ANNUAL REPORT 2017

GROWING CASHFLOWS

TAG Immobilien AG

GROUP FINANCIALS

in TEUR	2017	2016 (adjusted)	2015 (adjusted)
Income statement key figures			
Rental income in total	293.0	275.2	259.3
EBITDA (adjusted)	198.2	175.2	160.7
Consolidated net profit	313.7	200.7	147.3
FFO I per share in EUR	0.87	0.72	0.62
FFO I	127.4	97.0	76.3
AFFO per share in EUR	0.58	0.37	0.29
AFFO	84.6	50.5	36.2
Balance sheet key figures	**12/31/2017**	**12/31/2016**	**12/31/2015**
Total assets	4,634.5	4,016.8	3,794.2
Equity	1,646.6	1,365.6	1,120.6
Equity ratio in %	35.5	34.0	29.5
LTV in %	52.3	57.1	62.4
Portfolio data	**12/31/2017**	**12/31/2016**	**12/31/2015**
Units	83,140	79,754	78,015
Real estate volume in TEUR	4,275.4	3,856.6	3,577.9
Vacancy in % (total)	5.8	6.5	8.2
Vacancy in % (residential units)	4.8	6.1	7.5
l-f-l rental growth in %	2.0	2.0	1.6
l-f-l rental growth in % (incl. vacancy reduction)	3.1	3.7	3.3
EPRA key figures	**12/31/2017**	**12/31/2016**	**12/31/2015**
EPRA Earnings per share in EUR	0.77	0.66	0.53
EPRA NAV per share in EUR	13.80	11.53	10.64
EPRA NNNAV per share in EUR	11.02	9.25	8.27
EPRA Net Initial Yields in %	6.3	6.9	7.1
EPRA Vacancy Rate in %	5.7	6.3	7.4
EPRA Cost Ratio (incl. vacancy costs) in %	32.4	36.3	38.0
EPRA Cost Ratio (excl. vacancy costs) in %	29.8	32.5	33.9
Employees	**2017**	**2016**	**2015**
Number of employees	961	833	781

Capital market data	
Market cap at 12/31/2017 in EUR m	2,320.5
Share capital at 12/31/2017 in EUR	146,498,765
WKN / ISIN	830350/ DE0008303504
Number of shares at 12/31/2017 (issued)	146,498,765
Number of shares at 12/31/2017 (outstanding)	146,438,765
Free Float in %	100
Index	MDAX/EPRA

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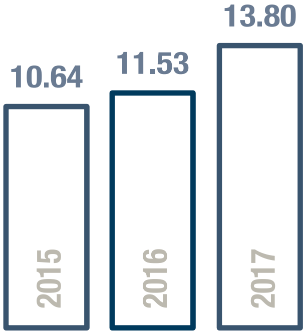
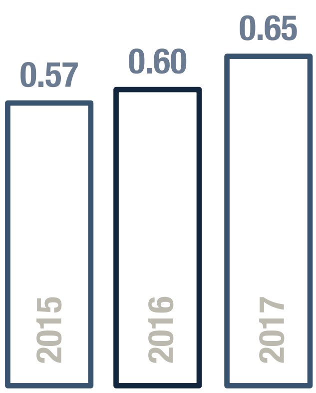
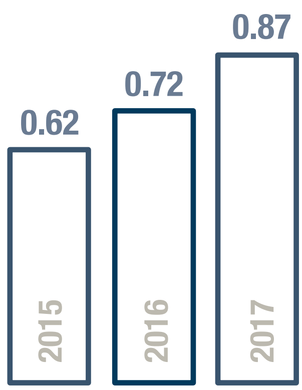
GROWING CASH FLOW



