so that they can receive better opportunities in the labour market in the future.



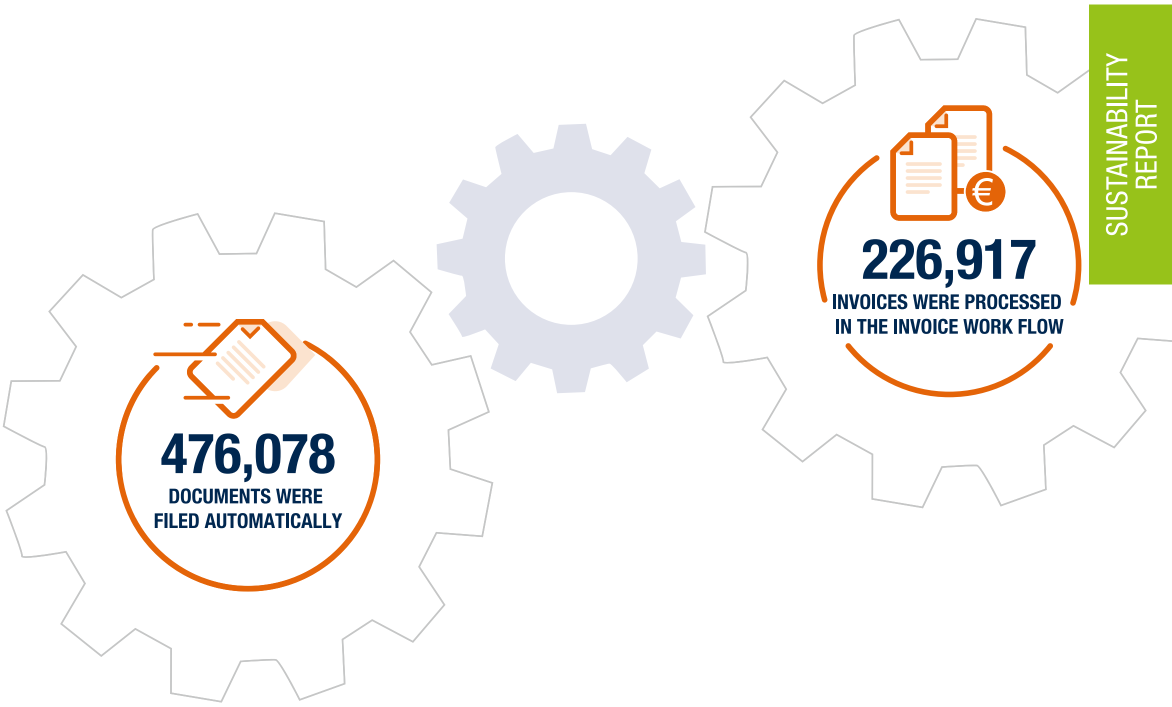
Process management and Environment

WE DESIGN FUTURE-ORIENTED BUSINESS PROCESSES

A key pillar of sustainability is long-term business success. We achieve this by managing our properties and locations in a way that increases their value, as well as through farsighted processes and personnel development. Pooling competencies and an efficient use of valuable resources are the focus in our process development. In our quest for sustainable solutions, we keep an eye on trends in markets and technologies.

Our property portfolio is divided into ten regions, each managed by a Head of Real Estate Management. Thanks to this structure and our 65 tenant offices, we are closely connected to the regions. Impetus for portfolio development, service offerings and social commitment come from the specific regional business and are used for sustainable portfolio development at the location.

This in turn provides ideas for our centrally managed strategic property management. Our shared service centres also handle all of our interrelated property management processes, such as customer and vendor accounting, utility invoicing, deposit management and rent increases – across all regions. This gives our organisation process-related advantages, which are especially useful for efficiency.



We have been devoting ourselves for several years now to the topics of process efficiency and digitisation, with our modern, process-supporting software. We now have not only a digital invoice flow, but also digital tenant and property files where all the correspondence we create on the system side is automatically archived. In the past year, we stepped up our efforts to successively fill the files with legacy data. In addition, we also have a trades interface so that we now have a paperless relationship with most trade companies: all processes are run digitally from commissioning to invoicing. Last year we were able to cover further processes, such as the (rental) deposit process and the ticket system.

Digitally networking our locations and workflows improves the quality standards and the volume of all processes – from repairs to enquiries from prospective tenants, to receivables management. All processes are documented, stored in the electronic tenant and property files, and can be tracked at any time.

We have pooled our print services so that billing, special mailouts, etc. are mainly processed centrally. In this way, we not only achieve economic impacts, but also protect our environment.

Another focus of our work lies in developing our own property services in order to be independent of third parties regarding price, quality assurance and scheduling.

TAG Handwerkerservice GmbH, the construction services company we founded in 2015, continued to expand successfully in 2016. The company provides painting, electrical installation, heating, plumbing, flooring and drywall services. In 2016, we hired 34 employees in Saxony for this company, and are now able to prepare our flats faster and more efficiently for new lets, while also cushioning the availability peaks of other partners in the market. Providing the staff with work clothes, modern equipment and vehicles also increases motivation.

Caretaker services are now carried out by TAG Immobilienservice GmbH at 67 locations. This has resulted in a noticeably better quality of cleanliness and tidiness in the neighbourhoods. Stairwell cleaning, garden maintenance and winter road clearance are newly introduced services for tenants in many places that have been gratefully accepted. Besides the digitisation of our processes, the work of our subsidiary Energie Wohnen Service GmbH also produces sustained ecological benefits. As a professional service provider, the company is responsible for the complete energy management and supply of TAG properties, as well as other energy-related services. Skilled specialists optimise the supply of heating energy to our properties, which saves energy and maintenance costs in the long term.

'I have to tell you, I've never experienced anything like TAG. My husband, my daughter and I have been living in one of your properties in Elstal since March. Your customer advisor not only actively and thoughtfully helped us look for a flat and helped us get this dream flat. No, even now she still supports us with advice and assistance. Emails are answered within 24 hours, and contractors also get in touch the same day. I'm always seeing the caretaker wheeling his waste bin around and tidying up'.

Jennifer Sell, TAG tenant in Wustermark/Elstal

By optimising processes and working conditions, we achieve a higher quality of service, which motivates our employees and makes for happy tenants.

Company and employee matters

WE WORK AS PART OF A MOTIVATED TEAM

Loyal, dedicated employees form the long-term basis for a successful company. We promote and qualify our employees according to their potential, and offer ideal prospects for development thanks to equal opportunities, flat hierarchies, and a high degree of individual responsibility. Our good career opportunities and a healthy work-life balance give our company a good position in the competition for the best people.

From the outset, the TAG Group exceeded the targets set in 2015 to regulate the proportion of women in companies. On the Management Board, the ratio of men to women is two to one. In the first tier of management below the Management Board, 53% of departmental managers are women and 68% of all team and group leaders are also female.

In 2016, TAG employed 44 apprentices – seven employees were completing dual-degree training programmes in business administration. Once a year, an Apprentice Day is held in which we actively involve all of our apprentices. Last year, for example, a promotional video for training at TAG was created by the apprentices themselves. Our apprentices are usually hired as permanent employees in our teams upon successful completion of their training, as this is how we secure our long-term staff development.

Individual development also means that we develop our employees according to their goals and abilities. We facilitate this by – among other things – allowing for changes in department and location, paying for part-time studies, providing in-house training, and granting educational leave. For example, in 2016, we paid the costs of part-time education for six employees as part of a continuing-education agreement.

In 51 training courses at various locations employees were trained in topics such as the management of residential property, conflict management, communications, and receivables management. In addition, 44 software tutorials were held.

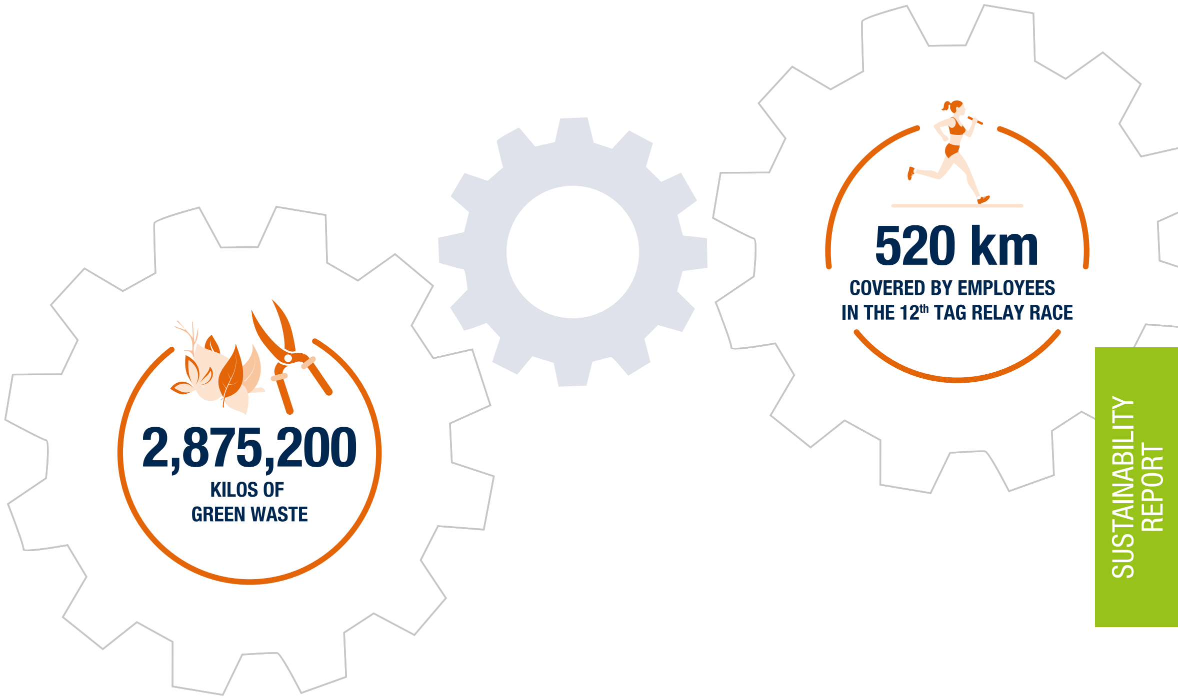
TAG caretaker

Through our Group-wide best practice meetings in many departments, we let our employees actively shape company processes and thus create a starting point for adapting processes to new circumstances at least once a year. Together with the TAG Ideas Workshop, we leverage our employees' innovative potential, thereby creating even greater identification with the company.

We place a high priority on the equal treatment of all employees in the company. In order to ensure that employee rights are safeguarded and their interests are adequately represented, there are eight local works councils which have formed a general works council from among their ranks. The employees are also represented by two employee representatives on the Supervisory Board.

It goes without saying that occupational health and safety are of paramount importance to us, so in 2016 investigations into occupational health and safety, and company medical conditions for employees at various locations were carried out again. This time, ergonomics at the office workplace was also a focus. Employees were once again given a great deal of information on optimally setting up their workstations. In addition, numerous first responders were trained and safety training was conducted.

It is important to us that our employees have a healthy work-life balance, which is why we offer our employees flexible working time models, various part-time options, parental leave for mothers and fathers, as well as home office work in individual cases.



We promote a healthy environment and health, for example, by enabling employees to use company bicycles instead of pool cars. Our employees are encouraged to travel by rail rather than car. This led to a significant increase in rail use in 2016.

A team can only perform well if it feels it belongs together, which is why we not only promote interaction through a culture of open dialogue within the company, but also organise shared highlights. Every year, about 140 employees from across the TAG Group meet for the TAG relay race. We hold our big Christmas party at a different TAG location each year, and at these full-day meetings get to know the work of our colleagues better.

Various social benefits, such as company pensions, Group accident insurance that protects our members worldwide, including when they are not working, and capital accumulation benefits complete the high level of security for our employees.

OUTLOOK

Our sustainable business model will continue to be focused on long-term economic success. We remain in active dialogue with our stakeholders to take into account all economic, environmental and social aspects. Important elements of our sustainability concept will continue to be the positive value development of our portfolios, the social and economic strengthening of our locations, economic and environmental effects in process optimisation and digitisation, as well as social responsibility towards our tenants and employees.

BOARD
REPORT

SUPERVISORY BOARD REPORT

Dear Shareholders, Ladies and Gentlemen,

TAG Immobilien AG completed a successful financial year in 2016, characterised by a further improvement in the key figures, the optimisation of the real estate portfolio, and the ongoing reduction in financing costs. Purchases of approx. 1,650 high-yield residential properties, especially at the end of the financial year, led to an increase in the residential portfolio to around 80,000 units today, despite sales. The successful placement of 5 million treasury shares in March 2016 underscores the fact that the capital market continues to approve of TAG's business performance and gives the company the trust it needs to pursue its strategy. The Supervisory Board wishes to thank all shareholders and investors for their trust in TAG during the 2016 financial year.

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

In financial year 2016, the Supervisory Board fulfilled the duties required of it by law, the articles of association, the German Corporate Governance Code (DCGK) and the rules of procedure with great diligence. It regularly advised the Management Board in the execution of its duties, and monitored its activities. It was also directly involved at an early stage in all decisions of fundamental importance to the company. In accordance with Section 90 paragraph 1 and paragraph 2 of the German Stock Corporations Act, the Management Board provided regular, up-to-date and comprehensive information on all relevant matters of corporate planning, strategy development, and in particular on acquisitions made in 2016. As in previous years, the Management Board's reporting covered the financial position and profitability of the Group's companies, its business progress, the risk situation, and the implementation of risk management and compliance. The reports were made verbally and in writing. The Management Board was in regular contact with the Supervisory Board Chairman to coordinate major business events. Significant events were immediately brought to its attention.

Composition and organisation of the Supervisory Board

The Chairman of the Supervisory Board is Mr Rolf Elgeti. His deputy is Mr Lothar Lanz. Only Mr Elgeti is a former member of the Management Board. The Supervisory Board believes that all members meet the criterion of independence as defined in paragraph 5.4.2 of the DCGK. The Supervisory Board members possess the knowledge, skills and professional experience required for the proper execution of their duties. The respective areas of expertise of individual Supervisory Board members are mutually complementary, so that in its entirety and diversity the Supervisory Board is in a position to comprehensively fulfil its tasks. The Supervisory Board is of the opinion that the performance of its supervisory and advisory function is ensured in accordance with the articles of association, the DCGK and the rules of procedure.

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 with the required independence. The members of the Audit Committee possess accounting and auditing expertise. Mr Lanz, the Chairman of the Audit Committee, meets the requirements of Section 100 paragraph 5 of the German Stock Corporations Act.

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

The committees consisted of the following members during the reporting year:

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

Supervisory Board Meetings

At a total of four meetings, the Supervisory Board was informed of the progress of the business, and discussed subjects and items requiring its approval together with the Management Board. In urgent matters, resolutions were also adopted outside these sessions, by written ballot or in conference calls. All members of the Supervisory Board attended all of the meetings and participated in all resolutions.

At the meeting to approve the year-end financial statements on **22 March 2016**, the Supervisory Board discussed in detail the annual financial statements for 2015 and the results of the audit report, whose representatives personally attended the meeting to report on the outcome of the audit. The financial statements were extensively discussed with the auditor. Furthermore, the resolution items for the agenda of the AGM on 17 June 2016 were adopted at this meeting, and the introduction of tenant-focused services related to multimedia access and heat supply initiated in the year under review was announced.

At the meeting on **16 June 2016**, besides preparations for the Annual General Meeting on 17 June 2016, the approval of the conclusion of a control and profit and loss transfer agreement between TAG Beteiligungs- und Immobilienverwaltungs GmbH and Colonia Real Estate AG as well as the associated transfer of 2.2 million Colonia shares to a co-investor were on the agenda. At this meeting, the Board also created incentives for an early conversion of the 2012/2019 convertible bond

2016 Supervisory Board meeting paticipation	22. Mar.	16. Jun.	22. Sep.	13. Dec.
Rolf Elgeti	×	×	×	×
Lothar Lanz	×	×	×	×
Dr Hans-Jürgen Ahlbrecht	×	×	×	×
Dr Philipp K. Wagner	×	×	×	×
Harald Kintzel	×	×	×	×
Marco Schellenberg	×	×	×	×

The meeting on **22 September 2016** focused on current acquisitions and sales activities, as well as finalising the amendment to the rule for the variable remuneration of Board members, which had already been agreed on in principle at previous meetings. The fine-tuning concerned the future partial payment of the variable compensation in shares.

At the meeting on **13 December 2016**, the Management Board presented the plans for 2017 to 2019 to the Supervisory Board, which the Supervisory Board took note of and approved. The Supervisory Board also addressed planned acquisitions and sales. Finally, the Supervisory Board approved the realisation of the project (construction of a student and boarding house in two construction phases) at the property on Hofmannstrasse in Munich. At this meeting, the Supervisory Board together with the Management Board, adopted the Declaration of Conformance for 2016.

Beyond these Supervisory Board meetings, other resolutions were passed by conference call, which among other things concerned the partial use of treasury shares to trade for Colonia shares, creating incentives for the early conversion of the 2012/2019 convertible bond, and various other acquisitions.

Meetings of the Audit Committee

During the reporting year, the Audit Committee held three meetings in which it dealt with relevant items of the Supervisory Board's work. At times, representatives of the auditor attended all of the meetings and in this context reported on the voluntarily commissioned audit review of the interim financial statements of 30 June 2016. The focus of the deliberations in 2016 was the audit of the internal control system, the IT systems audit, and the valuation of the property portfolio. The Audit Committee recommended that the Supervisory Board propose KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2016 financial year at the AGM on 17 June 2016. In addition, the Chairman of the Audit Committee also consulted directly with the auditors and was informed in detail about the process and focus of the audit.

Auditors for the 2016 financial year

The Supervisory Board engaged the auditor KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, which had been chosen by the shareholders at the Annual General Meeting on 17 June 2016, to audit the annual financial statements of TAG Immobilien AG as at 31 December 2016, in accordance with the recommendations of the German Corporate Governance Code.

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

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and consolidated financial statements of TAG Immobilien AG for the first time for the 2012 financial year. Since then, the key audit partner has been Mr Niels Madsen WP/StB, who together with Mr Ulf-Torben Krüger WP/StB, signed the audit certificate for the annual financial statements and consolidated financial statements as at 31 December 2016.

Approval of the annual financial statements and consolidated financial statements

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and the management report, as well as the consolidated financial statements, including the Group management report for financial year 2016, prepared in accordance with the International Financial Reporting Standards (IFRS). An unqualified audit certificate was issued.

The company's financial statements and audit reports were circulated to all members of the Supervisory Board in a timely manner and discussed in detail at the meeting on 20 March 2017. The Audit Committee had already dealt with the results in detail earlier and discussed them with the auditors prior to the meeting and during the audit process. The auditors personally attended the 20 March 2017 meeting, during which they elaborated on their report and were available to answer any questions. The auditor also confirmed that the early detection system for risks installed by the Management Board is suitable for detecting any developments liable to jeopardise the Company's going-concern status in a timely manner.

The Supervisory Board accepted the auditors' results, and on the basis of its own review of the parent company and the consolidated financial statements together with the respective management reports, raised no objections. The Supervisory Board endorsed the Management Board's proposal for the appropriation of net profit to pay a dividend of EUR 0.57 per share. The annual financial statements and the consolidated financial statements prepared by the Management Board were approved 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 TAG Immobilien AG and Colonia Real Estate AG Management Board members, special attention was paid to the risk of conflicts of interest. As a result, there were no conflicts of interest, in particular up until the effective date of the control and profit and loss transfer agreement agreed on 13 September 2016 between TAG Beteiligungs- und Immobilien-Verwaltungs-GmbH, a wholly-owned subsidiary of TAG, and Colonia Real Estate AG, which now operates as TAG Colonia-Immobilien AG.

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

In 2016, the company's Declaration of Conformance was approved with no amendments at the December meeting. Apart from the exception stated just above, the company follows all of the recommendations of the German Corporate Governance Code. Please also refer to the Corporate Governance Report for financial year 2016.

Personnel update

At the meeting of 22 September 2016, as proposed by the HR Committee, Ms Claudia Hoyer's appointment to the Management Board and corresponding Management Board contract expiring on 1 July 2016 were extended by another five years.

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 2017
The Supervisory Board

Rolf Elgeti

Rolf Elgeti
Chairman

GOVER
NANCE

CORPORATE GOVERNANCE

Report on Corporate Governance at TAG in FY 2016

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

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

Compliance with the recommendations of the German Corporate Governance Code

In their implementation of Corporate Governance, the Management Board and Supervisory Board are guided by the DCGK (version dated: 5 May 2015). Section 161 of the German Stock Corporations Act stipulates that the Management Board and Supervisory Boards shall declare annually that the recommendations of the DCGK were complied with and which recommendations were not applied. In December 2016, the Supervisory and Management Boards reviewed the Declaration of Compliance for 2016 and jointly adopted it, unchanged from the 2015 version.

TAG only deviates from one point in the requirements of the Code, as it does not follow the recommendation of Clause 4.2.1 to appoint a Management Board spokesman or chairman. The statements in the Declaration of Conformance published below and in the Supervisory Board report for financial year 2016 justify this deviation:

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

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

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

Hamburg, December 2016

Management Board and Supervisory Board
of TAG Immobilien AG

Diversity and the composition of the Supervisory Board

According to Section 5.4.1 of the GCGC, the Supervisory Board has 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 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 Management 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 it has in a personal or business relationship with the Company, its boards, a controlling shareholder or a company affiliated with the latter that may constitute a significant and not merely temporary conflict of interest.
- Members of the Management Board may not sit on the Company's Supervisory Board until two years have passed since the end of their Management Board term, unless shareholders who hold more than 25% of the voting rights in the Company propose their appointment. In such a case, the move to the Supervisory Board shall be an exception, the reasons for which are to be provided to the Annual General Meeting.
- The Supervisory Board has set the age limit for the Management Board at 67.

Overall, besides the already presupposed knowledge, skills and professional traits and the conditions set out in Section 100 paragraph 5 of the German Stock Corporations Act regarding accounting and auditing skills, Supervisory Board members are expected to possess specialist knowledge and experience in the German real estate market, the capital market and other business activities pursued in the TAG Group. The current members of the Supervisory Board fulfil these criteria.

Independent of the statutory requirement that came into force in 2015 to strengthen the proportion of women in leadership positions, care had already been taken to ensure an equitable representation of women in the entire Group in years past. The Supervisory Board set a quota of 30% for the Management Board, which has been met fulfilled for many years. In the 2015 elections the female employee representative candidates for the Supervisory Board did not achieve the necessary majorities, and in previous years, shareholders had only voted men onto the Supervisory Board as their representatives, so the proportion of women on the Supervisory Board cannot be increased until the next election in 2018. Against this background, at its meeting of 03 September 2015 the Supervisory Board determined a gender quota of 0%. Overall, TAG is well positioned in terms of the proportion of women at management levels. In the first and second tiers of management, the percentage of women in the entire Group is around 53% and 52% respectively. For further details, please refer to the Personnel report.

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 between TAG and TAG Colonia-Immobilien AG (formerly Colonia Real Estate AG) were particular the focus of such provisions until the entry into force of the control and profit and loss transfer agreement concluded between TAG Beteiligungs- und Immobilienverwaltungs GmbH, a wholly-owned subsidiary of TAG, and TAG Colonia-Immobilien AG come into effect on 13 September 2016. Nor were there any other conflicts of interest between the company and the members of the Supervisory Board or the Management Board, e.g. through the assumption of advisory or executive functions for third parties or business partners.