EPRA-NAV
per share in EUR



Dividends
per share in EUR

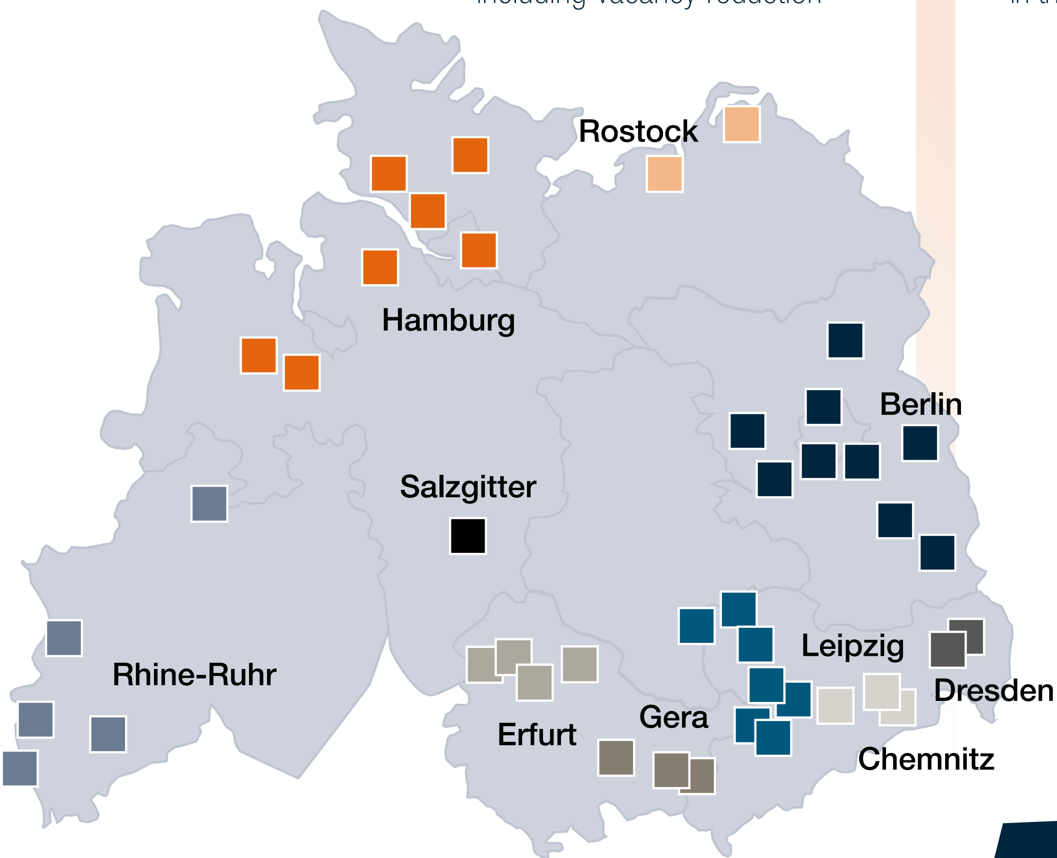


FFO I
per share in EUR

83,000
Residential Units

3.1%
Rental Growth
including vacancy reduction

4.8%
Vacancy
in the residential units



Gera (Thuringia)

FOREWORD

FOREWORD BY THE MANAGEMENT BOARD

Dear Shareholders,
Ladies and Gentlemen,

The letting of residential real estate is a long-term business. Trivial though that may sound, it means – besides incessant work and a constant willingness to change and improve – that you have to have the right strategy, and a sustainable one, from the start. The results of the 2017 financial year prove once again that the strategy we adopted a number of years ago is working. The residential real estate markets in former East Germany are on a steady upswing. Vacancy is shrinking, rents are growing, and not just in cities like Dresden, Leipzig or Potsdam. Numerous other eastern German mid-sized cities are also seeing growing economic strength and rising quality of life. This is good news for us, because nearly ten years ago we started investing heavily in these markets. Today, more than 70% of our portfolio is in the states of former East Germany, and their share continues to grow.

Against this backdrop, TAG's operating business delivered an excellent performance. Vacancy in the Group's residential units was reduced from 6.1% at the beginning of the year to just 4.8% in December 2017. In the overall portfolio, the vacancy rate at the end of 2017 dropped to 5.8% after 6.5% at the end of the previous year. On a like-for-like basis, i.e. if the portfolio had remained unchanged, total rental growth was maintained at an attractive level at 3.1% p.a. (previous year: 3.7% p.a.) – even though the total investment required to achieve this was still very moderate at EUR 15.12 per sqm (previous year: EUR 15.41 per sqm).

We took key steps not only on the operations side, but also in matters of financing in 2017. For instance, the loan-to-value (LTV) ratio was brought down to 52.3% at 31 December 2017. Compared to the previous year (57.1%), this is a reduction of almost 5%age points. More than EUR 630m in bank loans was refinanced ahead of schedule in 2017. Further successes in achieving an enduringly stable and attractive financing structure were our newly received Investment Grade rating, the inflow of funds from a new convertible bond of EUR 262m and the placement of treasury shares resulting in gross proceeds of EUR 51m. The average maturity of all financial liabilities is now at close to nine years, with average cost of debt reduced from 3.15% as at 31 December 2016 to just 2.34% at year-end 2017. Further interest savings will follow in 2018, when all the impact of refinancing operations have taken effect.

And finally, there were some very gratifying transactions to report on the acquisitions side. In 2017, we were able to purchase nearly 5,000 residential units at an average of just 12.2 times their current annual net rent. At close to 14%, the vacancy in the acquired portfolios offers further development potential. Among other things, we financed these acquisitions through the sale of approx. 2,000 residential units, some of them in high-priced markets, at an average multiplier of 18.7 times the annual net rent. This strategy of capital recycling, which we have been pursuing since the 2014 financial year, noticeably increases our portfolio's profitability and current cash flow. Supported by the good operating performance and the service business, which fully came into effect for the first time in 2017, the EBITDA margin improved by 4%age points.

As a result, funds from operations (FFO) soared by more than 30% to EUR 127.4m in the 2017 financial year, or by more than 20% per share to EUR 0.87. Therefore, our forecast of an FFO of EUR 119.0m to EUR 121.0m or EUR 0.82 per share, which we had already raised twice during the year, was significantly exceeded again. In addition to FFO, adjusted funds from operations (AFFO), which result from the FFO minus the total modernisation expenses, improved disproportionately year-on-year by EUR 34.1m to EUR 84.6m (+68%) or by EUR 0.21 per share to EUR 0.58 (+57%). Consolidated net income increased by 56% from EUR 200.7m in the previous year to EUR 313.7m in 2017.

Net asset value (NAV) per share increased to EUR 13.80 at the end of 2017 after EUR 11.85 at the end of the previous year as a result of a strong valuation result at the end of 2017, despite the dividend payment of EUR 0.57 per share in May 2017. Therefore, the real estate portfolio increased in value by around 14% year-on-year in 2017, underlining the price dynamics and positive economic development in the regions we manage. As a result, the real estate valuation, at an average of just under EUR 850 per sqm or just over 14 times the current annual net rent, is still at a conservative level and offers further potential for future increases in value.