Reportable securities transactions and shareholdings of the Supervisory and Management Board

On the reporting dates of 31 December 2015 and 31 December 2016 the following shares were held by Board members:

	31 December 2016			31 December 2015		
Shareholders	**Shares (direct)**	**Shares (Remuneration programme)**	**Total**	**Shares (direct)**	**Shares (Remuneration programme)**	**Total**
Rolf Elgeti	20,000	–	20,000	90,000	–	90,000
Lothar Lanz	5,000	–	5,000	5,000	–	5,000
Dr Philipp K. Wagner	–	–	–	–	–	–
Dr Hans-Jürgen Ahlbrecht	4,500	–	4,500	2,000	–	2,000
Harald Kintzel	–	–	–	–	–	–
Marco Schellenberg	–	–	–	–	–	–
Total Supervisory Board	**29,500**	**–**	**29,500**	**97,000**	**–**	**97,000**
Claudia Hoyer	9,000	10,617	19,617	6,000	–	6,000
Martin Thiel	8,000	10,617	18,617	5,000	–	5,000
Dr Harboe Vaagt	10,085	10,617	20,702	10,085	–	10,085
Total Management Board	**27,085**	**31,851**	**58,936**	**21,085**	**–**	**21,085**
Total	**56,585**	**31,851**	**88,436**	**118,085**	**–**	**118,085**

During the 2016 financial year, shares were acquired by Dr Hans-Jürgen Ahlbrecht (2,500 shares), Claudia Hoyer (3,000 shares) and Martin Thiel (3,000 shares). During this period, shares were sold by Rolf Elgeti (70,000 shares).

The shares to which the Management Board is entitled under the remuneration programme comprise the company's treasury shares, which only become available to the Management Board after a three-year vesting period (see also the following explanations about the remuneration of the Management Board).

Remuneration of the Board

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

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

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 its development. The variable remuneration, which is calculated and determined by the Supervisory Board based on the result of a financial year, is paid out half in cash (in two instalments) and half in TAG shares, which are transferred to the Management Board after a three-year vesting period. This rule ensures that the variable remuneration and its level are also contingent on the sustainable and long-term development of the business.

For details, please refer to the explanatory notes in the detailed remuneration report for financial year 2016, which is included in the Management Report. Details about the indivudual compensations of the board members can be found in the Notes to the Consolidated Financial Statements in 'Other disclosure'.

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, as well as compliance. The Compliance Officer and the Internal Audit department report directly to the Management Board.

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

Brandenburg an der Havel (Brandenburg)

EPRA

EPRA REPORTING

EPRA (European Public Real Estate Association) is a non-profit organisation representing listed European real estate companies. It has more than 220 members including TAG Immobilien AG, which has been a member for more than 10 years. Although TAG's internal management process is currently not based on EPRA figures, with the exception of EPRA NAV, we are publishing the figures and calculations below prepared in accordance with the latest EPRA best practice recommendations (http://www.epra.com/regulation-and-reporting/bpr/). In doing so, TAG actively supports EPRA's initiative for uniform accounting and improved comparability of real estate companies' financials.

EPRA Earnings

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

in EUR m	2016	2015 (adjusted)
Net income	**200.7**	**147.3**
Fair value changes in investment properties and valuation of properties held as inventory	-163.1	-98.7
Deferred income taxes	43.6	28.5
Deferred income taxes on valuation result	-1.8	-20.1
Cash taxes on net revenues from sales	0.7	1.1
Fair value valuation of derivative financial instruments	0.3	2.5
Breakage fees bank loans and payments for early conversion of convertible bond	10.5	5.2
Cash dividend payments to minorities	-0.7	0.0
EPRA Earnings	**90.2**	**65.8**
Deferred income taxes (other than on valuation result)	0.7	-1.1
Other non cash financial result	2.9	4.3
One off's personnel costs and project costs	0.9	5.3
Depreciation/amortisation	3.0	3.1
Cash taxes on net revenues from sales	-0.7	-1.1
Adjusted EPRA Earnings (FFO I)	**97.0**	**76.3**
Weighted average number of shares (outstanding)	135.666	123.118
EPRA Earnings per share in EUR	**0.66**	**0.53**
Adjusted EPRA Earnings (FFO I) per share in EUR	**0.72**	**0.62**

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

EPRA NAV

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

in EUR m	12/31/2016	12/31/2015
Consolidated equity (before non-controlling interests)	1,350.9	1,085.1
Deferred income taxes on investment properties and derivative financial instruments	287.1	245.1
Fair value of derivative financial instruments	4.0	5.4
EPRA NAV	**1,642.0**	**1,335.6**
Potential effect from conversion	0.0	74.5
EPRA NAV (fully diluted)	**1,642.0**	**1,410.1**
Number of shares (outstanding)	142,344	125,469
Number of shares (outstanding, fully diluted)	142,344	134,986
EPRA NAV per share in EUR	**11.53**	**10.64**
EPRA NAV per share, fully diluted, in EUR	**11.53**	**10.45**

Brandenburg an der Havel (Brandenburg)

EPRA NNNAV

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

in EUR m	12/31/2016	12/31/2015 (adjusted)
EPRA NAV	1,642.0	1,335.6
Fair value of derivative financial instruments	-4.0	-5.4
Deferred income taxes	-287.1	-245.1
Difference between the fair value and book value of liabilities to banks and corporate bonds	-50.9	-70.7
Deferred income taxes	16.4	22.8
EPRA NNNAV	**1,316.4**	**1,037.2**
Potential conversion effect	0.0	74.5
Difference between the fair value and book value of convertible bonds	0.0	-4.7
Deferred income taxes	0.0	1.5
EPRA NNNAV (fully diluted)	**1,316.4**	**1,108.5**
Number of shares (outstanding)	142,344	125,469
Number of shares (outstanding, fully diluted)	142,344	134,986
EPRA NNNAV per share in EUR	**9.25**	**8.27**
EPRA NNNAV per share, fully diluted, in EUR	**9.25**	**8.21**

EPRA Net Initial Yield

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

in EUR m	12/31/2016	12/31/2015
Annualised net annual rental income on the reporting date	286.4	269.7
Non-rechargeable ancillary expenses	-10.1	-11.9
Rental income after non-rechargeable ancillary expenses	**276.3**	**257.8**
Market value of total real estate assets	3,856.6	3,577.9
Transaction costs deducted (acquisition costs)	57.0	52.4
Market value of total real estate assets (gross)	**3,913.6**	**3,630.3**
EPRA Net Initial Yield in %	**7.1**	**7.1**
EPRA 'topped up' Net Initial Yield in %	**7.1**	**7.1**

EPRA Vacancy Rate

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

in EUR m	12/31/2016	12/31/2015
Estimated rental income in December	25.1	24.2
Estimated rental income lost as a result of vacancies in December	1.6	1.8
EPRA Vacancy Rate in %	**6.3**	**7.4**

EPRA Cost Ratios

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

in EUR m	2016	2015 (adjusted)
Rental expenses	50.5	53.8
Other operating income	-6.4	-7.6
Personnel expenses	38.1	35.2
Other operating expenses	18.7	22.5
One-time items and project costs	-0.9	-5.3
EPRA costs incl. vacancy costs	**100.0**	**98.6**
Vacancy costs	-10.5	-10.6
EPRA costs excl. vacancy costs	**89.5**	**88.0**
Rental income	275.2	259.3
EPRA costs ratio incl. vacancy costs in %	**36.3**	**38.0**
EPRA costs ratio excl. vacancy costs in %	**32.5**	**33.9**

REPORT

GROUP MANAGEMENT REPORT 2016

I. Foundations of the Group

a) Overview and corporate strategy

TAG Immobilien AG ('TAG' in the following) is a Hamburg-based property company focused on the German residential real estate sector. The Group's properties are located in various regions of northern and eastern Germany and North Rhine-Westphalia. Overall, at 31 December 2016 TAG managed around 80,000 residential units compared with approx. 72,500 at the end of 2014. TAG shares are listed on the MDAX of the Frankfurt Stock Exchange; TAG's market capitalisation at 31 December 2016 was EUR 1.8bn.

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

In the current financial year, the existing business model was expanded by two fields. The founding of a multimedia company within the Group will improve the provision of multimedia to tenants, expanding the range on offer as part of real estate management. In addition, energy management was pooled in a subsidiary, and the Group entered into the supply of commercial heating to the Group's own portfolio in order to optimise energy management.

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

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

b) Group structure and organisation

TAG Immobilien AG heads an integrated real estate group. It performs the functions of a management holding company and in this capacity, performs Group-wide tasks for the entire group of companies. Central departments such as Finance, Accounting, Taxes, Controlling, Human Resources, IT, Procurement and Law 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.

At 31 December 2016, as in the previous year the Group consisted of around 70 fully consolidated companies. A complete overview of all companies in the Group is shown in the Notes to the consolidated financial statements.

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

This decentralised organisational structure ensures that LIMs are directly involved in the portfolios they supervise. They are responsible for budgets and cost compliance, as well as planning and carrying out measures to develop the portfolios. TAG has an LIM in each region who manages the entire portfolio there. The LIMs report directly to the Management Board (specifically the COO). The LIMs meet regularly to network, exchange ideas and ensure a consistent implementation of the centrally set corporate strategy and on the Management Board's decisions. The expertise and experience of the LIMs is regularly put to use in acquisitions and purchases. Beyond this, the central Strategic Property Management and Central Purchasing departments standardise processes, negotiate nationwide framework agreements, and review products and services across the Group.

To manage and control its business activities, TAG uses a management system that is constantly updated. Key operative indicators that are regularly determined and reported to the Management Board include the development of rental income and vacancy. Expenditures on maintenance and modernisation, as well as the cover contributions (rents minus rental expenses and certain personnel and material costs), are also calculated and reported. All key operative indicators are determined separately for each LIM region. For purposes of Group controlling, the development of net asset value (NAV) and funds from operations (FFO) in particular is regularly planned and reviewed. In addition to this, the loan to value (LTV) ratio is regularly calculated and reported to the Executive Board.

The Group's current liquidity situation is reviewed daily. Each month, a short- to medium-term liquidity plan is compiled, usually for a period of six months. Once a year, a long-term liquidity plan is drawn up for a period of three years. These measures safeguard the Group's financial stability. A regular determination of ongoing performance at the individual company and at Group level is part of this monitoring process, which is handled directly by the responsible Management Board member (CFO).

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

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

Research and Development

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

II. Business report

a) The overall economy

Germany's economy continued to be characterised by solid, increasing economic growth in 2016. Calculations by the Federal Statistical Office indicate that the annual average of the gross domestic product (GDP), adjusted for inflation, was 1.9% higher than the previous year, and thus once again above the 10-year average of 1.4%. The positive trend in the German economy was driven by the domestic economy, especially private and government consumption (+ 2.5%) and investment in construction (+ 3.1%). The net export of goods and services also rose (+ 2.5%).

The influx of refugees, the global economic environment, and demographic change present great challenges for the government, business, and society. The German government is focusing its economic and financial policy on stabilizing growth momentum and furthering its increasing growth potential. The unemployment rate at the end of the year was just 5.8%, down 0.6 percentage points year-on-year, with a record high number of people employed (43.7 m). At 0.5%, the inflation rate remained at a similarly low level as in the previous year (0.3%).

b) The German real estate market

Germany remains an attractive location and investment market for both residential and commercial real estate, especially when compared to the rest of Europe. Since 2009, the transaction volume has been rising steadily and in 2015 peaked at a new record of EUR 79 billion. In 2016, the transaction volume of EUR 66 billion was still well above the mean value of the past 11 years, but compared with the previous year it has declined, mainly because of the lack of large residential-property deals. Once again, the market was dominated by transactions in connection with the sale of office properties. In 2016, German investors were the most active buyer group, both in commercial real estate (57%) and residential real estate (75%) transactions.

c) The German residential property market

Last year, the total volume of the transaction market for residential real estate portfolios was EUR 13.7 billion (2015: record value of EUR 23 billion including the acquisition of Gagfah by Vonovia SE). The number of large-scale transactions has decreased overall. In the segment of portfolios containing more than 5,000 residential units, there were four transactions in 2016, compared with an average of eight over the past four years. Meanwhile, the number of transactions in the segment of portfolios containing fewer than 5,000 units increased slightly to 248 transactions in 2016 compared to an average of 240 in the past five years.

The fourth quarter of 2016 dominated the year's revenues: EUR 6.3 billion, or nearly half of the total transaction volume in 2016, was realised between October and December. This quarterly result was due mainly to two major transactions: the acquisition of Conwert by Vonovia SE, and the purchase of BGP's portfolio of approx. 16,000 residential units by a fund launched by Morgan Stanley, whose largest investors include the Chinese state fund, CIC. The strong closing quarter illustrates the great interest of domestic as well as increasingly international investors in the German residential investment market.

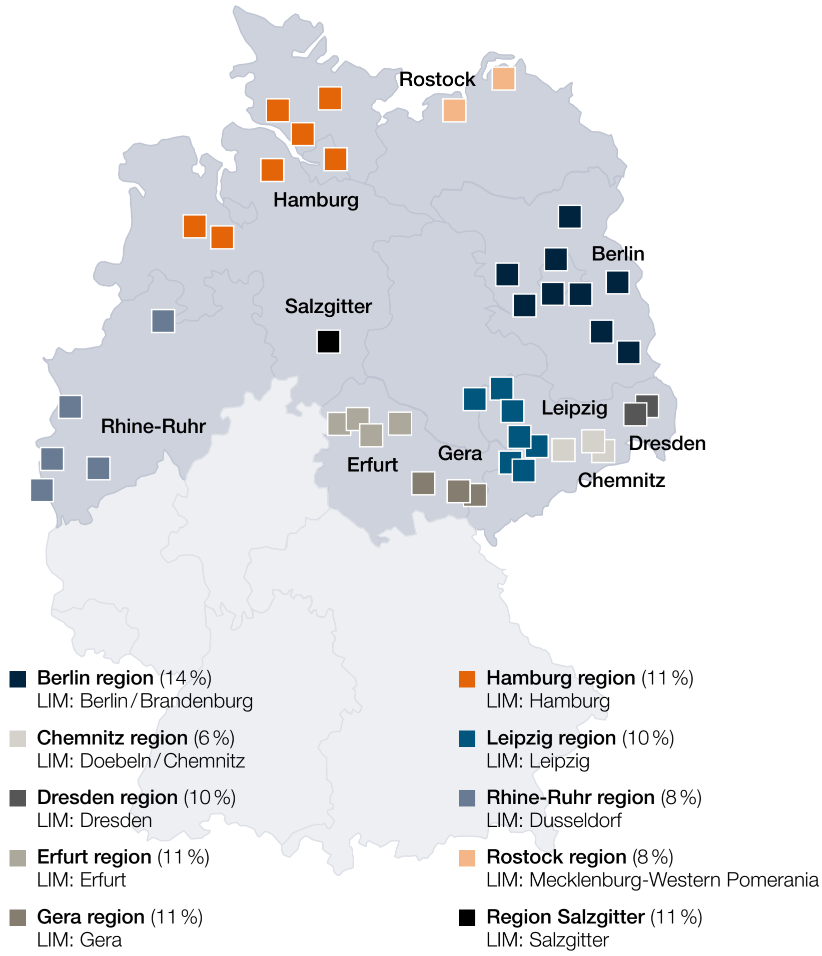
Due to the continued high demand coupled with low supply in the tight housing market, construction activity rose sharply last year. The number of residential building permits increased by 23% in the first ten months of 2016 compared to the previous year. This development is also reflected in the investment market: 21% of sales involved purchases of projects, as compared to just 9% in 2015. Due to the growing share of project development purchases, the average price per residential unit in 2016 rose most recently by more than 31% to around EUR 92,000.00. The changing offer also led to a shift on the part of investors. In previous years, the buyers were mainly real estate companies; last year, the leading buyers were specialised funds.

In addition to the increased interest in project developments, investors are increasingly focusing on alternatives to classic residential properties, such as student residences and microapartments. In 2016, there were about 8,100 flat sales in this area, with a total volume of more than EUR 900m.

d) Business performance and development of the TAG property portfolio and the individual regions

Overview

At the end of the 2016 financial year, the TAG Group's property portfolio comprised approx. 80,000 units (previous year 78,000). The focus remains on the management of attractive yet affordable housing, with great awareness of our social responsibility toward our tenants. The regional focus is mainly on northern and eastern Germany.



% acc: proportional IFRS book value real estate volume

Portfolio	at 31 Dec 2016	at 31 Dec 2015
Units	79,754	78,015
Rentable area in sqm	4,878,022	4,765,897
Real estate volume in TEUR	3,856,572	3,577,899
Annualised net actual rent in EUR m p.a.	286,434	269,722
Vacancy in % (total)	6.5	8.2
Vacancy rate in % (residential portfolio)	6.1	7.5
Like-for-like rental growth in %	2.0	1.6
l-f-l rental growth in % (incl. vac. reduction)	3.7	3.3

Portfolio strategy

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

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

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

Northern Germany (Hamburg and Salzgitter segments)

The Hamburg metropolitan region is one of Germany's most competitive regions. Good infrastructure, innovative companies and a skilled workforce are some of the factors contributing to the current growth of its economy. Hamburg's attractiveness is also reflected in its ongoing population increase. 5.1m people now live in the metropolitan area (Hansestadt Hamburg: about 1.8m inhabitants in December 2015). The unemployment rate in the city was 6.7% in December 2016.

Salzgitter is located in southeastern Lower Saxony, and in December 2016, had a population of about 106,000. Alongside many SMEs, a number of large international companies have locations in the region, including Salzgitter AG, Volkswagen, Alstom, and MAN, Bosch and IKEA, so that Salzgitter is one of Lower Saxony's leading industrial locations. Ostfalia University with more than 2,000 students, also contributes to the city's growing attractiveness. At the end of December 2016, the unemployment rate in Salzgitter was 10.2%.

Berlin and Brandenburg (Berlin segment)

Berlin continues to show strong population growth and a high rate of influx. More than 3.5 million now live in the city, and the trend continues upward, as the population is expected to grow to 3.8 million by 2030. Job creation in the economy continues to be strong, and there is still a strong demand for labour, as is reflected in the declining unemployment rate. In December 2016, unemployment in Berlin was 9.2%.

The residential market, especially in Berlin, continued to see considerable increases even in the first full year of the rent control policy adopted by the government in the spring of 2015 to counter the overstretched housing market and the ensuing rise in rents: The rise in rents and prices continued unabated, albeit with strong differentials between the individual city districts. In general, the supply of rental housing has declined significantly in almost all districts due to the strong population growth. The result is that the Brandenburg region is benefiting from Berlin's appeal thanks to its proximity to the city.

Other states in the former East Germany (Chemnitz, Dresden, Erfurt, Gera, Leipzig, and Rostock segments)

A look at the Eastern German housing markets reveals a trend reversal: the wave of outward migration has stopped in many cities. Major cities like Berlin, Leipzig, and Dresden have seen their populations surge in recent years, as have the state capitals of Erfurt and Magdeburg. Smaller university towns like Freiberg and Greifswald are attracting young people who want an urban lifestyle but cannot afford big-city rental prices. Over the past ten years, all of these cities have been above-average beneficiaries of the demand for housing, as the Housing Market Report for eastern Germany published by TAG in October 2016 shows.

Medium-sized cities in particular have enormous potential for development, as they are on a growth path and have positive future prospects. Places that had tended to suffer from massive population drain in the past are seeing growth in their population numbers. One aspect is that asylum seekers are swelling the population here as elsewhere. Another is that older people are increasingly abandoning their home villages and moving to the nearest town in search of better infrastructure and senior-friendly housing. For example, this has had a clearly positive effect on places like Merseburg and Dessau, which have recently benefited from increasing populations.

The eastern German economy is experiencing a moderate upturn. Adjusted for inflation, economic output is expected to grow by 1.6% in 2016 and by 1.3% in 2017. Positive impetus comes from the domestic economy, in particular from strong consumer demand.

Chemnitz is the third-largest city in Saxony and one of Germany‘s leading industrial and technology hubs. Sectors such as the automotive supply industry and mechanical engineering are now driving economic growth. Chemnitz had an unemployment rate of 7.9% in December 2016. In 2016, the city had a population of 246,000.

Erfurt, the capital of Thuringia with a population of around 210,000, has good infrastructural conditions, which contributes to its attractiveness as a business location, and is home to well-known companies such as Zalando, Siemens and Deutsche Post. Erfurt's unemployment rate was 6.6% in December 2016.

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 around 550,000. The university boosts its attractiveness and in business, the renewable energies sector is a main contributor. The city has become a top location in the areas of microelectronics, nanotechnology, new materials and life sciences. Unemployment at the end of December 2016 was 6.7%.

Gera's location in the triangle formed by the three states of Thuringia, Saxony and Saxony-Anhalt is a strong advantage in driving the city's development. Modern technology-driven companies – e.g. in the med tech, microelectronics, software engineering and optics industries – have already settled here due to low wages and labour costs, reasonable land and real estate prices, and low utility and disposal costs. The unemployment rate in this city, with a population of close to 100,000, was 9.8% at the end of December 2016.

Leipzig, a university and trade fair city in Saxony, is combining a wide range of activities to increase the economic efficiency of the city in the medium term. The city's economic strategy focuses on selected emerging industries: the automotive and supply industries, healthcare and biotechnology, energy and environmental technology, logistics, media, and the creative industries. Already developed sectors, represented among others by BMW and Porsche in the automotive sector, receive special support and make the location particularly future-proof. The unemployment rate in this city with a population of 590,000 was 7.9% at the end of December 2016.

With its location on the Baltic Sea and well-developed infrastructure, Rostock is an attractive business location. The regional catchment area of the university and port city covers a radius of 50km and about 500,000 inhabitants (Hansestadt Rostock has a population of 207,000). Rostock is regarded as a centre for interregional trade, administration, trade shows, culture, education, and services. The unemployment rate in the Rostock region was 7.2% at the end of December 2016.

North Rhine-Westphalia (Rhine-Ruhr segment)

Germany's westernmost state, North Rhine-Westphalia, is still the country's most populous with a population of approx. 17.6 million. With GDP at EUR 645.6 billion, NRW generates 21.3% of Germany's total gross domestic product, putting it clearly in the forefront of the federal states. As Germany's core industrial region, it is home to international corporations, but also to many SMEs, including retail companies such as Aldi, Metro and Rewe. The unemployment rate was 7.4% in December 2016.