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

With cash flows from its high-yield portfolio still on the rise, TAG is well positioned for the future. A further increase in the dividend to EUR 0.65 per share, which we intend to propose for the 2017 financial year, provides proof of this. For the 2018 financial year, we can already forecast a dividend of EUR 0.70 per share today.

Financial goals can only be achieved over a longer period of time if we act and conduct our business sustainably. This has always been our motivation at TAG, and now it is being documented transparently and in detail: concurrently with this year's Annual Report, we are publishing a separate Sustainability Report prepared in accordance with internationally recognised standards (GRI), which will give you an overview of the strategies we pursue in the areas of economy, ecology and social sustainability.

We would like to thank you, our shareholders, for your continued confidence in us and our strategy. Special thanks also go to our employees, who made this successful financial year 2017 possible with their great commitment and first-class work.

Kind regards,

Claudia Hoyer	M. Thiel	H. Vaagt
Claudia Hoyer	**Martin Thiel**	**Dr Harboe Vaagt**
COO	**CFO**	**CLO**

BOARD REPORT

SUPERVISORY BOARD REPORT FOR THE 2017 FINANCIAL YEAR

Dear Shareholders, Ladies and Gentlemen,

TAG Immobilien AG (TAG) once again had a successful business year in 2017, characterised by the very positive development of its operations, and outperformed its forecast, which had already been raised twice during the year. Purchases of close to 5,000 high-yield residential properties, especially at the end of the financial year, led to an increase in the residential portfolio to around 83,000 units at 31 December 2017, despite sales. The successful placement of 4.1 million treasury shares at gross issuing proceeds of EUR 51.1 million in March 2017, as well as the a placement of a EUR 262 million convertible bond in August 2017, prove that the capital market continues to approve of TAG's business performance and has the necessary confidence in the company. The gratifying increase in the stock price from EUR 12.56 at 31 December 2016 to EUR 15.84 at 31 December 2017 underscores this confidence. The Supervisory Board wishes to thank all shareholders and investors for their trust in TAG in financial year 2017.

Collaboration with the Management Board and monitoring of 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 discharge of its duties, and monitored its activities. It was also directly involved at an early stage in all decisions of fundamental importance for the company. In accordance with Section 90 paragraph 1 and paragraph 2 of the German Stock Corporations Act, the Management Board provided regular, up-to-date and comprehensive information on all relevant matters of corporate planning, strategy development, and in particular on acquisitions made and capital market activities in 2017. As in previous years, the Management Board's reporting covered the financial position and profitability of the Group's companies, its business progress, the risk situation, and its risk management and compliance. The reports were made in writing and orally. The Management Board was in regular contact with the Supervisory Board Chairman to coordinate major business events. Significant events were immediately brought to its attention.

Composition and organisation of the Supervisory Board

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, having resigned from it on 31 October 2014. The Supervisory Board believes that all members meet the criterion of independence as defined in paragraph 5.4.2 of the DCGK. The Supervisory Board members possess the knowledge, skills and professional experience required for the proper exercise of their duties, and collectively meet the expertise profile that the Supervisory Board drew up in its meeting on 9 September 2017 in accordance with the new DCGK recommendation. 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. These prerequisites and competencies will be taken into account when selecting future candidates to be proposed to a General Meeting for election to the Supervisory Board.

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 the adoption and / or approval of this documentation, and of the Management Board's proposal for the appropriation of net income. The Committee discusses with the Management Board the principles of compliance, risk assessment, risk management and the adequacy of the internal control system's effectiveness. The Audit Committee's duties also include preparing the appointment of the auditor by the Annual General Meeting and reviewing the required independence. The members of the Audit Committee possess accounting and auditing expertise. Mr. Lanz, as Chairman of the Audit Committee, meets the requirements of Section 100 paragraph 5 of the German Stock Corporations Act.

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

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

	Supervisory Board	Audit Committee	Personnel Committee
Rolf Elgeti	Chairman	Member	Chairman
Lothar Lanz	Deputy Chairman	Chairman	Member
Dr 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 together with the Management Board subjects and items requiring its approval. In urgent matters, resolutions were also adopted outside these sessions by written ballot or in conference calls. The following overview shows the attendance record of the Supervisory Board members in the 2017 financial year:

Meeting attendance by Supervisory Board members in 2017	20 Mar.	15 May	5 Sep.	29 Nov.
Rolf Elgeti	×	–	×	×
Lothar Lanz	×	×	×	×
Dr Hans-Jürgen Ahlbrecht	×	×	×	×
Dr Philipp K. Wagner	×	×	×	×
Harald Kintzel	×	×	×	×
Marco Schellenberg	×	×	×	×

At the meeting to approve the year-end financial statements on **20 March 2017**, the Supervisory Board dealt in detail with the Annual and Group Financial Statements for the 2016 financial year, and with the results of the review by the auditor, whose representatives personally attended the meeting to report on the outcome of the audit. The financial statements were extensively discussed with the auditor. Furthermore, the resolution items for the agenda of the AGM on 16 May 2017 were adopted, and the projects to acquire approx. 1,250 residential units in Halle an der Saale and approx. 1,450 residential units at various locations in Saxony-Anhalt, Lower Saxony, and Thuringia were approved at this meeting.

At the meeting on **15 May 2017**, besides preparations for the Annual General Meeting on 16 May 2017, the sale of approx. 460 units in Freiburg as well as various refinancing matters were on the agenda. In particular, the early refinancing of major bank loans maturing in 2018, as well as options for refinancing a corporate bond that also matures in 2018, were discussed, as the Board was planning to take advantage of the low interest rate levels.