Vacancy

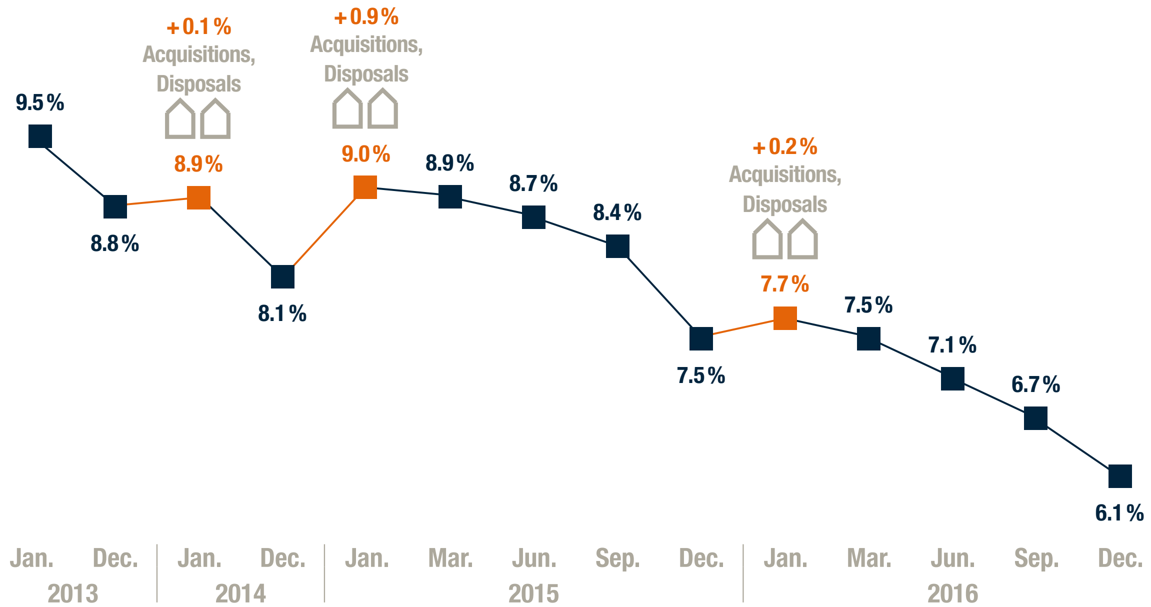
As in the 2015 financial year, very positive developments were recorded in vacancy reduction this year. Vacancy in the Group's residential units was reduced from 7.7% at the beginning of 2016 to just 6.1% at year end. This represents a reduction of 1.6 percentage points, surpassing the success of the previous year (a decrease of 1.5 percentage points).
In December 2016, vacancy across the portfolio was 6.5%, following 8.2% at the beginning of the year.

We thus significantly exceeded the forecast we issued last year, which stipulated a vacancy reduction of 1.0% across the Group's residential units. Nearly all of the regions TAG operates in contributed to this satisfactory result, as the following chart illustrates:

Salzgitter	from 12.1 % to 7.5 %	-4.6 percentage points
Chemnitz	from 15.6 % zu 13.1 %	-2.5 percentage points
Erfurt	from 4.3 % zu 2.6 %	-1.7 percentage points
Leipzig	from 5.9 % zu 4.5 %	-1.4 percentage points
Gera	from 10.9 % to 9.7 %	-1.2 percentage points
Rostock	from 5.4 % to 4.4 %	-1.0 percentage points
Dresden	from 4.7 % to 3.8 %	-0.9 percentage points
Hamburg	from 5.1 % to 4.3 %	-0.8 percentage points
Rhine-Ruhr	from 3.9 % to 3.5 %	-0.4 percentage points
Berlin	from 6.7 % to 6.8 %	+0.1 percentage points

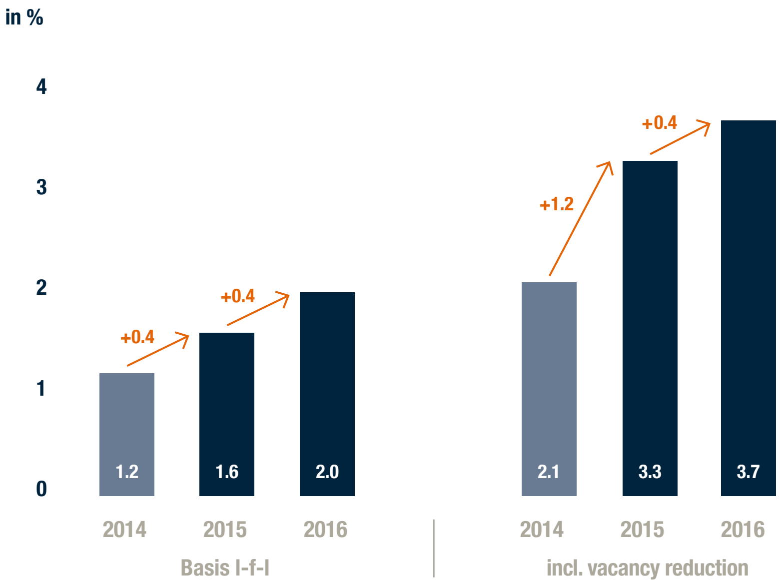
Major vacancy reductions were achieved, particularly in the regions of Salzgitter (vacancy reduction of 4.6 percentage points), Chemnitz (-2.5 percentage points) and Erfurt (-1.7 percentage points). Only the Berlin region showed a slight increase in vacancy (up 0.1% percentage points) during the year. This is attributable to the acquisition of around 1,800 residential units in the city of Brandenburg, which had a higher vacancy rate of 18.6% at the end of 2015, and which initially had to be restructured in their first year under TAG management.

The following graphic illustrates the development of vacancy over time from FY 2013 to 2016:



Growth in rents

Growth in rents from the Group's residential units amounted to 2.0% on a like-for-like basis (i.e. not including acquisitions and sales of the previous twelve months) in FY 2016, after 1.6% in the previous year. If one includes the effects of the vacancy reduction, overall rental growth on a like-for-like basis amounted to 3.7% (previous year: 3.3%). Thus, the previous year's forecasts were also exceeded in reference to rental growth, for which a like-for-like increase in rents of 1.5% was stipulated, or 2.5%, including the effects of vacancy reduction. The following chart shows rental growth over the past three financial years:



Average rent in the portfolio's residential units increased from EUR 5.04 per sqm to EUR 5.11 per sqm in 2016. New lettings were made at an average of EUR 5.40 per sqm in December 2016. This, too, reflects an increase over the previous year (EUR 5.32 per sqm).

The portfolio in detail

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

Region	Units	Rentable area sqm	IFRS BV TEUR	in-place yield	Vacancy Dec. 2016 %	Vacancy Dec. 2015 %	Current net cold rent EUR/sqm	Reletting rent EUR/sqm	I-f-I rental growth (y-o-y) %	I-f-I rental growth (y-o-y) % incl. vacancy reduction	Maintencance EUR/sqm	Capex EUR/sqm
Berlin	9,879	570,595	521,972	6.4	6.8	5.1	5.26	5.77	2.4	2.8	4.32	10.41
Chemnitz	6,459	371,851	226,545	8.1	13.1	15.8	4.73	5.17	2.4	5.4	5.81	21.73
Dresden	6,192	402,132	374,822	6.7	3.8	2.7	5.40	5.49	1.1	2.0	3.46	4.73
Erfurt	8,313	468,688	407,666	6.8	2.6	4.3	5.06	5.52	1.7	3.5	3.10	8.79
Gera	9,597	560,022	382,828	7.6	9.7	11.1	4.78	5.15	2.1	3.4	4.96	7.62
Hamburg	7,218	441,749	387,484	7.0	4.3	5.5	5.32	5.85	2.0	2.6	6.74	9.45
Leipzig	8,473	501,800	372,873	7.7	4.5	5.6	5.02	5.32	2.8	4.2	4.51	4.85
Rhine-Ruhr	4,894	316,052	288,018	6.8	3.5	2.2	5.32	5.38	1.3	1.9	10.24	5.33
Rostock	5,469	325,096	272,806	7.2	4.4	5.2	5.27	5.14	1.4	2.5	4.66	14.92
Salzgitter	9,173	562,960	407,632	7.7	7.5	12.1	5.01	5.37	2.4	7.8	7.52	13.78
Total residential units	**75,667**	**4,520,944**	**3,642,646**	**7.1**	**6.1**	**7.5**	**5.11**	**5.40**	**2.0**	**3.7**	**5.41**	**10.00**
Acquisitions	2,612	152,142	111,771	7.6	4.2	10.6	4.87	4.79			1.59	0.99
Commercial units within resi. portfolio	1,248	159,573			17.5	17.7	7.57					
Total residential portfolio	**79,527**	**4,832,659**	**3,754,417**	**7.5**	**6.5**	**8.1**	**5.17**	**5.40**			**5.11**	**9.39**
Other*	227	45,363	102,155	5.8	11.6	12.3	12.25				5.86	24.99
Grand total	**79,754**	**4,878,022**	**3,856,572**	**7.4**	**6.5**	**8.2**	**5.23**	**5.40**			**5.12**	**9.53**

* Includes six commercial properties and three serviced apartments

**Incl. effects from changes in vacancy

Annual revaluation of the real estate portfolio

The valuation of all of TAG's real estate is carried out as at 30 September of a given year by an independent expert (CBRE) using the discounted cashflow procedure. Significant market developments and valuation parameters that influence the fair values are reviewed and adjusted if necessary. The main valuation parameters and valuation results are as follows:

Region (in EUR m)	12/31/2016 Fair Value (IFRS)	12/31/2016 Fair Value (EUR/sqm)	12/31/2016 implied multiple	2016 Revaluation gain/loss	2016 Share of yield compression	2016 Share of operational performance/other market developments	2016 Capex	2016 Net acquisitions and other movements	12/31/2015 Fair Value (IFRS)	12/31/2015 Fair Value (EUR/sqm)	12/31/2015 implied multiple
Berlin	522.0	864.5	14.6	30.1	21.4	8.7	5.9	39.3	446.6	844.8	14.1
Chemnitz	226.5	585.6	12.0	3.0	0.0	3.0	8.1	0.6	214.9	555.8	12.0
Dresden	374.8	902.9	14.4	26.1	15.1	10.9	1.9	45.9	300.9	941.0	14.2
Erfurt	407.7	830.4	13.8	20.6	9.1	11.5	4.1	22.7	360.2	796.2	13.6
Gera	382.8	651.5	12.7	6.2	0.0	6.2	4.3	-0.2	372.6	631.9	12.8
Hamburg	387.5	860.4	13.8	19.1	6.8	12.3	4.2	54.3	310.0	814.6	13.3
Leipzig	372.9	725.0	12.4	11.0	3.2	7.8	2.4	25.9	333.6	692.3	12.4
Rhine-Ruhr	288.0	860.6	13.7	7.5	4.9	2.5	1.7	37.1	241.8	931.7	14.1
Rostock	272.8	827.4	13.6	7.9	1.7	6.2	4.8	9.1	251.0	787.8	13.2
Salzgitter	407.6	722.0	12.7	24.6	1.9	22.7	7.8	0.0	375.2	664.5	12.6
Total residential units	**3,642.6**	**778.7**	**13.4**	**156.0**	**64.2**	**91.9**	**45.2**	**234.6**	**3,206.8**	**748.8**	**13.2**
Acquisitions	111.8	722.4	13.0	4.5	4.5	0.0	0.2	-172.8	279.8	626.9	11.9
Total residential portfolio	3,754.4	776.9	13.4	160.6	68.7	91.9	45.4	61.8	3,486.7	737.3	13.1
Other	**102.2**	**2,251.9**	**17.3**	**2.5**	**0.9**	**1.6**	**1.1**	**7.3**	**91.2**	**2,454.8**	**22.7**
Grand total	**3,856.6**	**790.6**	**13.5**	**163.1**	**69.6**	**93.5**	**46.5**	**69.1**	**3,577.9**	**750.7**	**13.2**

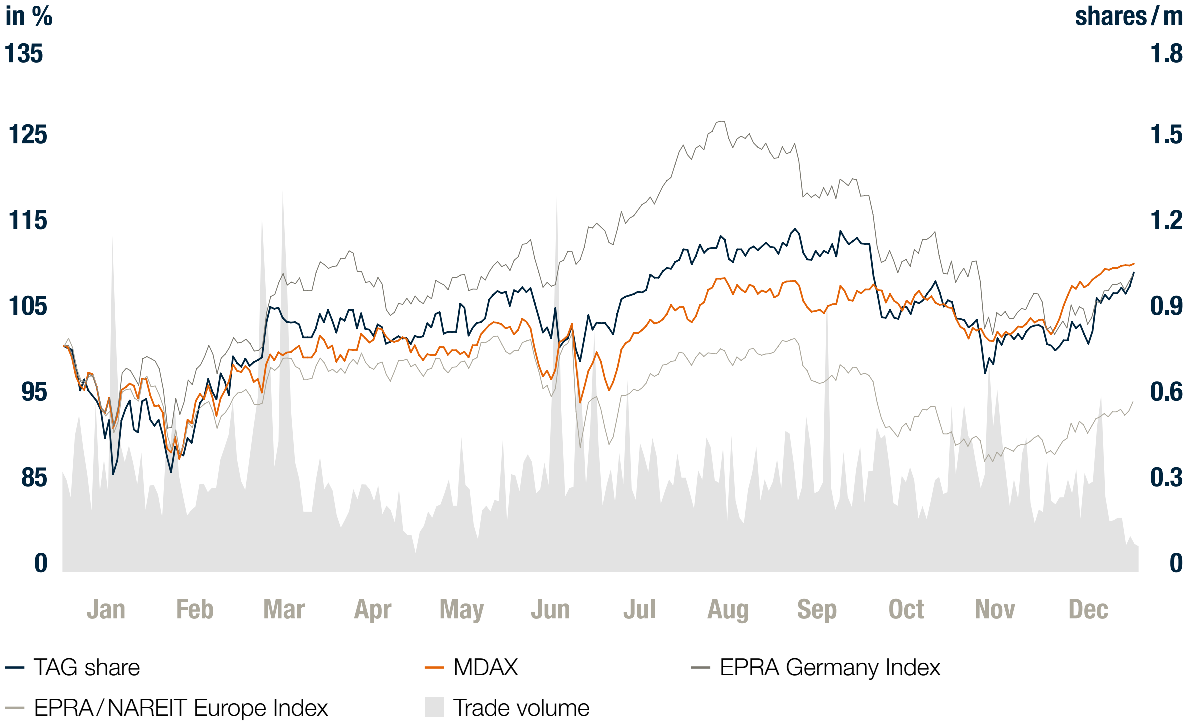
At EUR 163.1m, a significantly higher valuation gain was achieved in FY 2016 than in the previous year (EUR 98.9m). As in the previous year, a substantial gain of EUR 93.5m was caused by increased expectations of future rents and future vacancy reduction, partly on account of market conditions (sustainable market rent increases), and partly due to operational (over-) performance. In financial year 2016, for the first time a significant valuation gain of EUR 69.6m was also attributable to 'yield compression' (i.e. reduced valuation interest rates year-on-year).

As a result, the portfolio's valuation multiplier (ratio of the IFRS book value to the actual rent) rose from 13.2 at the end of 2015 to 13.5 at 31 December 2016. In price per sqm, the total portfolio is now valued at EUR 790, compared with approx. EUR 750 as at 31 December 2015.

e) The TAG share and the capital market

At the end of the 2016 financial year, the MDAX-listed TAG share traded at EUR 12.56, reflecting a 9% increase (previous year: 20%) over the share price of EUR 11.50 at the beginning of the year. If one also takes into account the dividend of EUR 0.55 per share paid out in June 2016, the Group's overall share performance was +14% (previous year: +25%).

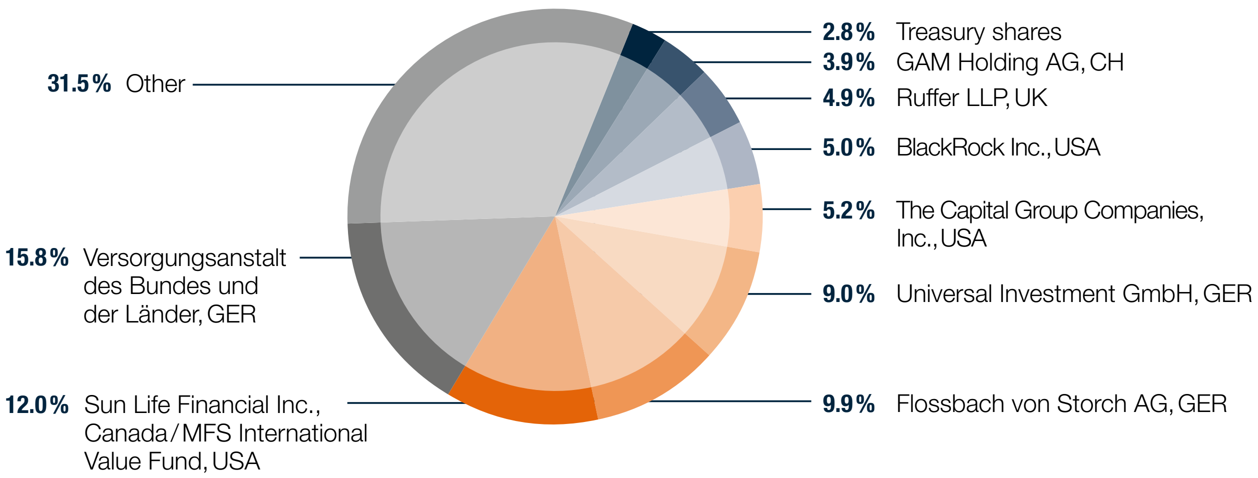
This put the share well above the benchmark indices: while the MDAX also developed positively at +9% in financial year 2016, the EPRA index, comprised of various European real estate companies listed on international stock exchanges, showed a slightly negative trend at -7%, while the index for German real estate companies (EPRA Germany) rose by 8%.



TAG's market capitalisation was EUR 1.8 billion on 31 December 2016, compared to EUR 1.6 billion on 31 December 2015. Besides the higher share price, this increase also resulted from an increase in the number of shares as at the reporting date following the early conversion of TAG's last outstanding convertible bond.

The share capital and number of shares at 31 December 2016 was EUR 146,498,765.00 and 146,498,765, respectively, to compared with 136,596,330.00 and 136,596,330 at 31 December 2015. Due to the early conversion of a convertible bond issued by TAG in 2012 that was originally to mature in 2019, the share capital increased by EUR 9,902,435.00 in Q3 2016.

Free float at the reporting date was 97.2% of the share capital; 2.8% of the share capital (4.16m shares) is held by TAG as treasury shares. As before, national and international investors with a predominantly long-term investment strategy make up the majority of TAG shareholders.



The highest closing price of the TAG share in 2016 was EUR 13.15 on 7 September 2016 and the lowest was EUR 9.85 on 20 January 2016. The average daily trading volume on XETRA in 2016 was 356,827 shares.

Placement of 5m treasury shares in March 2016

In March 2016, TAG successfully placed 5,000,000 treasury shares with institutional investors by way of an accelerated book-building process. The shares were offered at EUR 11.65 per share, which represented a 6.1% premium on the share's 3-month volume weighted average price (VWAP) and a 9.5% premium on the EPRA NAV per share of EUR 10.64 per share as of 31 December 2015. The shares had been repurchased in the autumn of 2014 for EUR 9.30.

This transaction led to gross proceeds of EUR 58.3m, which the Company can use for future acquisitions.

Dividend payment in June 2016

TAG lets its shareholders participate substantially in the company's success by continually paying an attractive dividend. At the Annual General Meeting in June 2016, a dividend of EUR 0.55 per share for the 2015 financial year was approved and paid out, following EUR 0.50 per share in the previous year.

Early conversion of a convertible bond in July and August 2016

Due to the early conversion in July 2016 of the last outstanding convertible bond (2012/2019 convertible bonds), which had a coupon of 5.5% p.a., TAG was able to reduce its LTV by around 1.7 percentage points in the third quarter. This will also result in future interest savings of EUR 4.1m per year. 94% of the convertible bond holders accepted the early conversion offer. The remaining EUR 4.4m nominal value of the bond was converted with a cleanup call, and most of it (EUR 3.9m) converted into shares in August 2016. The remaining balance (nominal volume of EUR 0.5m) was repaid.

Purchase of TAG Colonia-Immobilien AG shares, conclusion of a controlling and profit-and-loss transfer agreement with Colonia Real Estate AG, cash compensation offer to its external shareholders, and delisting of the Colonia share

In March 2016, TAG acquired a further 2.95m of TAG Colonia-Immobilien AG („Colonia", formerly Colonia Real Estate AG) shares in exchange for 2.03m TAG treasury shares, and consequently increased its shareholding in Colonia from 93.2% at 31 December 2015 to 93.9%. At the beginning of July 2016, 5.1% of the shares were sold to an institutional investor, reducing TAG's shareholding to 88.8%. At 31 December 2016, the shareholding was 89.2% following the acquisition of additional shares under the cash compensation offer set out below.

On 15 July 2016, a controlling and profit-and-loss transfer agreement was concluded between Colonia Real Estate AG (Colonia) and TAG Beteiligungs- und Immobilienverwaltungs GmbH (TAG BI), a wholly owned subsidiary of TAG. This agreement came into effect upon its entry into Colonia's commercial register on 13 September 2016.

In this connection, on 15 September 2016 TAG BI made an offer to Colonia's other outside shareholders (remaining 6.1% of the voting rights) to acquire their shares for cash compensation of EUR 7.19 per Colonia share. Alternatively, shareholders who did not make use of this offer were assured compensation in the form of a guaranteed annual dividend of EUR 0.20 (net settlement amount) per Colonia share for the duration of the controlling and profit-and-loss transfer agreement.

The cash compensation offer ended in December 2016. To review the adequacy of the cash settlement and compensation payment, a number of minority shareholders lodged an appeal, the duration of which is difficult to estimate, although the litigation can be expected to drag on for several years. For the duration of the appeals process, minority shareholders of TAG BI may continue to tender the Colonia shares they hold at a price of EUR 7.19 per share. Colonia's existing listing in the Entry Standard of the Frankfurt Stock Exchange (open market) was terminated on 27 October 2016.

This structure secures future tax benefits for the TAG Group, as Colonia's profits and losses can be offset against the results of other TAG companies in the future, and the full business expense deduction for interest expenses will be secured long term through the integration of Colonia into the TAG tax entity. Besides these positive tax effects, the delisting of Colonia also sustainably simplifies the structure of the TAG Group.

f) Acquisitions and sales during the financial year

Acquisitions

The acquisitions that closed during the financial year are summed up in the following table:

Closings	Thuringia/ Saxony-Anhalt Nov. 2016	Thuringia Dec. 2016	Saxony-Anhalt Dec. 2016	NRW Dec. 2016	Total FY 2016
Units	353	887	303	107	1,651
Rentable area in sqm	20,370	48,803	18,246	9,369	96,788
Current net cold rent EUR/sqm/month	4.42	4.66	4.66	4.68	4.61
Vacancy in %	11.0	2.7	8.5	1.0	5.4
Purchase price in EUR m	11.1	34.3	11.7	6.5	63.6
Current net cold rent EUR m p.a.	0.96	2.66	0.96	0.54	5.12
Location	Erfurt, Altenburg	Gotha	Dessau	Hemer/Iserlohn	
Closed	Dec. 2016	Dec. 2016	Dec. 2016	Dec. 2016	
Multiples	11.6×	12.9×	12.2×	12.1×	12.4×

The transfer of benefits and encumbrances for a portfolio of 972 residential units acquired in December 2015 was completed at 31 January 2016. Located in Saxony, the portfolio is concentrated mainly in the cities of Chemnitz (approx. 70% of the units) and Riesa near Dresden (approx. 20%). The residential units cover an area of around 57,100 sqm and had a vacancy rate of approx. 3.8% as of the purchase date. The purchase price of EUR 39.5m reflects a factor of 11.8 x of the year‘s net rental, or a gross initial yield of 8.5%.

Sales

There were no disposals of larger portfolios in 2016. Disposals were concentrated on the sale of individual flats, apartment buildings, and separate commercial properties.

In the past financial year, a total of 717 apartments were sold (previous year: 679), with a net rent of EUR 2.3m (previous year: EUR 3.4m). Together, their sales prices amounted to EUR 37.3m (previous year: EUR 64.6m), with a book profit of EUR 5.1m (previous year: EUR 3.9m). The net liquidity inflow from these sales was EUR 25.8m (previous year: EUR 35.3m) following the repayment of the associated bank loans. These sales closed at various times during the 2016 financial year.

In the commercial real estate sector, the sale of two properties was registered (previous year: none) with an annual net rent of EUR 1.1m. The sales prices as well as the net liquidity inflow totalled EUR 12.4m, with a book profit of EUR 0.2m. These two sales were concluded at the beginning of the 2017 financial year.

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

Results of operations

Preliminary note
As a result of the deconsolidation of TAG Gewerbeimmobilien GmbH on 30 May 2014, the provisions of IFRS 5 for 'discontinued operations' were applied for financial year 2014. Therefore, all income and expenses, including sales profits, attributable to the discontinued operation were included under 'Earnings after tax of the discontinued operation' in the consolidated income statement. In the 2016 financial year, no income and expenses were recorded that would have been allocated to discontinued operations.

Rental revenues and net rental income
During FY 2016, TAG again significantly increased its rental income. Besides the positive effects from rental growth and vacancy reduction, the residential portfolios newly acquired in 2015 and taken over in 2016 also contributed to this development. In all, rental revenues increased from EUR 259.3m to EUR 275.2m.

As a result of the increased rental income, the Group's rental profit – i.e. rental income net of expenses for property management from continuing operations – also improved from EUR 205.5m in the previous year to EUR 224.7m in 2016. The margin also improved year-on-year to 81.6% (previous year: 79.2%).

The highest rental income in 2016 was generated in the Berlin (region) segment, with EUR 35.4m (previous year: EUR 32.1 m), and the lowest in the Rhine-Ruhr and Rostock regions with EUR 20.9m (2015: EUR 18.5m) and EUR 19.8m (2015: EUR 18.7m), respectively. After deducting maintenance costs and directly allocable staff and materials costs, the segment results amounted to EUR 26.1m (2015: EUR 22.9 m) in the Berlin region, and to EUR 12.9m and 13.9m (2015: EUR 12.4m and EUR 12.6m) in the Rhine-Ruhr and Rostock regions, respectively.

Net revenues from sales of investment properties and properties held as inventories

At EUR 51.4m, revenues from the sale of inventory and investment properties were well below the previous year's EUR 200.1m. The major sales of financial year 2016 involved individual flats and apartment houses. The previous year's higher revenues were mainly due to a package sale in the Berlin region and the sale of the mixed-use commercial complex in Stuttgart's Südtor district.

Besides the book profits, the net revenues from sales also include commission expenses of EUR 0.9m (previous year: EUR 1.0m) for ongoing sales; allocations to accruals for compensation risks and litigation costs from building projects and sales from previous years of EUR 1.3m (previous year: EUR 1.1 m); and selling costs, e.g. redemption fees for obligations to restore, and registry costs, of EUR 0.1m (previous year: EUR 1.5 m).

Other operating income

Other operating income decreased year-on-year to EUR 6.4m (2015: EUR 7.6m). The decline is partly attributable to lower reversals of provisions.

Revaluations

The revaluation of investment properties and the first-time valuation of newly acquired properties, as well as fair value measurement effects for real estate held as inventory, resulted in an overall positive valuation result of EUR 163.1m in 2016 (previous year: EUR 98.7m). While the revaluation result of newly acquired properties, at EUR 3.7m, was well below the previous year's level of EUR 36.9m, the annual revaluation of the existing portfolio resulted in a clear profit increase to EUR 161.5m (previous year: EUR 61.8m). Apart from the very positive operating performance of TAG's real estate portfolio, for the first time the increase reflects a significant effect from 'yield compression'.

Personnel expenses

Personnel expenses increased during the reporting period to EUR 38.1m (previous year: EUR 35.2m). This is mainly due to the increase in the number of employees due to the company's growth, and especially the further expansion of the in-house caretaker and handyman services.

In this connection, a total of EUR 15.0m (previous year: EUR 14.5m) in personnel expenses is allocated to individual segments. No significant differences were seen in the personnel expenses of the individual segments. The Gera region had the highest personnel expenses, at EUR 2.2m (previous year: EUR 2.2m).

Other operating expenses

At EUR 18.7m, other operating expenses remained slightly below the previous year's level of EUR 22.5m. They mainly refer to legal, consulting and audit costs, advertising costs, IT costs, ancillary costs of monetary transactions, rental costs for leased business premises, car and travel expenses, and communications costs.

Of this, a total of EUR 1.9m (previous year: EUR 1.8m) in directly allocable expenditures are assigned to the individual segments. There were no significant differences between the individual segments, and the Berlin region also had the highest expenses at EUR 0.4m (previous year: EUR 0.4m).

Depreciation/amortisation of inventories and receivables

The amortisation of intangible assets and property, plant and equipment of EUR 3.0m (previous year: EUR 3.1 m) relate exclusively to depreciation, mainly to IT software and the Group's own owner-occupied properties, which are to be accounted for at amortised cost according to IFRS.

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

The overall financial result, i.e. the result of investment income, income from associated companies, depreciation on financial assets, interest income and interest expenditure, was EUR -89.5m (previous year: EUR -96.0m). Eliminating non-recurring effects in the form of breakage fees in connection with sales, and the early repayment of bank loans and non-cash gains or losses from derivatives and corporate or convertible bonds, leads to a P&L financial result (cash) excluding special items of EUR -75.8m for FY 2016 after EUR -84.5m in 2015.

This development clearly shows the further improvement in financing costs achieved in 2016. The average interest rate on bank loans was reduced to 2.82% on 31 December 2016 (previous year: 3.11%); the total cost of borrowing at the reporting date was 3.15% following 3.45% at the end of the previous year.

At EUR -0.3m, the sum total of income from investments, equity earnings from associated companies, and impairment of financial assets was not material, as in the previous year (EUR -0.2 m).

EBT

The Group forecast earnings before taxes (EBT) of EUR 76.0m to EUR 77.0m or EUR 0.61 per share for financial year 2016 (excluding fair value changes in investment properties and valuation of properties held as inventory, and also excluding expenses from derivative financial instruments). In the 2016 financial year, TAG generated EBT excluding fair value changes in investment properties and valuation of properties held as inventory, and also excluding expenses from derivative financial instruments, of EUR 87.8m, or EUR 0.65 per share. The increase was fuelled mainly by the improved rental income and the net revenues from sales.

Taxes on income

Taxes on income and earnings amounted to EUR -46.0m in 2016, compared with EUR -27.7m in 2014. The proportion of actual tax expenses in 2016 is EUR -1.7m (previous year: tax income of EUR 0.4 m), the remaining expenses of EUR 44.3m (previous year: 27.3m) relate to non-cash deferred taxes, primarily from the valuation of investment properties and from value adjustments to deferred taxes on tax loss carryforwards.

Consolidated net profit

Overall, in the 2016 financial year TAG achieved consolidated net profit of EUR 200.7m (previous year: 147.3m). The main reasons for the significant increase in consolidated net profit were the EUR 19.2m improvement in net rental income, the EUR 64.4m increase in valuation, and a EUR 6.5m improvement in the financial result. Meanwhile, the net revenues from sales, which were EUR 18.3m lower than in the previous year, showed a negative development, as did the deferred tax expenses, which increased by EUR 17.0m.

Adjusted EBITDA

For the 2016 financial year, the adjusted EBITDA (not including net revenues from sales)/EBITDA margin in relation to income from rental activities was as follows:

in EUR m	2016	2015
EBIT	**336.2**	**271.1**
Valuation result	-163.1	-98.7
Depreciation	3.0	3.1
One-off personnel costs and project costs	0.9	5.3
Net revenues from sales	-1.8	-20.1
EBITDA (adjusted)	**175.2**	**160.7**
Rental revenues	275.2	259.3
EBITDA Margin (adjusted)	**63.7 %**	**62.0 %**

The increase in adjusted EBITDA and the improved EBITDA margin can mainly be attributed to the rise in rental income against a relatively lower cost ratio.

Funds from Operations (FFO)

FFO I is calculated based on the Group's consolidated EBT, adjusted for non-cash items, such as evaluation results, depreciation, amortisation (without an adjustment for impairment losses on rent receivables), non-cash interest expense and without regularly recurring special effects, and then deducting current tax income. FFO I is also adjusted for proceeds from sales.

AFFO (Adjusted Funds From Operations) is based on FFO I, but minus the capitalised investments in the portfolio holdings ('Capex').

FFO II is based on FFO I and additionally takes into account the balance sheet profit from property sales. The number of shares outstanding was calculated as a weighted average.

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

in EUR m	FY 2016	FY 2015	Q4 2016	Q3 2016
Net income	**200.7**	**147.3**	**26.6**	**134.0**
Taxes	46.0	27.8	0.1	40.6
Net financial result	89.5	96.0	18.8	27.4
EBIT	**336.2**	**271.1**	**45.5**	**202.0**
Net financial result (cash, after one offs)	-75.8	-84.0	-18.0	-18.0
Cash taxes	-1.7	-0.4	-1.2	-0.5
Adjustments				
Valuation result	-163.1	-98.7	0.6	-159.7
Depreciation	3.0	3.1	0.8	0.7
Dividend payments to minority shareholders	-0.7	0.0	-0.7	0.0
One-offs personnel-costs and project costs	0.9	5.3	0.0	0.1
Net revenue from sales	-1.8	-20.1	0.0	-0.1
FFO I	**97.0**	**76.3**	**27.0**	**25.0**
Capex	-46.5	-40.1	-11.6	-13.6
AFFO	**50.5**	**36.2**	**15.4**	**11.4**
Net revenue from sales	1.8	20.1	0.0	0.1
FFO II (FFO I + net revenue from sales)	**98.8**	**96.4**	**27.0**	**25.1**
Weighted average number of shares outstanding (in '000)	135,653	123,118	142,344	140,853
FFO I per share in EUR	**0.72**	**0.62**	**0.19**	**0.18**
AFFO per share in EUR	**0.37**	**0.29**	**0.11**	**0.08**

FFO I increased significantly year-on-year in 2016, both in absolute terms (from EUR 76.3m to EUR 97.0m) and on a per-share basis (from EUR 0.62 to EUR 0.72). The quarter-by-quarter development of FFO I in 2016 at EUR 21.6m in Q1, EUR 23.3m in Q2, EUR 25.0m in Q3 and finally EUR 27.0m in Q4, illustrates the steadily positive development of TAG's operating business.

In the previous year, the Group had originally forecast FFO I of EUR 0.67 per share for financial year 2016, which corresponds to an absolute FFO I of between EUR 84.0m and EUR 85.0m. The main reasons for this were better-than-expected developments in the rental income and the financial result.

Asset position

Assets

The total assets at 31 December 2016 were EUR 4.0 billion after EUR 3.8 billion at 31 December 2015. In addition to investment properties of EUR 3,777.8m (previous year: EUR 3,531.1m), the Group's total real estate assets also included properties reported under property, plant and equipment totalling EUR 10.1m (previous year: EUR 10.3m); inventories of EUR 51.7m (previous year: EUR 12.8 m); and real estate reported under non-current assets held for sale of EUR 17.0m (previous year: EUR 23.7 m). At 31 December 2016, total real estate assets amounted to EUR 3,856.6m, as compared to EUR 3,577.9m at the end of the previous year.

Cash and cash equivalents at 31 December 2016 totalled EUR 74.5m compared to EUR 103.8m at 31 December 2015. In addition, at the reporting date there were liquid assets from sales of EUR 0.0m (previous year: EUR 16.2 m) in the form of deposits in escrow accounts on the Group‘s behalf.

Investments and Capex reporting

In the 2016 financial year, TAG further strengthened its residential real estate portfolio with acquisitions, and signed contracts for the acquisition of 1,650 units (previous year: 5,300) for a total purchase price of EUR 63.6m (previous year: EUR 158.7m).

Beyond this, in 2016 TAG invested around EUR 71.5m (previous year: EUR 65.3m) in its residential portfolio for routine maintenance and for modernisation/renovation. A total of EUR 25.0m was spent on maintenance recognised as expenses (previous year: 25.2m), and EUR 46.5m on capitalisable investment (previous year: EUR 40.1m).

in EUR m	2016	2015
Large-scale projects (e.g., modernization of entire residential complexes)	20.3	14.0
Modernisation of apartments		
Previously vacant apartments	17.0	16.4
Change of tenants	9.2	9.6
Total expenditures for modernisation	**46.5**	**40.1**

As in the previous year, during the year under review no modernisation expenses were incurred for developments.

Total investments (ongoing maintenance recognised in profit and loss and capitalised renovation and modernisation) in the Group's residential units amounted to EUR 15.41 per sqm in 2016, following EUR 15.15 per sqm in the previous year, and to EUR 14.65 per sqm across the whole portfolio (previous year: EUR 14.61 per sqm).

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

Financial position

Equity

In the 2016 financial year, various measures were taken to strengthen the equity base. At the beginning of the financial year, the placement of 5m treasury shares increased shareholders equity by a total of EUR 58.3m. In June, a dividend payment in the amount of EUR 72.9m was made for the 2015 financial year. The early termination of the convertible bond and the conversions made in the third quarter of 2016 increased equity by EUR 71.0m.

Taking into account the significantly higher consolidated net profit compared to the previous year, equity as at 31 December 2016 totalled EUR 1,365.6m (31 December 2015: EUR 1,120.6m). The equity ratio in FY 2016 was 34.0%, following 29.5% at the end of the previous year.

Net Asset Value (NAV)

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

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

in EUR m	12/31/2016	09/30/2016	12/31/2015
Equity (excl. minority shareholders)	**1,350.9**	**1,324.7**	**1,085.1**
Deferred taxes	287.1	287.8	245.1
Fair value of financial derivatives	4.0	2.0	5.4
EPRA NAV	**1,642.0**	**1,614.5**	**1,335.6**
Standardized transaction costs	-225.4	-220.9	-207.6
EPRA NAV (incl. standardized transaction costs)	**1,416.6**	**1,393.6**	**1,128.0**
Number of shares outstanding (in '000)	142,344	142,344	125,469
EPRA NAV per share (EUR)	**11.53**	**11.34**	**10.64**
EPRA NAV per share (EUR) (incl. standardized transaction costs)	**9.95**	**9.79**	**8.99**

The Group had originally predicted a net asset value (NAV) of between EUR 10.80 and EUR 10.90 per share for the 2016 financial year. This forecast, too, was exceeded, mainly due to a valuation result that exceeded expectations.

GROUP MANAGEMENT REPORT

Financing and liquidity

The loan-to-value (LTV) ratio at 31 December 2016 is calculated as follows:

in EUR m	12/31/2016	12/31/2015
Non-current and current liabilities to banks	1,826.5	1,835.0
Non-current and current liabilities from corporate bonds	443.7	443.7
Non-current and current liabilities from convertible bonds	0.0	70.9
Cash and cash equivalents	-74.5	-103.8
Cash and cash equivalents on notarial accounts from real estate sales (reported under other current assets)	0.0	-16.2
Net financial debt	**2,195.7**	**2,229.6**
Book value of investment properties	3,777.8	3,531.1
Book value of property reported under tangible assets	10.1	10.3
Book value of property held as inventory	51.7	12.8
Book value of property reported under non-current assets held for sale	17.0	23.7
Real estate volume	3,856.6	3,577.9
Book value of property for which purchase prices have already been paid in advance	-9.0	-21.4
Relevant real estate volume for LTV calculation	3,847.6	3,556.5
LTV	**57.1 %**	**62.7 %**

The TAG Group's degree of indebtedness, as expressed with loan to value (LTV) ratio, was reduced to 57.1% as of 31 December 2016 (previous year: 62.7%). The main reasons for this significant reduction by 5.6 percentage points were the early conversion of the convertible bond into equity, the placement of the five million treasury shares, and the year-on-year improvement in the result of the real estate valuation.

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.

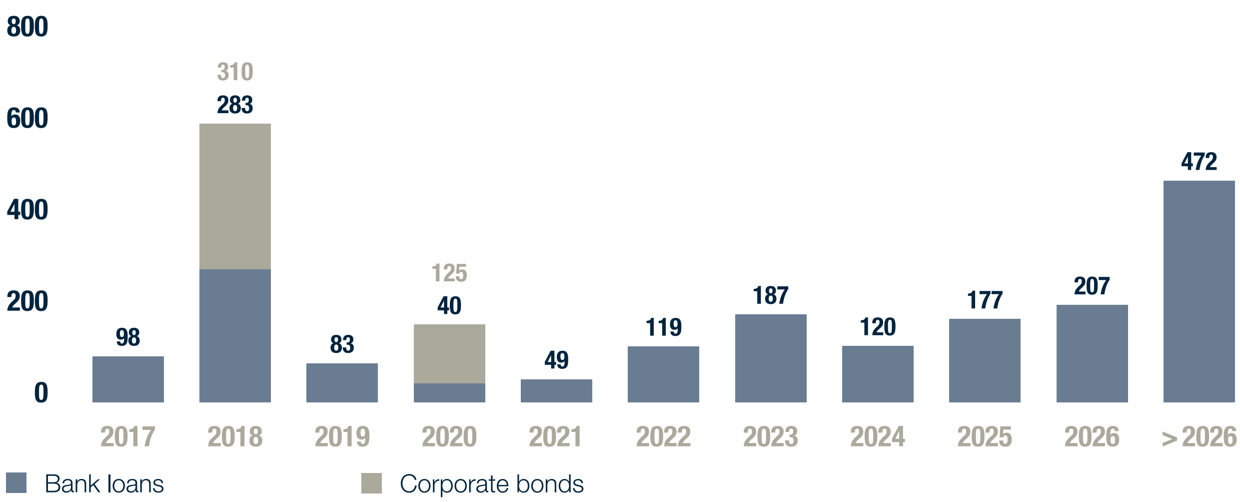
After the full conversion of TAG's last outstanding convertible bond in the third quarter of 2016, there are two corporate bonds left in the area of capital market financing. The following shows the basic information about these bonds:

Corporate bond WKN A1TNFU	Corporate bond WKN A12T10
Volume: EUR 310 Mio.	Volume: EUR 125m
Nominal value per bond: EUR 1.000,00	Nominal value per bond: EUR 1,000.00
Maturity: 5 years until 07 Aug 2018	Maturity: 6 years until 25 Jun 2020
Interest rate (effective): 5.125% (200m)/4.3% (110m)	Interest rate: 3.75%
Issue price: at par (200m)/ to 103% (110m)	Issue price: at par

As in the previous year, at 31 December 2016 the book value of the two TAG corporate bonds issued in 2013 and 2014, including accrued interest payable, was EUR 443.7m. Their interest rates are 3.75% and 5.125% p.a. with initial maturities of between five and six years.

The following table shows the maturity of all liabilities as of 31 December 2016:

in EUR m



A total of EUR 552m (2017: EUR 135m; 2018: EUR 417m) of fixed-interest bank loans will come due by 31 December 2018, or can be refinanced with no prepayment penalty upon maturity because the fixed-interest rate stipulated in the contract expires. The average interest rate of these bank loans is 4.83% (loans expiring in 2017) and 3.12% (loans expiring in 2018). The effective interest rate for the corporate bond of EUR 310.0m maturing in 2018 amounts to 4.83%. Given the currently significantly lower market interest rates, both for bank loans and corporate bonds, a substantial reduction in financing costs is to be expected in the following years. The Management Board expects that all loans maturing in 2017, all of which are in euros, will be renewed as scheduled.

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

in EUR m	12/31/2016	12/31/2015
Cash and cash equivalents as stated in the consolidated balance sheet	74.5	103.8
Pledged cash and cash equivalents	-7.4	-7.9
Cash and cash equivalents as shown in the consolidated cashflow statement	**67.1**	**95.9**

TAG has available credit lines totalling EUR 46.4m at various banks (previous year: EUR 64.4m). As of 31 December 2016, EUR 39.1m had been drawn down (previous year: EUR 53.1m).

Overall assessment of the economic situation

As in the previous year, in 2016 TAG was able to increase its key operational indicators, such as rental growth and percentage points in vacancy reduction, in some cases significantly. At EUR 97.0m, FFO was above the previous year's level (EUR 76.3m). On a per-share basis, FFO I increased to EUR 0.72 after EUR 0.62 in 2015. Thus the earnings situation continues to be positive and rising. The equity ratio remained sound at 34.0% (previous year: 29.5%). TAG has sufficient liquidity and is competitively financed.

Proposed dividend

Based on this positive development, TAG‘s Management Board intends to propose to the Annual General Meeting, subject to the requisite approval of the Supervisory, an increased dividend of EUR 0.57 per share for the 2016 financial year (previous year: EUR 0.50 per share).

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

Employees

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

	12/31/2016	12/31/2015
Employees in operations	489	462
Administration and central functions	98	103
Caretakers	219	201
Craftsmen	27	15
Total	**833**	**781**

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

III. Material events occuring after the balance sheet date

The acquisition of a residential property portfolio in the city of Brandenburg with a total of 1,441 units was announced after the balance sheet date. The purchase price, including transaction costs to be borne by TAG, amounts to EUR 41.9 million. The portfolio currently generates annual net rent of approx. EUR 3.4 million and has a vacancy rate of around 19.3%. The transaction is expected to close at the end of the second quarter of 2017.

On 06 March 2017, TAG Immobilien AG placed 4,095,124 treasury shares, corresponding to 2.8% of the company's share capital, with institutional investors in the course of an accelerated book-building process. The placement price of the shares was EUR 12.48 per share. This transaction generated gross proceeds of EUR 51.1 million for the company.

IV. Forecast, opportunities and risks report

Forecast

Economic conditions

The German government expects growth in the German economy to be a bit slower this year than last. The Cabinet estimates that gross domestic product will grow by 1.4% in 2017. In 2016, the German economy grew by 1.9%.

Developments in the next few years will also be influenced by the labour market effects of refugee migration: the number of people employed is growing and will likely increase by close to 300,000. This would at best keep the annual unemployment rate in 2017 near-constant at 6.1% (previous year: 5.8%). Consumer price levels are expected to increase by 1.5%. The core inflation rate (without energy costs, which are prone to fluctuation) is likely to rise from 1.2% last year to 1.4% in the current year.

The German economy has been on an upturn since 2013. Private consumption is seeing strong development, meaning that the decisive impetus for economic growth is coming from the domestic economy and less from exports. Global changes, e.g. Brexit and the election results in the USA, may lead to far-reaching and highly unpredictable consequences for the global economy in the years ahead. This, in turn, could also have a negative impact on the German economy and thus affect economic performance in the years ahead.

Forecast for the 2017 financial year

Our strategy for shareholders focuses on total return per share. In contrast to previous years, growth in absolute numbers is no longer a priority for TAG, as the group's real estate portfolio of around 80,000 units has reached a size that allows us to effectively manage our portfolio. For this reason, in the future we will focus even more on optimising the portfolio and effectively increasing our cashflows.

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

Due to strong operating performance and scheduled further reduction in finance costs, excluding any further major acquisitions and sales, and without results from the revaluation of the investment properties and the evaluation of financial derivatives, TAG forecasts for 2017

- FFO (FFO I, i.e. without sales), of EUR 110m to EUR 112m (2016: EUR 97.0m), or EUR 0.77 (2016: EUR 0.72) per share of
- EBT of between EUR 107m and EUR 108m (2016: EUR 87.8m), or EUR 0.75 (2016: EUR 0.65) per share, and
- NAV per share of EUR 11.60 to EUR 11.70 (31 December 2016: EUR 11.53), assuming a dividend payment of EUR 0.57.