The meeting on **5 September 2017** was about current acquisition activities, as well as the preparations for CSR reporting, which had already been initiated as a separate in-house project at TAG in Q2 2017 with a view to mandatory reporting coming into force in 2018. Corporate Governance was a focus of this meeting. The Supervisory Board discussed the changes to the DCGK, especially new items and in particular the further adjustment to the parameters for determining the long-term variable remuneration of Board members, and the findings of the efficiency audit.

At the meeting on **29 November 2017**, the Management Board presented the planning for 2018 to 2020 to the Supervisory Board, which the Supervisory Board took note of and approved. The Supervisory Board also dealt with planned acquisitions and sales, and in detail with TAG's digitalisation strategy. The Management Board presented ongoing projects and future plans and put forward various ideas for discussion. Finally, the Supervisory Board approved a new regulation to determine the variable remuneration of Management Board members with effect from 1 January 2018, and together with the Management Board adopted the Compliance Statement for 2017.

Beyond these Supervisory Board meetings, other resolutions were passed by written circulation and in conference calls, which among other things concerned the placement of treasury shares in March 2017 and the convertible bond issue in August 2017.

Döbeln (Saxony)

Committee Work

During the reporting year, the **Audit Committee** held three meetings in which it dealt with relevant items of the Supervisory Board's work. Representatives of the auditor attended parts of two of the meetings, and in this context reported on the voluntarily commissioned audit review of the interim financial statements as at 30 June 2017.

The focus of the deliberations in 2017 was the valuation of the property portfolio and the preparations to have the planning for the years 2018 to 2020 approved by the full Supervisory Board. The Audit Committee recommended that the Supervisory Board propose KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2017 financial year at the AGM on 16 May 2017. In the year under review, the Committee also approved the commissioning of KPMG to provide services that were not included in the audit assignment. 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.

Meeting attendance by Supervisory Board members on the Audit Committee in 2017	16 Feb.	5 Sep.	6 Nov.
Lothar Lanz (Chairman)	×	×	×
Rolf Elgeti	×	×	×
Dr Hans-Jürgen Ahlbrecht	–	×	×

In the year under review, the HR Committee discussed the revision of the variable remuneration of the Management Board, which had become necessary in light of the amendment to the DCGK/Code. It prepared the resolution for the full Supervisory Board at its meeting on 29 November 2017, and expressed its support for the resolution.

Auditors for the 2017 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 16 May 2017, to audit the annual financial statements of TAG Immobilien AG as at 31 December 2017, in accordance with the recommendations of the DCGK.

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

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, first audited the annual financial statements and the consolidated financial statements of TAG Immobilien AG for financial year 2012. Since then, the key audit partner has been Mr Niels Madsen WP/StB, who together with Mr Achim Bagehorn WP/StB, signed the audit certificate for annual financial statements and consolidated financial statements as at 31 December 2017.

Approval of annual financial statements and consolidated financial statements

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and management report prepared according to German accounting regulations, as well as the consolidated financial statements, including the Group management report for financial year 2017, which were prepared in accordance with 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 after the Audit Committee had already dealt with the results in detail and discussed them with the auditors prior to this meeting, and during the audit process. The auditors 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 0.65 per share. The annual financial statements and the consolidated financial statements prepared by the Management Board were thus approved/accepted by the Supervisory Board.

Review of the Non-Financial Statement (CSR Report)

For the first time, the Supervisory Board and the auditor meeting on 20 March 2018 also included a review of a non-financial statement ('CSR Report' in the following), which was submitted for the first time for the 2017 financial year. The CSR report in which non-financial aspects such as environmental issues, employee and social issues and other aspects related to TAG's business activities are reported on, is published separately from the management report and can be viewed in the 'Investor Relations' section of the TAG website at www.tag-ag.com. The Supervisory Board and the Management Board had agreed on this reporting format at the meeting on 5 September 2017.

The Supervisory Board examined the CSR report and approved it. It considers its content to be correct and deems it to be appropriate, as the reported content complies with the company's goals. Details of the CSR report were discussed with the Management Board at the meeting on 20 March 2018.

Corporate Governance

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

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

In 2017, the company's Declaration of Conformance was approved at the November meeting. Apart from the exception stated just above, and with the new regulation to determine the variable remuneration of Management Board members adopted on 29 November 2017, though it does not become effective until 1 January 2018, the company follows all of the recommendations of the German Corporate Governance Code. Please also refer to the Corporate Governance Report for financial year 2017.

Finally, the Supervisory Board would like to commend and thank the Management Board and all employees of the TAG Group, whose strong commitment and dedication made possible the Group's exceedingly positive performance in the first place, for their efforts.

Hamburg, March 2018

The Supervisory Board

Rolf Elgeti
Chairman of the Supervisory Board

GOVERNANCE

CORPORATE GOVERNANCE

Report on Corporate Governance at TAG Immobilien AG in FY 2017

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

In accordance with Section 3.10 of the German Corporate Governance Code (the 'DCGK'), the Management Board and Supervisory Board issue the following report for the TAG Group, which also includes the Remuneration Report published within the Group Management Report for the 2017 business year. The Corporate Governance Statement in accordance with Section 289a of the German Commercial Code is posted on the TAG homepage at www.tag-ag.com/en/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: 24 April 2017). 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 2017, the Supervisory and Management Boards reviewed the Declaration of Compliance for 2017 and jointly adopted it.