We expect vacancy across our portfolio, again excluding any further major acquisitions and sales, to decrease further to below 6% (31 December 2016: 6.5%). As for rent, we expect to see 'like for like' annual growth of around 3.0% to 3.5% (2016: 3.7%), including the effects of vacancy reduction.

Opportunities and risk report

Risk management

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

TAG's Management Board is responsible for ensuring a consistent and appropriate risk management process. In order to identify risks, TAG monitors the overall economy, as well as developments in the financial services and real estate sectors. Internal processes are also monitored constantly. On account of the continuously changing conditions and requirements, risk identification is an ongoing task that is integrated into organisation and in operational processes. All organisational units are always required to identify risks likely to arise from present or future activity. Regular meetings, controlling discussions, department meetings, one-on-ones and queries also help to identify risks.

Group Controlling supports the Management Board and the organisational units required to submit reports by means of recurring internal report controls. Risks are regularly recorded and evaluated, and countermeasures already taken are reviewed and followed up on. Moreover, as needed the Management Board is immediately notified of all material risks and developments so that it can promptly take the requisite steps.

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

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

Description of individual risks

Economic and sector risks

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

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

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

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

Regulatory and political risks

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

Performance risks

Rental risks

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

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

Portfolio appraisal risks

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

The appraiser also takes into account discretionary, qualitative factors such as the location and quality of the property, as well as the achievable rental income. This may result in changes in the fair values reported, resulting in high volatility for net Group income. It does not, however, have any direct impact on TAG's liquidity.

The relevant transaction costs are to be deducted from the fair value of the property. The amount of a potential buyer's deductible transaction costs depends on the market of relevance for the asset in question.

In the case of real estate portfolios, it is necessary to make a distinction between asset sales involving the direct sale of investment properties, and share deals, which entail the sale of shares in companies holding real estate portfolios. Whereas asset deals are regularly subject to realty transfer tax as well as broker and notary fees, share deals can be structured in such a way as to avoid realty transfer tax and broker fees.

The German states were defined as submarkets 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 of share deals. With respect to real estate holdings in the other German states, i.e. western German states with the exception of Lower Saxony, the market for asset deals was assumed to be the main market in the absence of any evidence to the contrary. The deductible transaction costs for these averaged 8.3% (previous year: 8.1%).

The definition of the respective relevant market segments is the same as in the previous year. In the event of the market for asset deals being deemed to be the main market for all German states, this would result in a devaluation of the residential real estate of around EUR 225.4m (previous year: EUR 207.6m). A depreciation of this magnitude could occur again in the future if the land transfer tax regulations regarding the tax exemption of share deals are amended to the effect that a land transfer tax-free transfer of shares in real estate companies is no longer possible, or is only possible in constellations that are economically unfavourable for other reasons. If no major market is identifiable for any federal state, and thus the market for share deals is used as the most advantageous market in assessing the valuation, this would result in an appreciation of the residential real estate of around EUR 56.8m (previous year: EUR 52.4m).

Financial risks

Overview

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

Liquidity risks

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

Moreover, TAG is dependent on securing external capital at reasonable terms to fund its ongoing business and acquisitions. A crisis in the international financial markets could make it substantially more difficult for TAG to raise the necessary funds and could lead to liquidity problems. Should this lead to problems in servicing ongoing loans, lenders could institute foreclosure proceedings, and such distress sales would lead to considerable financial disadvantages for TAG. TAG is using current market conditions in order to refinance long-term loans on favourable terms in order to mitigate this risk.

The Group has loans totalling EUR 1,408.6m (previous year: EUR 1,434.7m), 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 the reporting date, all essential requirements of the financial covenants stipulated in loan contracts were complied with by the Group, as they were last year. There were no premature termination obligations.

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

Interest rate risks

The Group's activities are subject to risks arising from changes in interest rates. The vast majority of bank loans are made only with fixed interest, either through a directly agreed fixed interest rate, or through a variable interest rate that is then converted into a fixed interest rate using a derivative financial instrument (usually interest rate swaps). At the reporting date, bank loans with a fixed interest rate accounted for nearly 94% of the total lending volume (previous year: nearly 93%). As in the previous year, all corporate or convertible bonds have fixed interest rates.

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

The Group uses derivative financial instruments to the extent necessary for managing existing interest risks. These chiefly include interest rate swaps to minimise exposure in the event of rising interest rates. TAG Group uses derivatives based on hedged assets to actively manage and reduce interest rate risks.

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

Other risks

Legal risks

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

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

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

Tax risks

Some of TAG's tax structures are complex. Various different taxable entities (tax groups and taxation at the individual company level), and legal forms exist within the Group. In particular, restrictions on 'interest barriers' and the provisions of the 'prerogative of extended trade tax reduction' regularly become very relevant. Due to legal uncertainties in connection with determining of the equity ratio for interest barrier purposes, it cannot be ruled out, for example, that the tax authority denies at least a partial deduction of operating expenses from interest expenses. The use of the trade tax reduction for income from long-term real estate leasing, which is also relevant for many Group companies, is subject to restrictive conditions, some of which are also subject to legal uncertainties and which, in the event of divergent treatment by the tax authority, would lead to a trade tax liability for the relevant income. In addition, the tax-neutral allocation of capital gains to reserves (e.g. in accordance with Section 6b of the German Income Tax Act), and transfer tax-free share deals, i.e. acquisitions of real estate property companies through appropriate structures, are significant for the Group's tax burden.

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

Opportunities for future development

TAG Immobilien AG further strengthened and expanded its market position last year. As a result, the increase in the number of units has also led to a significant increase in real estate volume, rental revenue and FFO I. Thanks to the Group's decentralised structure with its headquarters in Hamburg and key offices in the currently ten LIM regions, TAG can identify market trends at an early stage and address them more quickly than competitors are able to.

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 microlocations within the regions, along with modern, efficient tenant relationship management, enable a consistent generation of returns and cashflows from the portfolio. Moreover, the TAG Group's core competency is active asset and property management, which in the past has been instrumental in reducing vacancies, thereby boosting rental income and lowering vacancy-related costs. In the years ahead, vacancy reduction and the realisation of rent-raising potential within the portfolio will continue to form the basis for further organic value increases.

Apart from implementing our growth strategy and improving our capital market position, TAG also has a solid funding structure. The Group's financing is long-term. As of 31 December 2016, the average interest rate on total debt stood at 3.45% (previous year: 3.74%). At 31 December 2016, the average maturity of all financial debt was 8.3 (previous year: 8.7) years, while the average term of bank loans was 9.7 years (previous year: 10.2).

TAG's business model – in particular its active asset management, which is reflected in continuous vacancy reduction – 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 market as well as from banks.

Overall assessment

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

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

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

The structure of TAG's accounting-related internal control system derives from the largely centralised organisation of its accounting system. All of the Group's financial statements are prepared by its own employees, for the most part at the Group headquarters in Hamburg. Although parts of the accounting are handled locally – e.g. payroll accounting by an external service provider, and rental accounting by the Group's shared service centres – the Accounting department at Group headquarters bears the final responsibility.

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

In financial year 2016 as in the previous year, the Accounting department used a uniform ERP system (SAP Promos) throughout the Group to prepare the financial statements. External service providers are involved in preparing the quarterly and annual financial statements. For instance, independent appraisers investigate reports on the fair value of the real estate. The fair value of derivative financial instruments is also calculated with the assistance of external experts, as are pension provisions.

Risks arising from the interest swap agreements are monitored on an ongoing basis. The effectiveness of the interest rate swaps relative to the hedged loans is reviewed quarterly.

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

TAG Immobilien AG is a capital market-oriented company as defined in Section 264d of the German Commercial Code. Therefore, information on equity, the equity structure, and voting rights are required in accordance with Section 315 (4) of the German Commercial Code. The information provided in the following is based on the conditions that existed as of 31 December 2016:

Composition of share capital

The Company's share capital stood at 146,498,765.00 as of 31 December 2016, up from EUR 136,596,330.00 as of 31 December 2015. It is divided into 146,498,765 shares (previous year: 136,596,330). The computed pro rata amount of share capital attributable to each share is EUR 1.00. All shares carry the same rights. Each share entitles the owner to one vote; the dividend entitlement is determined by the number of shares held.

Limitations on voting rights and transfer of shares

Restrictions on voting rights may arise from the provisions of the Companies Act. For example, under certain circumstances, shareholders are prohibited from voting as per Section 136 (1) of the German Stock Corporation Act (AktG). In accordance with Section 71b of the AktG, the Company is not entitled to exercise any voting rights resulting from its 4,155,124 treasury shares (previous year: 11,127,178), which TAG holds directly (60,000 shares earmarked for remuneration of the Management Board) and indirectly (4,095,124 shares) via a 100% subsidiary at the reporting date.

The Company's Articles of Association do not provide for restrictions on voting rights. The Company's shareholders are not limited by the law or by the Articles of Association when it comes to the acquisition or sale of shares. The Management Board is not aware of any contractual restrictions on voting rights or the transfer of shares

Direct or indirect voting shares exceeding 10%

The Company is aware of the following direct or indirect holdings of more than 10% of its voting rights as of 31 December 2016, based on reports submitted to it pursuant to the German Securities Trading Act (WpHG):

- Sun Life Financial Inc., Toronto, Canada
- Pension institution of the federal and state governments, Karlsruhe, Germany

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

Shares with special rights conferring powers of control

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

Voting right controls on shares held by employees

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

Appointment and dismissal of members of the Management Board, Amendments to the Articles of Association

The appointment and dismissal of members of the Management Board is carried out in accordance with Sections 84 and 85 of the German Stock Corporation Act and the Company's Articles of Association. Management Board members are appointed by the Supervisory Board for a maximum term of five years. A reappointment or extension of the term for a maximum of five years is permitted.

According to the Articles of Association, the Supervisory Board may appoint a Chairman and a Deputy Chairman. The Supervisory Board has not exercised this power to date. The Management Board consists of at least two people. The Supervisory Board can revoke the appointment of Management Board members and the Chairman of the Management Board if there is good cause.

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

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

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

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

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

The Company has a variety of contingent assets/capital and associated authorisations by the Annual General Meeting, some of which served to underpin the convertible bonds issued by the Company in recent years. Due to the exercise of conversion rights in financial year 2016, the share capital has changed. At present, there are no more convertible bonds due:

- Contingent capital 2011/I dating back to the shareholders' resolution of 26 August 2011 increased the share capital by a further 15m shares (conditional capital). It served to underpin the EUR 85.3m convertible bond (WKN A1PGZM), which was terminated by the company with effect from 22 August 2016. Due to the exercise of conversion rights from this convertible bond, the share capital increased by 9,902,435 no-par value shares.
- Contingent capital 2013/I dating back to the shareholders' resolution of 14 June 2013 increased the share capital by a further 13m shares. This capital increase will only be carried out to the extent that the convertible and/or option bonds with a total nominal amount of up EUR 160m are issued by 13 June 2018 and the bearers or creditors of such bonds are granted conversion or option rights to new shares in TAG based on the authorising resolution of 14 June 2013.
- Contingent capital 2015/I dating back to the shareholders' resolution of 19 June 2016 increased the share capital by a further 20m shares. This capital increase will only be carried out to the extent that the convertible and/or option bonds with a total nominal amount of up EUR 300m are issued by 18 June 2020 and the bearers or creditors of such bonds are granted conversion or option rights to new shares in TAG based on the authorising resolution of 19 June 2016.

In a resolution passed at the Annual General Meeting on 13 June 2014, the Company was authorised to acquire treasury shares representing up to 10% of the available share capital on the effective or upon exercise of this authorisation, whichever is lower, up until 12 June 2019. The Company made use of this authorisation in financial year 2014 to repurchase 13,127,178 shares in a share buyback. After 2,000,000 of these shares were sold again during the 2015 financial year, in 2016 the Company was able to sell or place another 5,000,000 and 2,032,054 of its own TAG shares, i.e. 7,032,054 TAG shares in all. The Company possessed 4,095,124 treasury shares in TAG at the balance sheet date which are held by a wholly-owned subsidiary.

Following these transactions, the extraordinary general meeting on 17 June 2016 issued a new authorisation to acquire treasury shares representing up to 10% of the available share capital on the effective date or upon exercise of this authorisation, whichever is lower, up until 16 June 2021. The Company may not utilise this authorisation for the purpose of trading in treasury shares. In addition to the usual, legally mandated use options, it also includes the authorisation to assign and transfer the shares to members of the Management Board as part of their variable remuneration. The company exercised this authorisation in the 2016 financial year, and purchased a total of 60,000 TAG shares via the stock exchange.

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

TAG has lines of credit totalling EUR 5.0m (previous year: EUR 5.7 m), which require the bank's approval in the event of a change of shareholder, or in the case of a change of control at the level of TAG Immobilien AG, may otherwise lead to the loans being terminated. In addition, there are numerous change-of-control provisions in the subsidiaries' loan agreements and in their general terms and conditions. Although these primarily apply only at the level of the subsidiaries and in the event of a change in their shareholders, the possibility of the lender invoking change-of-control rights in the event of a change in the indirect shareholder cannot be ruled out.

The corporate bonds totalling EUR 435m issued in August 2013 and June 2014 also have special change-of-control provisions that obligate the Company to buy back the bonds at terms stated in detail in the terms of the bond.

The corporate bonds totalling EUR 435m issued in August 2013 and June 2014 with maturities of five or six years respectively also have special change-of-control provisions, which obligate the Company to buy back the bonds at terms stated in detail in the terms of the bond.

The agreement made in connection with a transfer of 5.1% of the shares in Colonia to a co-investor also stipulates provisions for a change of control in the Company's shareholder structure. In this case, the co-investor is entitled to rights of disposal and may terminate their investment in Colonia prematurely, with TAG liable for compensating for any losses in value.

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

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

There are no remuneration agreements with the members of the Management Board in the 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/en under 'Investor Relations/Corporate Governance/Declaration of Corporate Governance'.

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

The members of the TAG Management Board receive fixed remuneration which is not contingent on performance, and a variable remuneration, which is paid out in cash or in the form of TAG shares over a period of several years. The non-performance-based remuneration takes the form of a fixed annual salary paid out in twelve equal monthly instalments. Some members of the Management Board use a company car, which is taxed accordingly as a non-cash benefit. The members of the Management Board also receive further benefits as other remuneration, some of which are classified as non-cash benefits and are taxed accordingly. In particular, these include a Bahn Card (for discounted rail travel), accident and liability insurance, private use of communications devices, and compensation for expenses incurred during business travel. The contracts with the members of the Management Board do not provide for any pension entitlements.

In order to achieve close coordination between the actions of the Management Board and the interests of the shareholders, in the 2016 financial year the variable remuneration was granted 50% in cash and 50% in the form of TAG shares through the use of treasury shares for the first time (previously 100% in cash). In this connection, a total of 60,000 treasury shares were acquired during the past financial year.

The criteria for the variable remuneration of the members of the Management Board, which are determined and defined in each case at the Supervisory Board's meeting to approve the budget, are as follows:

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

These figures are calculated relative to the figures for the previous year as at 31 December and based on the IFRS consolidated financial statements. The number of shares to be granted to the members of the Executive Board is calculated based on the volume-weighted average price (VWAP) of the TAG share over a period of two months before the balance sheet date of the financial year in question.

The maximum variable remuneration is EUR 250,000.00. In exceptional cases, the Supervisory Board may pass other resolutions to allow for special circumstances and/or special achievements by an individual member of the Management Board. In the event of any extraordinary development in the individual criteria, the Supervisory Board may change their individual weighting.

30% of the cash component of the variable remuneration is paid after the Supervisory Board's resolution on the variable remuneration of the relevant financial year, and 20% in the following year. This pro rata payment/granting of the variable remuneration ensures that long-term company development is taken into account. In the event of a future negative development and shortfall in the aforementioned criteria, the Supervisory Board can reduce the cash component which has not yet been paid out.

Members of the Management Board can access the TAG shares granted to them as part of their variable remuneration only after a vesting period of three years. The Supervisory Board Chairman's approval is required for the transfer of the shares. Until the end of the vesting period, Management Board members are not entitled to access the treasury shares that TAG may have already acquired for the purpose of variable compensation; they may not resell, pledge or assert any other rights arising from these shares. By laws, the shares – as treasury shares of TAG – are not entitled to any voting or dividend rights during this period. No interest accrues on the cash amount of the variable compensation, nor on the value of the shares to which the members of the Management Board are entitled.

Members of the TAG Management Board are not entitled to claim any additional bonuses or duplicate remuneration if they simultaneously serve on the Management Board or Supervisory Board of other companies in the Group. Variable remuneration is determined solely at the TAG Immobilien AG level and charged to TAG Immobilien AG. All ancillary activities are subject to approval.

Upon the ordinary termination of office of any member of the Management Board, that member is entitled to payment of any part of the variable remuneration not yet paid out to them, or to the TAG shares not yet allocated to them. In the event of any change of control, i.e. if a single shareholder or several shareholders acting jointly acquire a majority of the voting rights or a controlling influence over TAG, the members of the Management Board are entitled to terminate their service contract subject to advance notice of six months (special right of termination). If this special right of termination is exercised, the Company undertakes to pay a gross settlement amount on the date of departure that is equal to the annual gross salary, provided that the service contract still has a remaining period of at least 24 months as of the date of termination.

In the event of a shorter remaining period, the member of the Management Board is entitled to claim a gross settlement equalling the gross salary that he or she would have earned in the remaining term of the service contract. In the event of a premature termination of Management Board contracts for other reasons, the contracts contain the provision that the compensation payable to them is to be capped at a value equalling two annual salaries, and shall not exceed the amount due for the remaining period of the contract.

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

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

Please refer to the Notes to the Consolidated Financial Statements for further details on the remuneration of members of the Management Board and Supervisory Board.

Hamburg, 8 March 2017

Claudia Hoyer

Claudia Hoyer
COO

M. Thiel

Martin Thiel
CFO

Dr. Harboe Vaagt
CLO

CONSOLIDATED BALANCE SHEET

Assets in TEUR	Notes	12/31/2016	12/31/2015
Non-current assets			
Investment properties	(1)	3,777,757	3,531,108
Intangible assets	(2)	2,256	2,959
Property, plant and equipment	(3)	16,996	14,668
Investments in associated companies	(4)	103	114
Other financial assets	(5)	7,626	12,956
Deferred taxes	(6)	38,795	43,627
		3,843,533	**3,605,432**
Current assets			
Property held as inventory	(7)	51,690	12,809
Other inventories	(7)	280	348
Trade receivables	(8)	14,642	29,859
Income tax receivables	(6)	4,000	5,000
Derivative financial instruments	(16)	5	14
Other current assets	(9)	11,081	13,194
Cash and cash equivalents	(10)	74,487	103,833
		156,185	**165,057**
Non-current assets held for sale	(11)	**17,049**	**23,710**
		4,016,767	**3,794,199**

Equity and liabilities in TEUR	Notes	12/31/2016	12/31/2015
Equity	(12)		
Subscribed capital		142,344	125,469
Share premium		736,964	618,317
Other reserves		-617	-2,400
Retained Earnings		472,227	343,735
Attributable to the equity holders of the parent company		1,350,918	1,085,121
Attributable to non-controlling interests		14,650	35,431
		1,365,568	**1,120,552**
Non-current liabilities			
Liabilities to banks	(13)	1,675,758	1,630,787
Liabilities from corporate bonds	(14)	434,962	434,967
Liabilities from convertible bonds	(15)	0	70,942
Derivative financial instruments	(16)	2,938	1,390
Retirement benefit provisions	(17)	6,132	6,020
Other non-current liabilities	(18)	7,478	3,354
Deferred taxes	(6)	272,334	231,589
		2,399,602	**2,379,049**
Current liabilities			
Liabilities to banks	(19)	150,683	204,088
Liabilities from corporate bonds	(6)	8,764	8,764
Liabilities from convertible bonds	(13)	0	34
Derivative financial instruments	(20)	1,017	4,044
Income tax liabilities	(16)	7,244	6,162
Other provisions	(14)	21,521	17,285
Trade payables	(15)	11,857	14,629
Other current liabilities	(21)	50,511	39,592
		251,597	**294,598**
		4,016,767	**3,794,199**

CONSOLIDATED INCOME STATEMENT

in TEUR	Notes	01/01/–12/31/2016	01/01/–12/31/2015 (adjusted*)
Rental revenues		275,193	259,284
Rental expenses		-50,528	-53,818
Net rental income	(22)	224,665	205,466
Revenues from the sale of real estate		51,436	200,116
Expenses on the sale of real estate		-49,641	-180,048
Net revenues from the sale of real estate	(23)	1,795	20,068
Other operating income	(24)	6,418	7,598
Fair value changes in portfolio real estate and valuation of investment properties	(25)	163,087	98,730
Personnel expenses	(26)	-38,056	-35,246
Depreciation/amortisation	(2, 3)	-3,031	-3,110
Other operating expenses	(27)	-18,697	-22,455
EBIT		**336,181**	**271,051**
Net profit from investments	(28)	351	311
Share of profit or loss of associated companies	(4)	-11	-32
Impairment of financial assets	(28)	0	-469
Interest income	(28)	2,776	3,545
Interest expenses	(28)	-92,603	-99,370
EBT		**246,694**	**175,036**
Income taxes	(6)	-46,015	-27,715
Consolidated net profit		**200,679**	**147,321**
attributable to non-controlling interests	(12)	-689	2,020
attributable to equity holders of the parent company		201,368	145,301
Earnings per share (in EUR)	(29)		
Basic earnings per share		1.48	1.18
Diluted earnings per share		1.45	1.12

* for adjustments see the section 'Presentation changes in the consolidated income statement'

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	Notes	01/01/–12/31/2016	01/01/–12/31/2015
Net profit as shown in the income statement		**200,679**	**147,321**
Unrealised gains and losses from hedge accounting	(12)	2,355	4,312
Deferred taxes on unrealised gains and losses	(6)	-572	-1,031
Other comprehensive income after taxes		1,783	3,281
Total comprehensive income		**202,462**	**150,602**
attributable to non-controlling interests	(12)	-689	2,020
attributable to equity holders of the parent company		203,151	148,582

CONSOLIDATED CASHFLOW STATEMENT

in TEUR	Notes	2016	2015
Consolidated net profit		200,679	147,321
Net interest income/expense through profit and loss	(28)	89,827	95,825
Current income taxes through profit and loss	(6)	1,714	383
Depreciation/amortisation and impairments in financial assets	(2, 3)	3,031	3,580
Share of profit or loss of associated companies and other financial assets	(4)	-340	-279
Fair value changes in investment properties and valuation of properties held as inventory	(25)	-163,087	-98,730
Gains/losses from the disposal of investment properties	(1, 23)	-649	-20,159
Earnings from the sale of tangible and intangible assets		4	55
Impairments rent receivables	(22)	4,735	4,994
Changes to deferred taxes	(6)	44,300	27,332
Changes in provisions	(19)	4,257	559
Interest received		1,788	1,664
Interest paid		-77,951	-85,934
Income tax paid		383	-3,883
Changes in receivables and other assets		-5,429	-1,865
Changes in payables and other liabilities		-1,263	7,612
Cashflow from operating activities		**101,999**	**78,475**

in TEUR	Notes	2016	2015
Payments received from the disposal of minority interests		14,513	0
Payments received from the disposal of investment properties (less selling costs)	(1, 23)	45,655	202,905
Payments made for investments in investment properties	(1)	-154,440	-282,321
Proceeds from the sale of tangible and intangible assets		19	34
Payments made for investments in intangible assets and property, plant and equipment	(2, 3)	-4,679	-2,951
Payments received from other financial assets	(5)	5,681	1,706
Cashflow from investing activities		**-93,251**	**-80,627**
Purchase of treasury shares	(12)	-780	0
Proceeds from the issuance of treasury shares	(12)	57,018	0
Payments for convertible bonds	(15)	-9,438	-4,324
Dividends paid		-72,876	-60,294
Distributions to minority investors		-407	-550
Proceeds from new bank loans		112,463	110,616
Payments for the repayment of bank loans		-123,592	-118,803
Cashflow from financing activities		**-37,612**	**-73,355**
Net change in cash and cash equivalents		-28,864	-75,507
Cash and cash equivalents at the beginning of the period		95,910	171,433
Currency translation		0	-16
Cash and cash equivalents at the end of the period		**67,046**	**95,910**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

in TEUR	Attributable to the parent's shareholders								
			Other reserves						
	Subscribed capital	Share premium	Retained earnings	Hedge accounting reserve	Currency translation	Retained earnings	Total	Non-controlling interests	Total equity
Amount on 01/01/2016	**125,469**	**618,317**	**46**	**-2,446**	**0**	**343,735**	**1,085,121**	**35,431**	**1,120,552**
Consolidated net profit	0	0	0	0	0	201,368	201,368	-689	200,679
Other comprehensive income	0	0	0	1,783	0	0	1,783	0	1,783
Total comprehensive income	0	0	0	1,783	0	201,368	203,151	-689	202,462
Purchase of treasury shares	-60	-720	0	0	0	0	-780	0	-780
Sale of minority interest	0	-2,999	0	0	0	0	-2,999	12,082	9,083
Colonia settlement offer	0	-4,032	0	0	0	0	-4,032	-15,730	-19,762
Issue of treasury shares for Colonia shares	2,032	14,055	0	0	0	0	16,087	-16,087	0
Issue of treasury shares	5,000	53,250	0	0	0	0	58,250	0	58,250
Costs related to the issuance of treasury shares	0	-1,232	0	0	0	0	-1,232	0	-1,232
Conversion of bonds	9,903	61,088	0	0	0	0	70,991	0	70,991
Deferred taxes convertible bonds	0	-1,109	0	0	0	0	-1,109	0	-1,109
Share-based compensation	0	346	0	0	0	0	346	0	346
Dividends paid	0	0	0	0	0	-72,876	-72,876	0	-72,876
Initial consolidation of real estate asset companies	0	0	0	0	0	0	0	-357	-357
Amount on 12/31/2016	**142,344**	**736,964**	**46**	**-663**	**0**	**472,227**	**1,350,918**	**14,650**	**1,365,568**
Amount on 01/01/2015	**118,586**	**582,002**	**46**	**-5,727**	**16**	**258,728**	**953,651**	**51,402**	**1,005,053**
Consolidated net profit	0	0	0	0	0	145,301	145,301	2,020	147,321
Other comprehensive income	0	0	0	3,281	0	0	3,281	0	3,281
Total comprehensive income	0	0	0	3,281	0	145,301	148,582	2,020	150,602
Issue of treasury shares for Colonia shares	2,000	17,294	0	0	0	0	19,294	-19,294	0
Sale of subsidiaries	0	0	0	0	0	0	0	-401	-401
Deferred taxes convertible bonds	0	-7,860	0	0	0	0	-7,860	0	-7,860
Initial consolidation of real estate asset companies	0	29	0	0	0	0	29	2,242	2,271
Conversion of bonds	4,883	26,852	0	0	0	0	31,735	12	31,747
Dividends paid to minority interest	0	0	0	0	0	0	0	-550	-550
Dividend paid	0	0	0	0	0	-60,294	-60,294	0	-60,294
Currency translation	0	0	0	0	-16	0	-16	0	-16
Amount on 12/31/2015	**125,469**	**618,317**	**46**	**-2,446**	**0**	**343,735**	**1,085,121**	**35,431**	**1,120,552**

CONSOLIDATED SEGMENT REPORT

in TEUR		Segment by Region												
		Berlin	Chem-nitz	Dres-den	Erfurt	Gera	Ham-burg	Leipzig	Rhine-Ruhr	Ros-tock	Salz-gitter	Other activi-ties	Con-soli-dati-on	Total
Segment revenues (rental revenues)	2016	35,436	21,612	25,823	29,043	29,686	29,028	30,318	20,910	19,839	30,981	3,441	-924	275,193
	2015	32,080	17,858	25,017	28,137	28,824	27,774	28,092	18,531	18,691	28,781	6,353	-854	259,284
Segment expenses	2016	-6,979	-7,835	-4,446	-6,903	-8,087	-5,710	-5,935	-7,055	-4,625	-11,164	-792	825	-68,706
	2015	-6,627	-7,404	-4,961	-7,860	-10,386	-7,261	-5,766	-5,107	-4,958	-13,977	-1,406	1,624	-74,089
Rental expenses	2016	-1,084	-1,072	-981	-1,436	-2,071	-1,077	-1,130	-1,714	-761	-1,639	-492	652	-12,805
	2015	-1,365	-599	-924	-1,585	-1,786	-1,522	-1,277	-1,479	-964	-1,434	-655	532	-13,058
Maintance	2016	-5,738	-6,635	-3,418	-4,934	-5,843	-4,196	-4,885	-4,677	-3,374	-8,750	-187	762	-51,875
	2015	-4,864	-6,558	-3,920	-5,574	-8,310	-4,572	-4,455	-3,101	-3,769	-12,246	-415	1,183	-56,601
Impairment losses on rent receivables	2016	-487	-206	-211	-709	-311	-601	-96	-657	-554	-801	-102	0	-4,735
	2015	-482	-292	-175	-744	-353	-1,228	-194	-610	-251	-309	-356	0	-4,994
Other income/ expenses	2016	330	78	164	176	138	164	176	-7	64	26	-11	-589	709
	2015	84	45	58	43	63	61	160	83	26	12	20	-91	564
Segment results I	2016	28,457	13,777	21,377	22,140	21,599	23,318	24,383	13,855	15,214	19,817	2,649	-99	206,487
	2015	25,453	10,454	20,056	20,277	18,438	20,513	22,326	13,424	13,733	14,804	4,947	770	185,195
Personnel expenses (by region)	2016	-2,015	-1,424	-1,059	-1,241	-2,239	-1,254	-1,682	-733	-1,057	-1,893	-444	0	-15,041
	2015	-2,196	-1,371	-937	-1,169	-2,227	-1,151	-1,587	-729	-936	-1,756	-420	0	-14,479
Other operating expenses (by region)	2016	-360	-313	-193	-266	-119	-235	-256	-228	-210	-274	-58	568	-1,944
	2015	-353	-227	-172	-317	-256	-221	-301	-339	-201	-321	-171	1,094	-1,785
Segment results II	2016	26,082	12,040	20,125	20,633	19,241	21,829	22,445	12,894	13,947	17,650	2,147	469	189,502
	2015	22,904	8,856	18,947	18,791	15,955	19,141	20,438	12,356	12,596	12,727	4,356	1,864	168,931
Segment assets	2016	521,972	266,985	374,822	453,328	384,895	411,064	399,097	295,333	272,806	407,632	68,637		3,856,571
	2015	490,516	218,581	349,860	384,077	372,940	391,189	373,296	302,309	26,238	375,247	59,646		3,577,899

This group segment report is an integrated part of the notes

NOTES

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 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) in the form required to be applied in the European Union. In addition, the provisions contained in Section 315a (1) of the German Commercial Code were observed. The requirements set forth in the standards applied have been fulfilled and result in the presentation of a true and fair view of the net assets, financial position and results of operations of the Group.

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

Standard	Index
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: exception from consolidation
Amendments to IAS 1	Disclosure initiative
IFRS improvements cycle 2012-2014	Amendments to and clarifications of IFRS 5, IFRS 7, IAS19 and IAS 34
Amendments to IAS 16 and IAS 38	Guidance on the selection of depreciation methods, particularly revenue-based methods
Amendments to IFRS 11	Accounting for acquisition of interests in joint operations.

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 prematuraly adopted on a voluntary basis:

Standard	Index	Application mandatory for accounting periods commencing on or after
Endorsed by the EU		
IFRS 9	Financial instruments	01/01/2018
IFRS 15	Revenue from Contracts with Customers	01/01/2018
EU endorsement pending		
Amendments to IAS 7	Cashflow statements: disclosure initiative	01/01/2017
Amendments to IAS 12	Income taxes: clarifications	01/01/2017
IFRS improvements cycle 2014-2016	Amendments to and clarification of IFRS 12	01/01/2017
IFRS improvements cycle 2014-2016	Amendments to and clarifications of IFRS 1 and IAS 28	01/01/2018
Clarifications of IFRS 15	Revenue from contracts with customers	01/01/2018
Amendments to IFRS 2	Share-based payment	01/01/2018
Amendments to IFRS 4	Financial instruments and insurance contracts	01/01/2018
IFRIC 22	Foreign currency transactions	01/01/2018
Amendments to IAS 40	Reclassification	01/01/2018
IFRS 16	Leases	01/01/2019
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between an investor and its associate/joint venture	Still to be determined

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

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

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

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

TAG is a real estate company with registered offices in Hamburg that concentrates on the German residential real estate market. The Group's real estate assets are spread over various locations in northern and eastern Germany as well as North Rhine-Westphalia. As of 31 December 2016, TAG had around 80,000 residential units under management. TAG shares are listed on the MDAX segment of the Frankfurt stock exchange.

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 particu-lar, 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.

As of the end of the year under review, all subsidiaries had their registered offices in Germany. This also applied to the associated companies with one exception.

TAG's consolidated financial statements and the Group management report were prepared by the Management Board and released for publication on 8 March 2017, 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 acquisition-related costs are recorded in the profit an loss statement.

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

The purchase and sale of property companies which do not engage in any business as defined in IFRS 3 are treated as direct real estate purchases or sales (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 (associated companies) are accounted for using the equity method of accounting. The share of losses of associated companies is not recorded if the book value of the investment in the associated company in question has already reached zero and there is no obligation to absorb any further loss.

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

Interests in consolidated equity capital and consolidated net profit not attributable to TAG are recorded within 'Non-controlling interests' in the consolidated balance sheet and the consolidated income statement. The effects of purchase accounting recognised directly in the income statement are also included in the calculation of the share of consolidated net profit attributable to non-controlling interests. If a guaranteed dividend is agreed upon for a non-terminable minimum contractual period, the present value of the future payments is recognised as a liability and the non-controlling interests reduced accordingly.

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 were consolidated in full as of the reporting date (unless otherwise indicated, they are 100% subsidiaries):

- TAG Immobilien AG, Hamburg (parent company)
- TAG Leipzig-Immobilien GmbH, Hamburg
- TAG Finance Holding GmbH, Hamburg
- TAG Beteiligungsverwaltungs GmbH, Hamburg
- TAG Wohnen & Service GmbH, Hamburg
- TAG Stuttgart-Südtor Verwaltungs GmbH, Hamburg
- Ingenieur-Kontraktbau Gesellschaft für Ingenieurfertigbau mit beschränkter Haftung i.L., Leipzig
- TAG Brandenburg-Immobilien GmbH, Hamburg
- TAG Nordimmobilien GmbH, Hamburg
- TAG Chemnitz-Immobilien GmbH, Hamburg
- TAG Sachsenimmobilien GmbH, Hamburg
- TAG Marzahn-Immobilien GmbH, Hamburg
- TAG SH-Immobilien GmbH, Hamburg
- TAG Magdeburg-Immobilien GmbH, Hamburg
- TAG Grebensteiner-Immobilien GmbH, Hamburg
- TAG Klosterplatz-Immobilien GmbH, Hamburg
- TAG Wolfsburg-Immobilien GmbH, Hamburg
- TAG Beteiligungs- und Immobilienverwaltungs GmbH, Hamburg
- TAG NRW-Wohnimmobilien und Beteiligungs GmbH, Hamburg
- TAG 1. NRW-Immobilien GmbH, Hamburg
- TAG 2. NRW-Immobilien GmbH, Hamburg
- TAG Spreewaldviertel-Immobilien GmbH, Hamburg
- TAG Stadthaus am Anger GmbH, Hamburg
- TAG Wohnen GmbH, Hamburg
- TAG TSA Wohnimmobilien GmbH, Hamburg
- FC REF I GmbH, Grunwald (80%)
- FC REF II GmbH, Grunwald (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 Verwaltungs GmbH, Hamburg
- G+R City Immobilien GmbH, Berlin
- URANIA Grundstücksgesellschaft mbH, Hamburg
- VFHG Verwaltungs GmbH, Berlin
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin
- Wohnanlage Ottobrunn GmbH, Hamburg
- Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg (98%)
- TAG Colonia-Immobilien AG (formerly: Colonia Real Estate AG), Hamburg (89%, 2015: 87%)
- Colonia Wohnen GmbH, Hamburg (89%, 2015: 87%)
- Colonia Portfolio Ost GmbH, Hamburg (89%, 2015: 87%)
- Colonia Portfolio Berlin GmbH, Hamburg (89%, 2015: 87%)
- Colonia Wohnen Siebte GmbH, Hamburg (89%, 2015: 87%)
- Colonia Immobilien Verwaltung GmbH, Hamburg (89%, 2015: 87%)
- Colonia Portfolio Hamburg GmbH & Co. KG, Hamburg (89%, 2015: 87%)
- Colonia Portfolio Bremen GmbH & Co. KG, Hamburg (89%, 2015: 87%)
- Colonia Portfolio Bremen GmbH & Co. KG, Hamburg (89%, 2015: 87%)
- TAG Grasmus Immobilien GmbH, Hamburg (89%, 2015: 88%)
- Emersion Grundstückverwaltungs-Gesellschaft mbH, Hamburg (89%, 2015: 88%)
- Domus Grundstückverwaltungs-Gesellschaft mbH, Hamburg (89%, 2015: 88%)
- TAG Potsdam-Immobilien GmbH, Hamburg
- TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Hamburg (95%)
- TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH, Hamburg
- TAG Wohnungsgesellschaft Sachsen mbH, Hamburg
- TAG Wohnungsgesellschaft Thüringen mbH, Hamburg (94%)
- TAG Wohnungsgesellschaft Gera mbH (formerly: TAG Wohnungsgesellschaft Gera-Bieblach Ost mbH), Hamburg (94%)
- TAG Wohnungsgesellschaft Gera-Debschwitz mbH, Hamburg (94%)
- TAG Immobilien Wohn-Invest GmbH, Hamburg
- TAG Immobilien Service GmbH, Hamburg
- Energie Wohnen Service GmbH (formerly: TAG Immobilien Infrastruktur GmbH), Ham-burg
- TAG Handwerkerservice GmbH, Hamburg
- TAG Bartol Immobilien GmbH, Hamburg (94.8%)
- TAG Certram Immobilien GmbH, Hamburg (94.8%)
- TAG Sivaka Immobilien GmbH, Hamburg (94.8%)
- TAG Zidal Immobilien GmbH, Hamburg (94.8%)
- TAG Chemnitz Straubehof Immobilien GmbH, Hamburg (94.8%, since 31 January 2016)
- TAG Chemnitz Muldental Immobilien GmbH, Hamburg (94.8%, since 31 January 2016)
- TAG Chemnitz Zeisigwald Immobilien GmbH, Hamburg (94.8%, since 31 January 2016)
- Multimedia Immobilien GmbH, Hamburg, (since 25 February 2016)

In the year under review, four previously legally independent subsidiaries were merged in to the Group. This did not have any impact on the consolidated financial statements.

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

Non-consolidated companies	Share held %	Net profit / loss 2016 TEUR	Equity 12 / 31 / 2016 TEUR
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg*	100	0	273

* Disclosures in accordance with the German Commercial Code

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

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

The following combined financial information on these associated companies is available as of 31 De-cember 2016:

Associates	Assets TEUR	Liabilities TEUR	Revenues TEUR	Net profit / loss TEUR
GIB Grundbesitz Investitionsgesell-schaft Bergedorf mbH & Co. KG	681 (previous year: 690)	566 (previous year: 553)	0 (previous year: 98)	-22 (previous year: -63)
Verwaltung GIB Grundbesitz Inve-stitionsgesellschaft Bergedorf mbH	35 (previous year: 34)	0 (previous year: 0)	0 (previous year: 0)	1 (previous year: 0)
Texas Gewerbeimmobilien S.à.r.l.*	66,246 (previous year: 61,212)	45,737 (previous year: 51,953)	18,408 (previous year: 3,836)	11,250 (previous year: -139)

* Numbers based on the individual financial statement of the company according to Lux GAAP as of 31 December 2015

Presentation changes in the consolidated income statement

Changes to the presentation of items in the consolidated income statement were made in 2016 for the first time to bring their structure in line with standard industry practices and to enhance the clarity of presentation. The changes do not have any impact on consolidated net profit, the consolidated cashflow statement, consolidated equity or the performance indicators funds from operations (FFO), net asset value (NAV) and loan-to-value (LTV). Specifically, the following adjustments have been made and the corresponding figures for the comparison periods duly restated.

- Reflecting the fact that services provided for external third parties (e.g. external facility or management services for communities of owners) have not had any significance for a number of years, income from services is no longer reported separately, but included in other operating income. Expenses arising from services, which for the most part comprise non-rechargeable ancillary expenses resulting from janitorial and tradesman services, are now reported within rental expenses. The disclosure of net service income will no longer be shown.
- Impairments on inventories and receivables, which were previously presented separately, have been eliminated. Impairments of rental receivables are now reported within rental expenses. Impairments of properties held as inventories are recognised within fair value changes in investment properties and the valuation of properties held as inventories.
- Revenues and expenses from the sale of real estate will be presented uniformly and combined in the consolidated income statement in the future. Revenues and expenses from the sale of investment properties and properties held as inventories are disaggregated in the notes to the consolidated financial statements.
- The effects from the measurement of investment properties and properties held as inventories are aggregated within fair value changes in investment properties and the valuation of properties held as inventories in the consolidated income statement. In the previous year, net fair value gains and losses from the measurement of newly acquired investment properties and net fair value gains and losses from the revaluation of existing investment properties had been reported separately in the income statement. Impairments of properties held as inventories were included in other operating expenses; there were no reversals of impairments of portfolio real estate.
- Other taxes, e.g. vehicle taxes and VAT backpayments for prior years, were reported separately in the income statement in the previous year but are now included in other operating expenses.
- Total revenues comprising revenues from rental activities, sales and the provision of services and “gross profit” comprising net rental income, net revenues from sales, other operating income and net revaluation gains/losses are now no longer disclosed in line with standard sector communications practices.

The amount of the reclassified items can be seen in the corresponding disclosures in the notes to the balance sheet and the income statement.

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, portfolio properties or owner-occupied properties. Real estate held under operating leases in which the Group is the lessee is allocated to investment properties.

Investment properties are classified as properties held by the Group 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 fall within the definition of an investment property in accordance with IAS 40 is recorded within property, plant and equipment.

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

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

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

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

The real estate portfolio is measured annually effective 30 September. When real estate assets are acquired, the valuation reports are prepared as of the date of acquisition. Corresponding adjustments are made in the event of any material changes in the input factors as of the 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, and
- assumptions by the valuer based on market data and assessed in light of his professional skills, e.g. future market rentals, typical maintenance and administrative 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 least, at the end of each year 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 financial year and adjusted if necessary. The book values of property, plant and equipment are reviewed for any impairment upon any evidence arising indicating that the book values exceed the recoverable values. Impairment losses on real estate are identified using external valuation reports, which are prepared on the basis of the discounted cashflow method. Impairments of property, plant and equipment are recorded in the income statement within amortisation and depreciation expense.

Investments in associated companies

Investments in associated copanies are accounted for using the equity method of accounting. An associated company is an entity over 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 associated company 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 associated company in the period in which the business combination arose.

The book value of the share in associated company is updated annually in accordance with the share held in the associated company in question. The Group's share of the associated company's post-acquisition profits or losses is recognised in the share of profit of associated companies in the income statement.

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

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

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

The current trade receivables and other current assets as well as non-current receivables included in other financial assets recognised in TAG's consolidated balance sheet are classified as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments which are not traded on an active market After initial recognition, they are measured using the effective interest method at the 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 moved 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.

Properties held as inventories and other inventories

Properties held as inventories and other inventories are reported at the lower of cost or net realisable value. Cost includes the costs directly attributable to the development process of the real estate. Cost of debt in connection with the acquisition or construction of land are capitalised provided the applicable conditions are satisfied. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Properties held as inventories include real estate assets that are intended for sale under normal business activities, or that are under construction or development as of the acquisition date.

If the intention to sell is abandoned, the land is reclassified as investment properties.

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

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

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

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that realisation of the related income tax benefit through future taxable profits is probable. Deferred income tax assets are set off against deferred income tax liabilities of the same taxable entity if they relate to income taxes levied by the same taxation authority and the enterprise has a legally enforceable right to set off current tax assets against current tax liabilities.

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 on hand and cash in the 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 is designated as available for sale if the book value is predominantly recovered via a sales transaction rather than through continuing use, the asset is available for immediate sale and a sale can be considered to be highly probable. They are recognised at the lower of their previous book value and fair value net of the cost of disposal.

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

Differentiation of equity capital

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

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

The components of a hybrid instrument issued by the Group (convertible bond) are recorded 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 with 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 (cashflow hedge accounting)

All derivative financial instruments are initially recognised at their fair value on the day of the trade. The effective portion of the change in the fair value of derivatives suitable for use as cashflow hedges for floating-rate loans and designated as such is recorded in equity within a hedge accounting reserve taking, account of the effects of deferred income 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) hedging relationships are removed from the balance sheet when the Group dissolves the hedging 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 moved 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 moved 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 day of the trade. 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 Group had defined benefit plans for former members of the Management Board and employees as well as their family members at two subsidiaries. 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.

Other provisions

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

Leases

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

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

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

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.

Income from services is reported in the period in which the service is provided.

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

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

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

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

Share-based compensation

As of 2016, the members of the Management Board of TAG receive half of their variable remuneration in the form of TAG shares, which are transferred to them after a three-year vesting period. The number of shares to be transferred is determined at the end of each year on the basis of the average volume-weighted XETRA price of the shares over the two months preceding the closing date. The fair value equals the value of the shares on the closing date less a discount for the loss of dividend entitlement during the vesting period. The resultant staff costs are recorded directly as an addition to the share premium.

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

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, properties held as inventories or non-current available-for-sale assets.

Estimates

The Group makes estimates and assumptions concerning the future. The resultant accounting estimates may deviate from the ensuing actual results. Estimates and assumptions entailing a significant risk in the form of a material adjustment to the book value of assets and liabilities within the next financial year are detailed below. In applying the recognition and measurement methods, the Management Board has utilised the following accounting estimates which have a material effect on the amounts shown in the consolidated financial statements:

- The fair value of investment properties is determined solely on the basis of the results of the independent valuers who are retained for this purpose. It is calculated using the discounted cashflow method on the basis of expected future cashflows. Accordingly, the valuers must estimate certain factors, such as future rental income or the applicable discount rates, which TAG estimates in conjunction with the valuers and which have a direct bearing on the fair value of the investment properties. In addition, transaction 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 3,777.8 million (previous year: EUR 3,531.1 million).