TAG only deviates from one point of 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.

TAG deviates only slightly from the provisions of the Code. It does not follow the recommendation of Clause 4.2.1, to appoint a Management Board spokesman or chairman, and will only implement the amendment to the recommendation for determining long-term variable remuneration (Clause 4.2.3), which was adopted in 2017, starting with FY 2018. For the reasons for these deviations, please refer to the remarks in the Declaration of Conformity printed below, and to the Supervisory Board Report for the 2017 financial year.

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

Given the reduction of the Management Board of the company to just three members effective 1 November 2014, the Management Board of the company has had no spokesman or Chairman since 1 November 2014. Thus, 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 the allocation of businesses, and that the full board can appropriately represent the company to the outside.

According to the version of the DCGK dated 24 April 2017 – which was newly published in the current financial year 2017 – the variable components of a Management Board member's remuneration are always to be calculated based on several years, with a focus on the future (Section 4.2.3). The discussion about the resulting need for changes in the variable remuneration of the Management Board was held immediately after this announcement and was resolved on 29 November 2017, effective 1 January 2018, so that the recommendation in Item 4.2.3 paragraph 2 sentence 2 was not complied with for financial year 2017, but will be complied with in the future. Because the variable compensation is calculated based on full-year figures, an adjustment during the year under review for the current financial year was also not opportune.

Hamburg, December 2017

Management Board and Supervisory Board
of TAG Immobilien AG

Diversity and the composition of the Supervisory Board

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

- Each member of the Supervisory Board shall possess the knowledge, skills and professional experience required for the proper exercise of their duties, and shall be sufficiently independent. Each Board member shall ensure that they have enough time to devote to fulfilling their mandate. Board members should not hold office longer than until the end of the Annual General Meeting that follows their 75th birthday.
- Each Board member who also sits on the Executive/Management Board of a listed company may not accept more than a total of five Supervisory Board positions at listed companies that are not part of the Group of whose Executive Board they are a member.
- No more than two former members of the company's Management Board may sit on the Supervisory Board. The Supervisory Board should have at least two members who it regards as being independent. In particular, a Supervisory Board shall not be regarded as independent if it is in a personal or business relationship with the Company, its boards, a controlling shareholder or a company affiliated with the latter that may constitute a significant and not merely temporary conflict of interest.
- Members of the Management Board may not sit on the Company's Supervisory Board until two years have passed since the end of their Management Board term, unless shareholders who hold more than 25% of the voting rights in the Company propose their appointment. In such a case, the move to the Supervisory Board shall be an exception, the reasons for which are to be provided to the Annual General Meeting.
- The Supervisory Board has set the age limit for the Management Board at 67.

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

Since the DCGK in its version dated April 24, 2017 recommends the creation of a 'competence profile' be drawn up, the Supervisory Board again discussed its composition at its meeting on 5 September 2017 and further specified the aforementioned criteria. The following competencies are to be considered in the composition and selection of future candidates:

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

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

Independent of the statutory requirement that came into force in 2015 to strengthen the proportion of women in leaderships positions, care had already been taken to ensure an equitable representation of women in the entire Group in years past. The Supervisory Board set a minimum quota of 30% for the Management Board, which has been met for many years. 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 backdrop, while the Supervisory Board strives to increase the share of women on the Board, it will stick by the gender quota of 0% as determined at its meeting of 3 September 2015, so as not to restrict its discretionary powers with regard to the listed prerequisites and competencies when selecting the candidates, or prejudice the shareholder representatives' vote in 2018. Overall, TAG is well positioned in terms of the proportion of women in management levels. In the senior management – i.e. the first and second tiers of management – where the women's quota set by the Management Board is 40% of minimum, the percentage of women was around 53% as of 12/31/2017.

Disclosure of conflicts of interest

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

Directors' dealings and shareholdings

On the reporting dates of 31 December 2016 and 31 December 2017, the following shares were held by Board members:

	31 December 2016			31 December 2017		
Shareholders	**Shares (direct)**	**Shares (Remuneration programme)**	**Total**	**Shares (direct)**	**Shares (Remuneration programme)**	**Total**
Rolf Elgeti	20,000	0	20,000	20,000	0	20,000
Lothar Lanz	5,000	0	5,000	5,000	0	5,000
Dr Philipp K. Wagner	0	0	0	0	0	0
Dr Hans-Jürgen Ahlbrecht	4,500	0	4,500	4,500	0	4,500
Harald Kintzel	0	0	0	0	0	0
Marco Schellenberg	0	0	0	0	0	0
Total Supervisory Board	**29,500**	0	**29,500**	**29,500**	0	**29,500**
Claudia Hoyer	9,000	10,617	19,617	9,000	18,702	27,702
Martin Thiel	8,000	10,617	18,617	12,383	18,702	31,085
Dr Harboe Vaagt	10,085	10,617	20,702	15,085	18,702	33,787
Total Management Board	**27,085**	**31,851**	**58,936**	**36,468**	56,106	**92,574**
Total	**56,585**	**31,851**	**88,436**	**65,968**	56,106	**122,074**

During the 2017 financial year, shares were acquired by Dr Harboe Vaagt (5,500 shares), and Mr Martin Thiel (4,382 shares). In addition, each of the three members of the Management Board was promised 8,085 (previous year: 10,617) shares as part of their variable long-term remuneration for 2017. These, however, will only become available to them after a three-year vesting period.

These shares to which the Management Board is entitled under the remuneration programme comprise the company's treasury shares (see also the following explanations about the remuneration of the Management Board).

Remuneration of the Supervisory Board

The remuneration paid to members of the Supervisory Board was set based on a resolution from 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 or other criteria 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 from Annual General Meeting of 19 June 2015. The Chair receives EUR 75,000.00. Each member except the Chairman of the Supervisory Board receives EUR 5,000.00 each. The members of the HR Committee receive an attendance fee of EUR 500.00 per meeting.

In all, the following remuneration (net of VAT and expenditures) was provided for 2017:

Supervisory Board Member	2017 TEUR	2016 TEUR
Rolf Elgeti	175	175
Lothar Lanz	105	105
Dr Philipp K. Wagner	20	20
Dr Hans-Jürgen Ahlbrecht	25	25
Harald Kintzel	20	20
Marco Schellenberg	20	20
Total	**365**	**365**

Remuneration of the Management Board

The members of the TAG Management Board receive a fixed-base remuneration in cash and a variable component, which is paid out partly in cash and partly in the form of TAG shares. The variable remuneration of Management Board members is based on the provisions of Section 87 paragraph 1 sentence 3 of the DCGK. It is tied to the achievement of the company's business goals and is primarily based on the results of a financial year and their development. For 2017, the variable remuneration, which is calculated and determined based on the result of a financial year by the Supervisory Board at its balance sheet meeting, will still be 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.

As of 1 January 2018, a new regulation adopted by the Supervisory Board in its meeting on 29 November 2017 in light of the 2017 update of the DCGK will apply. It distinguishes between a Short- and Long-Term Incentive Plan, and in the case of the Long-Term Incentive Plan is based on a multi-year future-focused assessment.

Dresden (Saxony)

The detailed compensation report for the 2017 financial year and the details of the rules which apply as of 1 January 2018 are presented in the remuneration report within the Group Management Report for the 2017 financial year. Please refer to the comments included therein.

Compliance

'Compliance' refers to the observance of and compliance with the laws that apply for TAG's business activities, the recommendations of the German Corporate Governance Code, and the Company's own internal policies and directives. In-house policies and instructions are part of TAG's compliance management system, which is regularly reviewed and updated. Since 2017, it also includes the option for employees to report legal violations of the company using a protected communication channel.

Compliance is part of TAG's internal system of controls, alongside risk management and the Internal Audit department. The Management Board regularly reports to the Supervisory Board regarding the risk situation, risk management and risk controlling, as well as compliance. The Compliance Officer and the Internal Audit department report directly to the Management Board.

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

EPRA

EPRA REPORTING

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

EPRA Earnings

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

in EUR m	2017	2016
Net income	**313.7**	**200.7**
Fair value changes in investment properties and valuation of properties held as inventory	-293.0	-163.1
Deferred income taxes	76.9	43.6
Deferred income taxes on valuation result	0.0	-1.8
Cash taxes on net revenues from sales	0.0	0.7
Fair value valuation of derivative financial instruments	1.2	0.3
Breakage fees from the early repayment of bank loans	14.4	10.5
Cash dividend payments to minorities	-0.8	-0.7
EPRA Earnings	**112.4**	**90.2**
Deferred income taxes (other than on valuation result)	2.8	0.7
Other non-cash financial results	-0.2	2.9
Non-recurring effects	8.5	0.9
Depreciation/amortisation	3.9	3.0
Cash taxes on net revenues from sales	0.0	-0.7
Adjusted EPRA Earnings (FFO I)	**127.4**	**97.0**
Weighted average number of shares (outstanding)	145.709*	135.666
EPRA Earnings per share in EUR	**0.77**	**0.66**
Adjusted EPRA Earnings (FFO I) per share in EUR	**0.87**	**0.72**

*Not including potential shares from the Convertible Bond 2017/2022 (does not currently trade 'in money')

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

The special items in the reporting year relate to the provisions of EUR 8.5m for potential tax risks. In the previous year, special items were mainly related to project costs resulting from the conversion of the ERP system, and severance payments for personnel.

EPRA NAV

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

EPRA NNNAV

in EUR m	12/31/2017	12/31/2016
Consolidated equity (before non-controlling interests)	1,625.9	1,350.9
Deferred income taxes on investment properties and derivative financial instruments	362.3	287.1
Fair value of derivative financial instruments	8.4	4.0
Difference between fair value and book value for properties valued at cost	24.8	0.0
EPRA NAV (fully diluted)	**2,021.4**	**1,642.0**
Number of shares (outstanding)	146.439*	142.344
EPRA NAV per share in EUR	**13.80**	**11.53**

*Not including potential shares from the Convertible Bond 2017/2022 (does not currently trade ‘in money’)

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

in EUR m	12/31/2017	12/31/2016
EPRA NAV	**2,021.4**	**1,642.0**
Fair value of derivative financial instruments	-8.4	-4.0
Deferred income taxes	-362.3	-287.1
Difference between the fair value and book value of liabilities to banks and corporate bonds	-54.7	-50.9
Deferred income taxes	17.7	16.4
EPRA NNNAV (fully diluted)	**1,613.7**	**1,316.4**
Number of shares (outstanding)	146.439*	142.344
EPRA NNNAV per share in EUR	**11.02**	**9.25**

*Not including potential shares from the Convertible Bond 2017/2022 (does not currently trade 'in money')