- The estimate of the net proceeds from the sale of real estate held as inventories entails uncertainty particularly with respect to the realisable prices. As of the reporting date, the book value of these properties stood at EUR 51.7 million (previous year: EUR 12.8 million).
- For the purpose of testing the other financial assets for any impairment, the book values 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 book values is assessed on the basis of information available on the associated companies and borrowers. In the event of any evidence of an impairment of the fair values, the book values are adjusted accordingly. The book value of the financial assets stand at EUR 7.6 million as of the reporting date (previous year: EUR 13.0 million) and is made up of investments in and loans to real estate companies, as well as other non-current receivables.
- The sale of TAG Gewerbeimmobilien GmbH resulted in a residual purchase price receivable of a nominal amount of around EUR 48.5 million, 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 currently subject to high uncertainty, this receivable was recognised at an amount of EUR 1.00 as of 31 December 2016 (unchanged over the previous year). If future sales proceeds exceed the revenue threshold, this will result in corresponding income for TAG.
- With respect to other provisions, various assumptions have been made, e.g. concerning 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 21.5 million as of the reporting date (previous year: EUR 17.3 million).

NOTES ON THE BALANCE SHEET

1. Investment properties

The table below shows development of the investment property portfolio:

Investment properties	TEUR
Amount on 01/01/2015	**3,331,600**
Additions from real estate acquisations	240,665
Portfolio investments	41,655
Transferred to available-for-sale assets	-102,348
Sales	-79,387
Change in market value	98,923
Amount on 12/31/2015	**3,531,108**
Additions from real estate acquisations	106,852
Portfolio investments	47,589
Transferred to inventory	-35,858
Transferred to available-for-sale assets	-17,022
Sales	-20,149
Change in market value	165,237
Amount on 12/31/2016	**3,777,757**

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

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

Investment properties	2016 TEUR	2015 TEUR
Rental income	269,630	248,215
Operating expenses (maintenance, facility management, land taxes, etc.)	-48,895	-45,430
Total	**220,735**	**202,785**

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

The underlying detailed planning period is generally ten years. A potential discounted terminal value for the property in question is forecast for the end of this period, reflecting the most likely price that can be achieved at the end of the 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		Chemnitz		Dresden		Rhine / Ruhr		Erfurt	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Market value (in EUR m)	517.0	511.7	266.4	218.1	374.8	321.6	290.1	281.6	452.8	383.6
Net cold rent p.a. (in EUR m)	34.4	31.6	21.7	17.7	25.8	22.5	20.3	17.1	28.7	28.0
Vacancy (in %)	7.0	5.5	13.4	17.4	5.0	4.7	5.5	4.0	4.7	7.0
Valuation parameters (average)										
Net cold rent to market rent (in %)	90	90	96	96	94	94	93	92	93	94
Increase in market rental p. a. (in %)	0.6	0.7	0.3	0.4	0.7	0.8	0.9	0.9	0.7	0.7
Maintenance costs (in EUR / sqm)	7.8	7.2	8.3	7.8	8.5	7.9	8.8	7.5	8.3	7.9
Administration costs (in EUR per unit)	201	213	220	226	232	227	237	230	215	219
Structural vacancy (in %)	3.9	3.7	5.4	6.0	3.1	2.8	2.1	1.7	2.5	2.5
Discount rate (in %)	5.6	6.0	6.2	6.3	6.1	6.3	6.1	5.9	6.0	6.4
Capitalisation rate (in %)	5.0	5.3	5.9	6.0	5.4	5.6	5.1	4.9	5.3	5.7

Segment	Gera		Hamburg		Leipzig		Rostock		Salzgitter	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Market value (in EUR m)	383.9	371.9	400.3	380.5	387.4	369.1	272.3	259.7	407.6	375.2
Net cold rent p.a. (in EUR m)	28.7	28.7	28.3	28.1	29.3	27.3	19.8	18.5	31.0	28.7
Vacancy (in %)	11.0	12.3	4.5	6.9	5.6	7.2	5.7	6.9	9.8	14.5
Valuation parameters (average)										
Net cold rent to market rent (in %)	92	93	93	93	94	95	94	94	95	92
Increase in market rent p. a. (in %)	0.5	0.5	0.8	0.8	0.4	0.4	0.5	0.5	0.5	0.5
Maintenance costs (in EUR / sqm)	7.7	7.5	7.6	7.3	7.9	7.3	8.5	7.8	8.5	7.7
Administrative costs (in EUR per unit)	212	221	217	233	222	220	228	223	230	213
Structural vacancy (in %)	5.1	5.2	2.4	2.5	4.8	4.7	3.4	3.3	4.3	5.6
Discount rate (in %)	6.1	6.3	5.6	6.1	5.9	6.1	6.0	6.1	6.0	6.5
Capitalisation rate (in %)	5.6	5.8	4.7	5.2	5.4	5.7	5.5	5.7	5.5	6.0

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

Furthermore, there is the segment ‘Other Activities’ which predominantly includes the remaining commercial real estate activities and the boarding houses operated by the Group. The market value of these investment properties dropped to EUR 25.2 million (previous year: EUR 58.0 million) as a result of sales.

The sum total of the discounted cash surpluses and the discounted potential sales value equals the gross present value of the property in question. The net present value is calculated by deducting the costs arising in an orderly transaction. The amount of a potential buyer's deductible transaction costs depends on the relevant market for the asset in question. In the case of real estate, it is necessary to draw a distinction between asset deals 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 in particular.

In order to determine the relevant market, the degree of activity and trading volumes for transactions in the form of asset deals and share deals were examined for the German federal states as relevant submarkets. To this end, information gained from reports by valuer committees on asset deals and freely available information on share deals, among other things, was evaluated. If a given form of transaction exhibits the highest volumes or degree of activity in a given submarket, the main market is determined accordingly. If it is not possible to identify a main market, the most advantageous market is applied, this being the share deal market on account of the lower transaction costs.

Relatively few differences were recorded in trading volumes and the degree of activity in the asset and deal markets of the new German states excluding Berlin as well as Lower Saxony. Accordingly, the market for share deals was assumed to be the most appropriate one for measuring the fair value of real estate holdings in these German states. As in the previous year, the market-specific transaction costs of a potential buyer were deducted at an unchanged rate of 0.2%. No other discounts or premiums were taken into account in determining the fair value of share deals.

In the case of all of the other German states, i.e. the old states excluding Lower Saxony, a relatively low degree of activity was registered for share deals, or it was not possible to prove that the opposite was the case. Accordingly, the market for asset deals was applied for the measurement of real estate holdings in these submarkets. The deductible transaction costs for these stand at an average of 8.3% (previous year: 8.1%).

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 rate were 0.5 percentage points higher, the fair value would decline by EUR 326 million (previous year: EUR 281 million); if the discount and capitalisation rate were 0.5 percentage points lower, the fair value would increase by EUR 397 million (previous year: EUR 338 million). 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 EUR 225 million (previous year: EUR 208 million) 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 EUR 57 million (previous year: EUR 52 million).

2. Intangible assets

The table below analyses the movements in intangible assets.

Acquisition and production costs	TEUR
Amount on 01/01/2015	**7,696**
Additions	699
Disposals	-377
Amount on 12/31/2015	**8,018**
Additions	585
Disposals	-2
Amount on 12/31/2016	**8,601**

Cumulative depreciation	TEUR
Amount on 01/01/2015	**3,865**
Additions	1,493
Disposals	-299
Amount on 12/31/2015	**5,059**
Additions	1,288
Disposals	-2
Amount on 12/31/2016	**6,345**

Book value on 12/31/2015	**2,959**
Book value on 12/31/2016	**2,256**

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 Acquisition and production costs	Real estate TEUR	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2015	**11,914**	**6,472**	**18,386**
Additions	0	2,252	2,252
Disposals	-420	-390	-810
Amount on 12/31/2015	**11,494**	**8,334**	**19,828**
Additions	0	4,094	4,094
Disposals	0	-138	-138
Amount on 12/31/2016	**11,494**	**12,290**	**23,784**

Property, plant and equipment Cumulative depreciation	Real estate TEUR	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2015	**1,062**	**2,902**	**3,964**
Additions	202	1,416	1,618
Disposals	-42	-380	-422
Amount on 12/31/2015	**1,222**	**3,938**	**5,160**
Additions	198	1,545	1,743
Disposals	0	-115	-115
Amount on 12/31/2016	**1,420**	**5,368**	**6,788**
Book value on 12/31/2015	**10,272**	**4,396**	**14,668**
Book value on 12/31/2016	**10,074**	**6,922**	**16,996**

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

4. Investments in associated companies

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

5. Other financial assets

Other financial assets comprise the shares in associated companies not consolidated for materiality reasons, non-controlling interests in other real estate companies acquired in earlier years and long-term loans. These are analysed in the following table:

Acquisition and production costs	TEUR
Amount on 01/01/2015	**12,751**
Additions	2,523
Disposals	-1,758
Amount on 12/31/2015	**13,516**
Additions	115
Disposals	-5,445
Amount on 12/31/2016	**8,186**

Cumulative depreciation	TEUR
Amount on 01/01/2015	**92**
Additions	468
Amount on 12/31/2015	**560**
Amount on 12/31/2016	**560**

Book value on 12/31/2015	**12,956**
Book value on 12/31/2016	**7,626**

The impairments recognised in 2015 related to investments and were included in impairments of financial assets.

6. Current and deferred income tax assets and liabilities

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

	2016		2015		
Deferred income taxes	TEUR Assets	TEUR Equity and liabilities	TEUR Assets	TEUR Equity and liabilities	Change
Unused tax losses (incl. interest carried forward)	56,021	0	53,014	0	3,007
Investment properties	793	-288,303	2,113	-246,026	-43,597
Intangible assets	21	0	67	0	-46
Property, plant and equipment	0	-4	0	-692	688
Other financial assets	0	-1,340	160	-1,432	-68
Liabilities	884	-2,968	1,201	-3,495	210
Provisions	1,103	-76	6,826	-221	-5,578
Liabilities from convertible bonds	0	0	1,091	-1,786	695
Derivative financial instruments	330	0	1,218	0	-888
Total	59,152	-292,691	65,690	-253,652	-45,577
Offset	-20,357	20,357	-22,063	22,063	–
Deferred income taxes recorded on the face of the balance sheet	38,795	-272,334	43,627	-231,589	–
				Change in 2016:	-45,577
				reported through equity:	1,277
				Change in cash:	-44,300

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

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

Income taxes	2016 TEUR	2015 TEUR
Current income tax expense	-1,715	-383
Deferred income taxes	-44,300	-27,332
Total	**-46,015**	**-27,715**

Current income taxes include tax expenses for 2016 and a tax refund claim for earlier years of TEUR 544 (previous year: TEUR 1,607). Deferred income tax liabilities of TEUR 94 relate to prior periods (previous year: deferred income tax assets of TEUR 3,222). Deferred income tax liabilities of TEUR 47,307 (previous year: TEUR 27,676) arose from changes in temporary differences. Income from changes in deferred income taxes on unused tax losses stands at TEUR 3,007 (previous year: TEUR 344).

As in the previous year, income tax refund claims predominantly comprise refunds of investment income tax. Income tax liabilities chiefly comprise income tax expenses for 2016 of TEUR 2,257 (previous year: TEUR 0). The other liabilities relate to income taxes for earlier years.

Expected and actual net tax expense is reconciled as follows:

Actual net income tax expense	2016 TEUR	2015 TEUR
Earnings before income taxes (EBT after other taxes)	246,694	175,036
Expected net tax expense (32.275%)	-79,620	-56,493
Reconciled with tax effects from:		
Income and expenses from earlier years	450	4,829
Impairment of deferred income taxes and utilisation of previously unrecognised unused tax losses/interest carried forward	1,281	-4,503
Tax-free returns and non-deductible expenses	-3,803	-4,362
Effects of trade tax exemption	37,451	21,900
Net gains/losses from consolidation	-1,214	2,034
Devaluation of convertible bond issues	0	7,929
Others	-560	951
Actual net income tax expense	**-46,015**	**-27,715**

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

The theoretical tax rate is calculated as follows:

Theoretical tax rate in %	2016	2015
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 18.65% (previous year: 15.83%).

Excluded from deferred income tax assets are unused corporate tax losses of EUR 178 million (previous year: EUR 190 million) and unused trade tax losses of EUR 158 million (previous year: EUR 167 million), as well as interest carried forward of EUR 17 million (previous year: EUR 24 million), as utilisation currently does not appear to be likely. The sum total of unrecognised temporary differences in connection with shares in subsidiaries and associated companies stands at EUR 42 million (previous year: EUR 30 million). The Group does not expect any strain from this, as there are currently no plans to sell these shares.

7. Properties held as inventories and other inventories

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

Investment properties	TEUR
Amount on 01/01/2015	**19,308**
Additions	5
Impairments	-193
Disposals	-6,311
Amount on 12/31/2015	**12,809**
Additions	8,600
Impairments	-2,150
Disposals	-3,427
Reclassification from investment properties	35,858
Amount on 12/31/2016	**51,690**

The transfer from investment properties concerns a former commercial real estate asset that is to be developed and sold as a student dormitory.

The assets reported within properties held as inventories are secured by mortgages or the assignment of rental income in the amount of TEUR 9,382 (previous year: TEUR 12,809). This item also includes real estate which will probably only be sold after more than twelve months as of the reporting date.

Other inventories primarily comprise heating fuel.

8. Trade receivables

Trade receivables break down as follows:

Trade receivables	2016 TEUR	2015 TEUR
Rent receivables	11,008	11,366
Receivables from the sale of properties	2,250	16,838
Others	1,384	1,655
Total	**14,642**	**29,859**

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

Impairments of trade receivables are analysed in the following table:

Individual impairments	TEUR
Amount on 01/01/2015	**13,392**
Utilised	-5,117
Reversed	-6,128
Additions	9,202
First-time consolidation	761
Amount on 12/31/2015	**12,110**
Utilised	-5,421
Reversed	-4,605
Additions	7,593
First-time consolidation	389
Amount on 12/31/2016	**10,066**

In the year under review, impairments of TEUR 4,735 (previous year: TEUR 4,994) were recognised on trade receivables in the income statement due to insufficient credit worthiness on the part of tenants.

9. Other current assets

Other current assets break down as follows:

Other current assets	2016 TEUR	2015 TEUR
Rechargeable retirement benefit obligations	4,396	4,436
Loans to shareholders with non-controlling interests	3,004	2,282
Excess payments to suppliers	2,781	3,331
Receivables from associated companies	277	271
Others	623	2,874
Total	**11,081**	**13,194**

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

10. Cash and cash equivalents

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

As of the reporting date, cash and cash equivalents of TEUR 7,441 (previous year: TEUR 7,923) were subject to drawing restrictions. The amount reported refers to incoming payments subject to temporary restrictions from sales as well as bank balances pledged in the short term for maintenance activities.

11. Non-current assets held for sale

The non-current assets held for sale as of the reporting date comprise solely investment properties and primarily relate to commercial real estate assets valued at around EUR 12m in the "Others" segment, whereas in the previous year, the Rhein/Ruhr segment had primarily been concerned (EUR 21m).

12. Equity

Share capital

The Company's fully paid-up share capital stood at EUR 146,498,765.00 as of 31 December 2016 (previous year: EUR 136,596,330.00), and was divided into 145,498,765 (previous year: 136,596,330) shares. They are bearer shares.

Treasury stock

In a resolution passed at the annual general meeting on 13 June 2014, the Company is authorised until 12 June 2019 to buy treasury stock in an amount of up to 10% of the existing share capital upon the authorisation taking effect - or if less - upon the authorisation being exercised. The Company made use of this authorisation in 2015 to buy back 13,127,178 shares. In 2015, 2,000,000 shares were reissued and swapped for shares in Colonia. In 2016, a further 2,032,054 shares were reissued and swapped for shares in Colonia. In addition, 5,000,000 shares were placed with institutional investors. As of 31 December 2016, the Company therefore held 4,095,124 (previous year: 11,127,178) shares as treasury stock under this authorisation. These shares are held by a 100% subsidiary.

A resolution was passed at the annual general meeting on 17 June 2016, authorising the Company until 16 June 2021 to buy treasury stock in an amount of up to 10% of the existing share capital upon the authorisation taking effect - or if less - upon the authorisation being exercised. The authorisation may not be utilised by the Company to trade in treasury stock. In addition to the customary statutory possibilities for use, the shares may also be allocated and transferred to members of the Management Board in connection with the determination of variable remuneration. The Company made use of this authorisation in 2016 to buy back a total of 60,000 TAG shares via the stock exchange.

Reported subscribed capital less treasury stock thus stands at EUR 142,343,641.00 (previous year: EUR 125,469,152.00).

Authorised Capital 2012/I

In a resolution passed at the annual general meeting held on 14 June 2012, shareholders approved the creation of ‘Authorised capital 2012/I’ and authorised the Management Board subject to the Supervisory Board’s approval to increase the Company’s share capital by a total amount of no more than EUR 40 million by issuing up to 40 million no-par-value ordinary shares on a cash and/or non-cash basis once or on repeated occasions on or before 13 June 2017. The Management Board last made partial use of this authorisation in 2012, as a result of which the authorised capital currently stands at EUR 8,190,307.00.

Authorised capital 2013/I

In a resolution passed at the annual general meeting of 14 June 2013, further capital was authorised (‘Authorised capital 2013/I’). The Management Board was authorised, subject to the Supervisory Board’s approval, to increase the Company’s share capital once or repeatedly on or before 13 June 2018 by a maximum amount of EUR 20 million by issuing up to 20 million no-par value shares. The Management Board has so far not made any use of this authorisation.

Contingent capital

The Company has various types of contingent capital and authorisation granted by the shareholders covering in part the convertible bonds it has issued in the last few years. Following the exercise of conversion rights in 2016, there was a change in the Company's share capital. There are currently no convertible bonds outstanding.

- Share capital increased by a further 15 million shares through the utilisation of Contingent Capital 2011/I, which had been approved in a resolution passed at the annual general meeting of 26 August 2011. It was used to cover the convertible bonds of EUR 85.3 million (securities code number A1PGZM), which were called in by the Company with effect from 22 August 2016. Following the exercise of conversion rights in the year under review, the Company's share capital increased by 9,902,435 shares.
- Share capital increased by a further 13 million shares through the utilisation of Contingent Capital 2013/I, which had been approved in a resolution passed at the annual general meeting of 14 June 2013. New shares will only be issued under this authorisation to the extent that convertible and option bonds with a total amount of up to EUR 160 million are issued on or before 13 June 2018 under the authorising resolution of 14 June 2013, and the holders or creditors of such bonds are granted further conversion or option rights for new shares in TAG.
- Share capital increased by a further 20 million shares through the utilisation of Contingent Capital 2015/I, which had been approved in a resolution passed at the annual general meeting of 19 June 2015. New shares will only be issued under this authorisation to the extent that convertible and option bonds with a total amount of up to EUR 300 million are issued on or before 18 June 2020 under the authorising resolution of 19 June 2015, and the holders or creditors of such bonds are granted further conversion or option rights for new shares in TAG.

Profit participation rights

In a resolution passed by the shareholders at the annual general meeting on 14 June 2012, the Management Board was authorised subject to the Supervisory Board's approval to issue once or repeatedly profit participation rights free of any conversion or option rights with respect to the Company's shares on or before 13 June 2017. The total nominal amount of the profit participation rights may not exceed EUR 100 million. The Company had not utilised this authorisation as of 31 December 2016.

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.

Other reserves

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

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

Hedge accounting reserve	2016 TEUR	2015 TEUR
Amount on 01/01	**-2,446**	**-5,727**
Unrealised gains and losses	3,260	3,319
Recorded in profit and loss	-905	993
Deferred income tax effect	-572	-1,031
Amount on 12/31	**-663**	**-2,446**

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.

Cumulative consolidated earnings

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

Subject to the Supervisory Board's consent, the Management Board of TAG plans to propose an increased dividend of EUR 0.57 per share for 2016 (previous year: EUR 0.55 per share) for approval by the shareholders.

Non-controlling interests

This item refers to the shares held by minority shareholders in the equity and net profit or loss for the year of the consolidated subsidiaries Any compensation accruing to these shareholders in the form of annual guaranteed dividends over an interminable minimum period is recognised within other non-current liabilities.

The net profit attributable to the equity holders of the parent company equals the difference between the consolidated net profit before non-controlling interests and the non-controlling interests reported on the income statement.

13. Liabilities to banks

Liabilities to banks break down as follows: For the most part, collateral takes the form of real property liens, the assignment of rental income and pledges of 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).

14. Liabilities from corporate bonds

The bond issued in August 2013 and increased in February 2014 has a total volume of EUR 310 million. It has a coupon of 5.125% p.a. and a term of five years. In June 2014, TAG issued a further bond of EUR 125 million with a coupon of a nominal 3.75% and a term of six years. The interest deferred as of the reporting date is recognised within current liabilities.

15. Liabilities from convertible bonds

In 2016, an offer was submitted for the early conversion of the final convertible bond issued by TAG at a still outstanding nominal value of EUR 74.5 million (original nominal value: EUR 85.3 million; book value at the end of the previous year: EUR 70.9 million) with an additional cash settlement. The offer was accepted with respect to a nominal value of EUR 70.1 million; the cash settlement came to around EUR 9 million and was recognised as interest expense. The ensuing termination of the remaining convertible bonds resulted in a further conversion of a nominal amount of EUR 3.9 million and repayment of the remaining amount of EUR 0.5 million. The convertible bonds with a nominal value of EUR 10.8 million previously held by the Company itself and not included in the balance sheet were cancelled in connection with this transaction. Accordingly, no convertible bonds were outstanding as of the reporting date.

16. 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. In addition, a guaranteed purchase price was granted in connection with the sale of shares in a subsidiary under which TAG is required to pay compensation in the event of any impairment upon the potential resale of the shares.

More details can be found in the section on interest risks.

17. Retirement benefit provisions

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

Net liabilities	2016 TEUR	2015 TEUR
Recognised on the face of the balance sheet as of 01/01	**6,020**	**6,317**
Recognised appropriation	311	46
Reimbursement recognised (within equity)	159	15
Pension payments	-358	-358
Amount on 12/31	**6,132**	**6,020**

An amount of TEUR 4,396 (previous year: TEUR 4,436) of this obligation concerns claims toward a subsidiary acquired in an earlier year for which there is a right of recovery against the former shareholder. The corresponding reimbursement claim is reported within other assets.

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

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

Retirement benefit provisions	2016	2015
Interest rate in %	1.57	2.04
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 356 (previous year: TEUR 353) is due for payment within one year. These amounts together with other pension obligations are reported within non-current liabilities.

As in the previous year, the present value of the defined-benefit obligation corresponds to the liability shown in the consolidated balance sheet. The present value of the defined benefit obligation as of the applicable reporting date stood at TEUR 6,317 in 2014, TEUR 5,618 in 2013, TEUR 5,126 in 2012 and TEUR 1,760 in 2011.

18. Other non-current liabilities

This item primarily includes the obligation to pay a guaranteed dividend to non-controlling shareholders of TEUR 4,060 (previous year: TEUR 0) as well as a residual purchase price obligation of TEUR 3,297 (previous year: TEUR 3,270) for a hereditary building right due for payment in 2023.