EPRA Net Initial Yield

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

in EUR m	12/31/2017	12/31/2016 (adjusted)
Annualised net annual rental income on the reporting date	303.3	286.4
Non-rechargeable ancillary expenses	-14.0	-15.6*
Rental income after non-rechargeable ancillary expenses	**289.3**	**270.8**
Adjustments for rental incentives (rent-free periods)	0.0	0.0
Rent after non-allocable utility costs and rental ads	**289.3**	**270.8**
Market value of total real estate assets	4,275.4	3,856.6
Transaction costs deducted (acquisition costs)	333.5	57.0
Market value of total real estate assets (gross)	**4,608.9**	**3,913.6**
EPRA Net Initial Yield in %	**6.3**	**6.9**
EPRA 'topped up' Net Initial Yield in %	**6.3**	**6.9**

* Regarding the adjustments to the comparable previous year figures, please refer to the 'Accounting policies-Changes in presentation in the Group income statement' section of the Notes to the consolidated financial statements for the 2017 financial year. This adjustment reduces the EPRA net initial yield or EPRA 'topped-up' net yield by 0.2 percentage points compared to the previous year's calculation.

EPRA Vacancy Rate

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

in EUR m	12/31/2017	12/31/2016
Estimated rental income in December	26.4	25.1
Estimated rental income lost as a result of vacancies in December	1.5	1.6
EPRA Vacancy Rate in %	**5.7**	**6.3**

EPRAC Cost Ratio

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

in EUR m	2017	2016 (adjusted)
Rental expenses	57.1	55.8*
Net income from property services	-15.3	-7.6*
Other operating income	-5.7	-4.1*
Personnel expenses	41.4	38.1
Non-recurring effects	25.8	18.7
One-time items and project costs	-8.5	-0.9
EPRA costs incl. vacancy costs	**94.8**	**100.0**
Vacancy costs	-7.6	-10.5
EPRA costs excl. vacancy costs	**87.2**	**89.5**
Rental income	293.0	275.2
EPRA costs ratio incl. vacancy costs in %	**32.4**	**36.3**
EPRA costs ratio excl. vacancy costs in %	**29.8**	**32.5**

* Regarding the adjustments to the comparable previous year figures, please refer to the 'Accounting policies-Changes in presentation in the Group income statement' section of the Notes to the consolidated financial statements for the 2017 financial year. This did not result in a change to the EPRA cost allocations of the previous year.

REPORT

GROUP MANAGEMENT REPORT 2017

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 2017 TAG managed around 83,000 residential units. TAG shares are listed in the MDAX of the Frankfurt Stock Exchange; TAG's market capitalisation at 31 December 2017 was EUR 2.3bn.

TAG's business model is the long-term letting of flats. All functions essential to property management are carried out by its own employees. In many inventories, the company also delivers caretaker services and – increasingly – repair handyman services. It specialises in inexpensive housing, addressing the needs of broad sections of the population. In the 2016 financial year, the existing business model was expanded by two fields. Since the establishment of in-house subsidiaries, the Group itself provides multimedia to tenants on the one hand, and handles commercial heating supply (energy management) for the Group's own portfolio on the other.

TAG deliberately invests in medium and smaller towns to take advantage of the potential for growth and profit here, as well as in and near big cities. The newly acquired portfolios usually have higher vacancy rates, which are then reduced following the acquisition, through targeted investments and proven asset management concepts. Investments are made exclusively in regions where TAG already manages assets, to be able to use existing administrative structures. Also, local knowledge of the market is essential in the acquisition 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 into new portfolios with higher yields. This strategy of 'capital recycling' is TAG's response to the intense competition for German residential real estate, and focuses on return based on the individual share. Growth in absolute orders of magnitude is no longer at the forefront of the corporate strategy. Instead, the aim is to offer tenants affordable housing through sustained and active portfolio management, and investors growing cash flows 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, Tax, Controlling, Human Resources, IT, Procurement and Law are located directly at TAG Immobilien AG. The Group consists of additional subgroups, operating subsidiaries and property companies, each of which own real estate inventories and are included in TAG's consolidated statements.

At 31 December 2017, 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 autonomously within the approved budget. The regions correspond to the segments presented in the segment reporting. LIMs operate as asset managers of their respective residential portfolios and are charged with managing their inventories with a view to rental performance, vacancy, maintenance and modernisation projects 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 of 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.

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, Multimedia for the properties, Business Development, Environmental Social Governance (ESG)
- 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

Management system
To monitor and steer its business activities, TAG uses a management system that is constantly updated.

Operative indicators
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 and 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.

Group controlling

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 for a period of twelve 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 Group level is part of this monitoring process, which is handled directly by the responsible Management Board member (CFO).

Social conditions and their influence on the real estate market

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

The urbanisation trend is having a positive effect in eastern Germany as well. Big cities like Berlin, Leipzig, Jena and Dresden have been clear winners of the migration to cities in recent years. The same goes for individual state capitals such as Potsdam, Erfurt or Magdeburg. Smaller university towns like Freiberg and Greifswald are attracting a lot of young people who want an urban lifestyle but cannot afford big-city rental prices. Over the past ten years, all of these cities have been above-average beneficiaries of the demand for housing.