19. Other provisions

Other provisions break down as follows:

Other provisions in TEUR	Amount 01/01/2016	Utilised	Reversed	Added	Amount 12/31/2016
Outstanding invoices	9,720	8,194	1,507	13,529	13,548
Damages and litigation risk	3,152	1,919	67	1,864	3,030
Bonus	2,575	1,649	0	1,905	2,831
Legal, consulting and auditing costs	766	717	49	638	638
Others	1,072	850	92	1,344	1,474
Total	**17,285**	**13,329**	**1,716**	**19,280**	**21,521**

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

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

20. Trade payables

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

21. Other current liabilities

This item breaks down as follows:

Other current liabilities in TEUR	2016 TEUR	2015 TEUR
Put options of non-controlling shareholders	18,370	0
Tenant credit from advance payments and utility bills	14,385	11,643
Down payments received for real estate purchases	8,975	22,388
Obligations from associated companies	2,087	1,590
Deferrals and accruals	1,107	337
Others	5,587	3,634
Total	**50,511**	**39,592**

The liabilities under tender rights held by non-controlling shareholders concern a settlement offer submitted in 2016 to the external shareholders of TAG-Colonia-Immobilien AG, under which they were to transfer their shares to a 100% subsidiary of TAG in consideration of a cash payment of EUR 7.19 per share. This right continues to apply during the shareholder action, which was ongoing as of the date of these consolidated financial statements.

NOTES ON THE INCOME STATEMENT

22. Net rental income

Rental income is mostly generated from the rent of investment properties. Rental expenses break down as follows:

Rental expenses	2016 TEUR	2015 TEUR
Maintenance expenses	24,982	25,216
Non-recoverable charges	10,116	11,850
Operating costs of vacant real estate	10,554	10,564
Impairment losses on rent receivables	4,735	4,994
Property management expenses	141	1,194
Total	**50,528**	**53,818**

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 in the previous year. Reimbursements by tenants for operating and ancillary costs are netted with rental expenses.

23. Net revenues from sales

Net income from sales breaks down as follows:

Income from sales	2016 TEUR	2015 TEUR
Revenues from the sale of investment properties	45,796	191,100
Expenses on the sale of investment properties	-45,147	-170,941
Net income from the sale of investment properties	**649**	**20,159**
Net income from the sale of properties held as inventory	5,639	9,016
Revenues from the sale of inventories	-4,493	-9,107
Expenses on the sale of inventories	**1,146**	**-91**
Total	**1,795**	**20,068**

Sales in 2016 concentrated on individual apartments or apartment buildings as well as individual commercial real estate assets in several segments. In the previous year, revenues from the sale of real estate were mostly generated from the sale of investment properties in Berlin and Stuttgart. A deconsolidation gain of TEUR 7,270 arose from the sale of the asset company in Stuttgart.

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.

24. Other operating income

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

Other operating income	2016 TEUR	2015 TEUR
Revenues from property management	2,341	1,827
Reversal of provisions	1,715	1,989
Derecognition of liabilities	566	302
Income from impaired receivables	309	258
Other out-of-period income	1,051	1,732
Other	436	1,490
Total	**6,418**	**7,598**

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

25. Fair value changes in investment properties and valuation of properties held as inventory

This item comprises gains and losses from the fair value changes in of investment properties, the net fair value gains and losses on the purchase of investment properties and effects arising from the valuation of properties held as inventories. It breaks down as follows:

Fair value measurement of real estate	2016 TEUR	2015 TEUR
Investment properties		
Valuation gains on portfolio real estate	192,200	111,407
Valuation losses on portfolio real estate	-30,696	-49,355
Valuation gains on real estate sales	3,733	36,871
	165,237	**98,923**
Properties held as inventories		
Impairments	-2,150	-193
Total	**163,087**	**98,730**

26. Personnel expenses

Personnel expenses break down as follows:

Personnel expenses	2016 TEUR	2015 TEUR
Employees in operations	22,137	21,023
Administration and central functions	10,622	10,452
Caretakers	4,462	3,405
Craftsmen	835	366
Total	**38,056**	**35,246**

27. Other operating expenses

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

Other operational experditures	2016 TEUR	2015 TEUR
Legal, consulting and auditing costs (incl. IT consulting)	5,365	6,815
Cost of premises	1,963	1,924
Travel expenses (incl. motor vehicles)	1,480	1,314
Telephone costs, postage, office material	1,393	1,423
Other ancillary staff costs	1,206	856
IT costs	1,036	1,690
Repair costs for sold real estate	946	70
Investor Relations	923	734
Incidental cost of monetary transactions	659	684
Advertising	656	948
Insurance	519	473
Office furnishings and equipment	383	597
Contributions and donations	381	556
Other	1,787	4,371
Total	**18,697**	**22,455**

The figure for the previous year includes other taxes of TEUR 48, which were reported as a separate item in the income statement.

In the year under review, other operating expenses includes payments under operating leases of TEUR 2,900 (previous year: TEUR 2,953) for IT hardware, motor vehicles and office space.

28. Financial result

Financial result expense has the following structure:

Financial result in TEUR	2016 TEUR	2015 TEUR
Investment income	351	311
Result from associated companies	-11	-32
Depreciation of fincial assets	0	-469
Interest income	2,776	3,545
Interest expense	-92,603	-99,370
Finance income / expense	**-89,487**	**-96,015**
Non-cash interest on convertible bonds	514	1,611
Non-cash interest on corporate bonds	728	728
Non-cash interest on derivatives	360	2,508
Special effects (e.g. prepayment panalties) and other non-cash interest	12,062	6,709
Net finance income / expense (cash, without one-time invoice)	**-75,823**	**-84,459**

Investment income of TEUR 351 (previous year: TEUR 311) relates to long-term, non-controlling interest, as well as the depreciation expense recognised on financial assets in the previous year.

29. Earnings per share

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

Earnings per share	2016	2015
Consolidated net profit (in TEUR)		
Consolidated net profit excluding non-controlling interest	201,368	145,301
Interest expense on convertible bonds	2,490	5,217
Consolidated net profit excluding non-controlling interest (diluted)	203,858	150,518
Number of shares (in thousands)		
Weighted number on shares outstanding	135,666	123,118
Effect of conversion on convertible bonds	5,146	11,413
Weighted number of shares (diluted)	140,812	134,531
Earnings per share (in EUR)		
Basic	1.48	1.18
Diluted	1.45	1.12

NOTES ON THE CASHFLOW STATEMENT

The statement of cashflows from operating activities was prepared using the indirect method and distinguishes between operating, investing and financing activity. The cash and cash equivalents reported as of the balance sheet date 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 breaks down as follows:

Cash and cash equivalents	2016 TEUR	2015 TEUR
Cash and cash equivalents as reported on the balance sheet	74,487	103,833
Cash at banks subject to drawing restrictions	-7,441	-7,923
Cash and cash equivalents	**67,046**	**95,910**

NOTES ON SEGMENT REPORTING

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

TAG pursues a regional diversification strategy for its residential real estate. Reflecting the acquisition-driven growth in the real estate portfolio, the 'Dresden' segment (old) was subdivided into the 'Dresden' segment (new) and the 'Chemnitz' segment at the beginning of 2016. The other segments are Berlin, Dresden, Rhein-Ruhr, Erfurt, Gera, Hamburg, Leipzig, Rostock, Salzgitter and Other Activities The 'Other Activities' segment includes the service business, the remaining commercial real estate activities and the boarding houses operated by the Group.

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

As of the second quarter of 2016, the presentation of these figures has been widened by calculating segment earnings II on the basis of segment earnings I in light of the personnel expenses and other operating costs directly attributable to the LIM regions.

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

Segment earnings in TEUR	2016 TEUR	2015 TEUR (adjusted)
Segment earnings II	**189,502**	**168.931**
Capitalized investment costs not deducted from segment earnings	25,205	29,644
Non-allocated vacancy expenses	-10,554	-10,564
Net gains/losses from sales	1,795	20,068
Fair value changes in investment properties and valuation of properties held as inventory	163,087	98,730
Non-allocated staff costs	-23,015	-20,767
Depreciation and amortisation	-3,031	-3,110
Other non-allocated income and expenses	-6,808	-11,881
Net finance expense	-89,487	-96,015
EBT	**246,694**	**175,036**

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

DISCLOSURES ON FINANCIAL INSTRUMENTS

Risks as a result of financial instruments

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

Capital risk management

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

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

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

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

Equity ratio	**2016 TEUR**	**2015 TEUR**
Equity	1,365,568	1,120,552
Total assets	4,016,767	3,794,199
Equity ratio in %	**34**	**29.5**

Fair value of assets and liabilities

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

Level 1: Prices quoted on 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 2016.

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

	Fair value hierarchy	2016 TEUR	2015 TEUR
Assets			
Investment properties	Level 3	3,777,757	3,531,108
Derivatives with no hedging relationship	Level 2	5	14
Equity and liabilities			
Derivatives with no hedging relationship	Level 2	2,701	584
Derivatives with a hedging relationship	Level 2	1,254	4,850

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

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

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

31 December 2016	Book value TEUR	IAS 39 Category*	Fair value TEUR	Fair value hierarchy
Assets				
Other financial assets				
Investments	7,345	AfS	n/a	n/a
Other financial assets	281	LaR	281	Level 2
Trade receivables	14,642	LaR	14,642	Level 2
Other current assets	11,081	LaR	11,081	Level 2
Cash and cash equivalents	74,487	LaR	74,487	Level 2
Equity and liabilities				
Liabilities to banks	1,826,441	AmC	1,867,724	Level 2
Liabilities from corporate bonds	443,726	AmC	453,299	Level 2
Other non-current liabilities	7,478	AmC	7,478	Level 2
Trade payables	26,315	AmC	26,315	Level 2
Other current liabilities	36,053	AmC	36,053	Level 2
31 December 2015				
Assets				
Other financial assets				
Investments	7,345	AfS	n/a	n/a
Other financial assets	5,611	LaR	5,611	Level 2
Trade receivables	29,859	LaR	29,859	Level 2
Other current assets	13,194	LaR	13,194	Level 2
Cash and cash equivalents	103,833	LaR	103,833	Level 2
Equity and liabilities				
Liabilities to banks	1,834,875	AmC	1,889,821	Level 2
Liabilities from convertible bonds	70,976	AmC	75,703	Level 2
Liabilities from corporate bonds	443,731	AmC	459,385	Level 2
Other non-current liabilities	3,354	AmC	3,354	Level 2
Trade payables	14,629	AmC	14,629	Level 2
Other current liabilities	39,592	AmC	39,592	Level 2

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

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

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

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

Net profit/loss from financial instruments

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

31 December 2016	IAS 39 Category*	Interest TEUR	Impairments TEUR	Derecognition Liabilities TEUR	Others TEUR
Loans and receivables	LaR	1,631	-4,426	0	0
Investments	AfS	0	0	0	351
Financial liabilities	AmC	87,132	0	566	0
Derivative financial instruments with no hedging relationship	HfT	239	0	0	0
31 December 2015					
Loans and receivables	LaR	1,659	-4,736	0	0
Investments	AfS	0	-469	0	311
Financial liabilities	AmC	-89,852	0	302	0
Derivative financial instruments with no hedging relationship	HfT	-3,493	0	0	0

* 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 are comprised of 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 liabilities to banks. 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.

These interest rate swaps break down as follows:

Interest rate hedges (in TEUR)	**Nominal volume**		**Market values**	
	2016	**2015**	**2016**	**2015**
Interest rate swaps	50,780	152,215	-1,506	-5,434
■ due for settlement in less than 1 year	36,467	100,560	-764	-2,128
■ due for settlement in 1–5 years	14,313	51,655	-742	-3,305
Caps	9,281	9,617	4	14
■ due for settlement in 1–5 years	9,281	9,617	4	14
Total	**60,061**	**161,832**	**-1,502**	**-5,420**

Derivative financial instruments with a nominal value of EUR 15.5 million (previous year: EUR 20.4 million) and a fair value of EUR -0.2 million (previous year: EUR -0.6 million) are not included in a hedging relationship. The table also shows the periods in which the hedged payment flows arise in essentially identical parts. The Group assumes that the payment flows will also be included in net profit/loss for this period.

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

Changes in market interest rates	**2016 TEUR**	**2015 TEUR**
Change in market value in the event of a 0.5 percentage point increase in interest levels	207	825
Change in market value in the event of a 0.5 percentage point decrease in interest levels	-203	-828

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.

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

Interest sensitivity	**2016 TEUR**	**2015 TEUR**
Net borrowing costs in the year under review	-89,827	-95,825
Average interest rate for non-current loans in % (without interest rate hedge)	2.7	3.0
Average interest rate for current loans in % (without interest rate hedge)	2.9	2.1
Change in net borrowing costs in the event of a general 0.5% increase in interest rate	-1,058	-1,722
Change in net borrowing costs in the event of a general 0.5% decrease in interest rate	1,058	1,722

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

Credit risk

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

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

The book value of the financial assets recognised in the consolidated financial statements less any impairments constitute the Group's maximum credit risk. This does not include any collateral received.

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. It is not possible for the derivative financial assets of TEUR 4 (previous year: TEUR 14) reported as of 31 December 2016 to be offset from the balance sheet.

Liquidity risk

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

The following tables show the non-discounted cashflows of liabilities to banks as of the earliest day on which the Group is under any settlement obligation.

Liabilities to banks	2016 TEUR	2015 TEUR
Due for settlement in less than 1 year	150,683	204,088
1 to 5 years	585,334	526,420
More than 5 years	1,090,424	1,104,367
Total	**1,826,441**	**1,834,875**

In addition, there are estimated future payment outflows from interest on liabilities to banks due for settlement in less than one year of EUR 46 million (previous year: EUR 46 million), in more than one but less than five years of EUR 118 million (previous year: EUR 135 million), and in more than five years of EUR 254 million (previous year: EUR 322 million).

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	2016 TEUR	2015 TEUR
Due for settlement in less than 1 year	100,215	146,900
More than 5 years	7,626	12,956
Total	**107,841**	**159,856**

The Group is able to utilise overdraft facilities. The total unutilised amount as of the reporting date stands at EUR 7 million (previous year: EUR 11 million). The Group expects to be able to settle its liabilities from operating cashflow, the inflow of financial assets due for settlement and existing credit facilities at all times.

Finance risk

TAG is dependent on raising debt capital on reasonable terms to fund its ongoing business and acquisitions. In the event of a crisis in the international financial markets, TAG could find it substantially more difficult to raise the necessary funding and would thus experience liquidity problems. If this results in any problems in servicing ongoing loans, lenders could institute foreclosure proceedings, with 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 for a total of EUR 1,409 million (previous year: EUR 1,435 million) 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 2016, all main financial covenants stipulated in loan contracts were complied with.

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

Collateral

The Group holds collateral in the form of financial assets (on-demand accounts and savings accounts) from tenants valued at around EUR 42.7 million (previous year: EUR 38.4 million). The relevant contracts provide for collateral equalling three monthly rental instalments to be provided.

OTHER DISCLOSURES

Other financial obligations

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

Other financial obligations TEUR	**2016**	**2015**
Rentals for business premises	2,993	2,214
Other (e.g. manager contracts, leases, rental guarantees)	5,033	3,640
Total	**8,026**	**5,854**

One part of the other financial obligations of TEUR 3,702 (previous year: TEUR 3,751) is due for settlement in less than one year, a further part of TEUR 4,128 (previous year: TEUR 2,103) between one and less than five years and a further part of TEUR 197 (previous year: TEUR 0) in more than five years.

Minimum lease payments under operating leases

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

Material transactions with related persons

With the exception of the remuneration paid to the Company’s govering bodies as listed below, there were no transactions with related parties.

Fees payable to statutory auditors

The fees of a total of EUR 1,185 (previous year: TEUR 1,251) (plus value added tax at the statutory rate) payable within the entire Group for the services of the statutory auditors break down as follows:

- TEUR 1,174 (previous year: TEUR 1,157) for auditing services
- TEUR 11 (previous year: TEUR 35) for tax consulting services, and
- TEUR 0 (previous year: TEUR 59) for other services.

The fees for auditing activities include trailing costs of TEUR 79 (previous year: TEUR 162) for the prior year.

Number of employees

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

	12/31/2016	12/31/2015
Operational employees	489	462
Administration and central area	98	103
Caretakers	219	201
Handymen	27	15
Total	**833**	**781**

The annual average stood at 833 (previous year: 754).

Material events after the reporting date

After the reporting date, the purchase of a portfolio of residential real estate located in the city of Brandenburg comprised of a total of 1,441 units was announced. The purchase price including transaction costs to be paid by TAG stands at EUR 41.9 million. The portfolio generates net annual rent of around EUR 3.4 million and has a current vacancy rate of around 19.3%. The transaction is expected to close at the end of the second quarter of 2017.

On March 6, 2017, TAG Immobilien AG placed 4,095,124 treasury shares, corresponding to 2.8% of the company‘s share capital, with institutional investors in the course of an accelerated book-building process.

The placement price of the shares was EUR 12.48 per share. This transaction generated gross proceeds of EUR 51.1 million for the company.

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

TAG TSA Wohnimmobilien GmbH, Hamburg, and Bau-Verein zu Hamburg Immobilien GmbH, Hamburg, made use of the exemption provisions under Sections 264 (3) of the German Commercial Code in 2016.

Supervisory Board

The members of the Supervisory Board and the offices held by them in other supervisory boards or comparable domestic and international corporate governance bodies in 2016 are listed below:

- Rolf Elgeti, businessman, Potsdam (Chairman)
  - Fair Value REIT AG, Munich (Chairman)
  - 1801 Deutsche Leibrente AG (Chairman)
  - Social Commerce SE, Berlin (from July 2016)
  - Laurus Property Partners, London (Chairman, from July 2016)
- Lothar Lanz, businessman, Berlin (Deputy Chairman)
  - Axel Springer SE, Berlin
  - Zalando SE, Berlin (Chairman, from June 2016)
  - Home24 AG, Berlin (Chairman)
  - Dogan TV Holding A.S., Istanbul, Turkey
  - Bauwert AG, Bad Kötzting (Chairman)
  - Kinnevik AB, Stockholm (from May 2016)
- Dr Philipp K. Wagner, attorney, Berlin
  - TAG Colonia-Immobilien AG, Hamburg (until August 2016)
- Dr Hans-Jürgen Ahlbrecht, engineer, Berlin
- Harald Kintzel, attorney, Berlin, employee representative
- Marco Schellenberg, real estate management assistant, Gera, employee representative

The remuneration paid to the Supervisory Board in the year under review came to TEUR 365 (previous year TEUR 321) plus expenses and value added tax and breaks down as follows:

Supervisory Board Member	2016 TEUR	2015 TEUR
Rolf Elgeti	175	175
Lothar Lanz	105	73
Dr Philipp K. Wagner	20	20
Dr Hans-Jürgen Ahlbrecht	25	25
Harald Kintzel	20	13
Marco Schellenberg	20	13
Wencke Röckendorf	0	2
Total	**365**	**321**

Management Board

The members of the Management Board and the offices they hold on other supervisory boards or comparable domestic and non-domestic supervisory bodies in 2016 are set out below:

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

Total remuneration paid to the Management Board

Remuneration accruing to the Management Board in the year under review (incentives granted) came to TEUR 1,955 (previous year: TEUR 1,905). The amounts paid to the members of the Management Board in the year under review, which partially also include remuneration earned in earlier years, stand at TEUR 1,600 (previous year: TEUR 1,429).

in TEUR	Claudia Hoyer COO				Martin Thiel CFO				Dr Harboe Vaagt CLO			
	2015 (Actual)	2016 (Actual)	2016 (Min.)	2016 (Max.)	2015 (Actual)	2016 (Actual)	2016 (Min.)	2016 (Max.)	2015 (Actual)	2016 (Actual)	2016 (Min.)	2016 (Max.)
Granted												
Fixed remuneration	340	375	375	375	360	375	375	375	420	420	420	420
Ancillary benefits	14	14	14	14	7	7	7	7	14	14	14	14
Total	**354**	**389**	**389**	**389**	**367**	**382**	**382**	**382**	**434**	**434**	**434**	**434**
One-year variable remuneration	83	75	0	75	83	75	0	75	83	75	0	75
Multi-year variable remuneration	167	175	0	175	167	175	0	175	167	175	0	175
Total	**250**	**250**	**0**	**250**	**250**	**250**	**0**	**250**	**250**	**250**	**0**	**250**
Total remuneration	**604**	**639**	**389**	**639**	**617**	**632**	**382**	**632**	**684**	**684**	**434**	**684**
Inflow												
Fixed remuneration	340	375	375	375	360	375	375	375	420	420	420	420
Ancillary benefits	14	14	14	14	7	7	7	7	14	14	14	14
Total	**354**	**389**	**389**	**389**	**367**	**382**	**382**	**382**	**434**	**434**	**434**	**434**
One-year variable remuneration	77	83	0	83	58	83	0	83	77	83	0	83
Multi-year variable remuneration	21	63	0	63	0	0	0	0	41	83	0	83
Total	**98**	**146**	**0**	**146**	**58**	**83**	**0**	**83**	**118**	**166**	**0**	**166**
Total remuneration	**452**	**535**	**389**	**535**	**425**	**465**	**382**	**465**	**552**	**600**	**434**	**600**

As of 2016, half of the variable remuneration paid to the Management Board consisted of a cash component paid out in two consecutive parts, and the other half entitlement in TAG shares that are transferred to the members of the Management Board after a vesting period of three years. In 2016, each member of the Management Board acquired the right to receive 10,617 TAG shares on a future date on the basis of the volume-weighted average XETRA price of the TAG share in November and December 2016 (EUR 11.7732). Including a discount to allow for the absence of any dividend entitlement, this translates into a fair value of TEUR 115 per member of the Management Board as of as of 31 December 2016.

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

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

Hamburg, 8 March 2017

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

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by TAG Immobilien AG, Hamburg, comprising the 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 financial year from January 1, 2016 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch „German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, 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 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable 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, 8 March 2017

Claudia Hoyer
Claudia Hoyer
COO

M. Thiel
Martin Thiel
CFO

Dr Harboe Vaagt
CLO

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TAG FINANCIAL CALENDAR

PUBLICATIONS

23 February 2017	Publication of the preliminary results 2016
23 March 2017	Publication of Annual Report 2016
04 May 2017	Publication of Interim Report – Q1 2017
16 May 2017	Annual General Meeting, Hamburg
10 August 2017	Publication of Interim Report – Q2 2017
07 November 2017	Publication of Interim Report – Q3 2017

CONFERENCES

05 January 2017	Oddo European Mid Cap Forum, Lyon
16 January 2017	Kepler Cheuvreux German Corporate Conference, Frankfurt
15 February 2017	Oddo Seydler 11. Small & Mid Cap Conference, Frankfurt
10 March 2017	db Convertible Conference 2017, London
22 March 2017	Commerzbank German Residential Property Forum, London
23 March 2017	HSBC Real Estate Conference, Frankfurt
29 March 2017	Bankhaus Lampe, Deutschlandkonferenz, Baden-Baden
30 March 2017	Berenberg, Convertible Bond Conference, Paris
01 June 2017	3rd Kepler Cheuvreux German Property Day, Paris
07–08 June 2017	Kempen European Property Seminar, Amsterdam
22 June 2017	db Access Berlin Conference, Berlin
05–07 September 2017	EPRA Conference, London
13 – 14 September 2017	UBS Best of Germany Conference, New York
18 September 2017	Berenberg and Goldman Sachs Corporate Conference, Munich
19 – 21 September 2017	Baader Investment Conference, Munich

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The English version of the 2016 annual report is a translation of the German version. The German version is legally binding.

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