Demographic change in Germany continues to be a driving influencing factor for the real estate sector: in the past three years, the population structure was dominated by migration (immigration and emigration). Germany continues to be the main destination for asylum seekers in the European Union. According to calculations of the Federal Statistical Office from the spring of 2017, Germany's population, currently at just under 83 million, should remain at this level or even increase over the next five years. In 2016, the total population increased by 346,000 (+0.4%). The increase in the previous year was an even higher increase at 1.2%, or around 978,000 people. At the end of 2016, the proportion of foreign nationals was 9.2m (+6.6% year-on-year). For 2017, net immigration from abroad is estimated to be at least +450,000. The need for affordable housing will therefore continue to increase. According to estimates, there is currently a shortfall of around one million homes across Germany. To counteract the high demand and scarcity of supply, 313,700 building permits for homes were granted between January and November 2017; however, that figure was around 8% higher in the previous year.

Sustainable corporate development

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

We have continued to develop our reporting on this topic, and this year are publishing a separate Sustainability Report for the first time. It is based on the standards of the Global Reporting Initiative (GRI) and the European Public Real Estate Association (EPRA).

The following aspects represent the Group's focuses in this context:

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

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

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

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

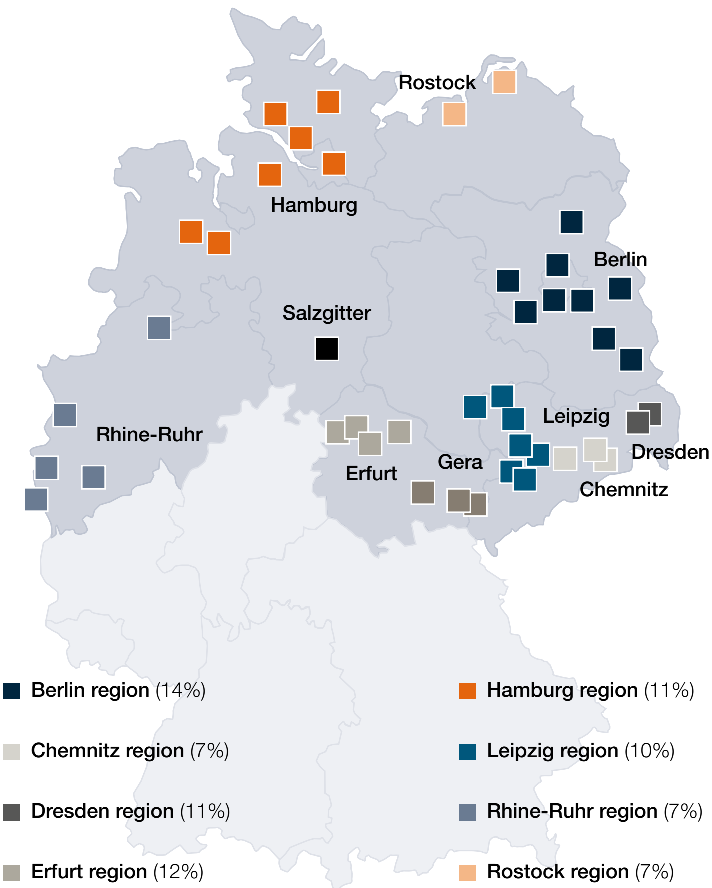
For further details, please see our Sustainability Report, which is not part of this Group Management Report and can be found on the TAG website at www.tag-ag.com/en under 'Investor Relations/Financial Reports/Sustainability Reports'.

c) Research & Development

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

Overview of the portfolio

At the end of the 2017 financial year, the TAG Group's property portfolio comprised approximately 83,000 units. The focus is on the management of attractive yet affordable housing, with great awareness of our social responsibility towards our tenants. The regional focus is mainly on northern and eastern Germany.



- **Berlin region** (14%)
- **Hamburg region** (11%)
- **Chemnitz region** (7%)
- **Leipzig region** (10%)
- **Dresden region** (11%)
- **Rhine-Ruhr region** (7%)
- **Erfurt region** (12%)
- **Rostock region** (7%)
- **Gera region** (10%)
- **Salzgitter region** (11%)

% acc.: proportional IFRS book value real estate volume

Portfolio	as of 12/31/2017	as of 12/31/2016
Units	83,140	79,754
Rentable area in sqm	5,054,778	4,878,022
Real estate volume in EUR millions	4,275.4	3,856.6
Annualised net actual rent in EUR m p.a. (total)	303.3	286.4
Net actual rent in EUR per sqm (total)	5.31	5.23
Net actual rent in EUR per sqm (residential units)	5.20	5.11
Vacancy in % (total)	5.8	6.5
Vacancy rate in % (residential units)	4.8	6.1
Lfl rental growth in %	2.0	2.0
Lfl rental growth in % (incl. vacancy reduction)	3.1	3.7

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 risk-yield profile.

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

II. Business report

a) The overall economy

The German economy is undergoing a strong upswing based on developments in the broader domestic and foreign economy. According to calculations by the Federal Ministry for Economic Affairs and Energy, the price-adjusted gross domestic product (GDP) in 2017 was up 2.2% year-on-year to its highest level since 2011. On the one hand, the positive performance of the German economy was driven by the domestic economy, especially private and government spending (+2.0% and +1.4% respectively), and construction investment (+2.6%). On the other hand, the positive signals from the national indicators also point to further increases in German exports, meaning a high level of foreign trade momentum can be expected. For instance, exports of goods and services increased by 2.3% in November 2017 alone. The number of incoming orders and the generally positive business expectations indicate that the good economic situation in Germany will continue in 2018.

The employment market also reflects the positive development. Unemployment was at just 5.3% in December 2017 (previous year: 5.8%); inflation was at 1.7%, its highest level in the last 5 years. The increase is caused by factors including higher rents and rising energy and food prices. At the same time, real wages – gross wages less consumer prices – increased by around 0.7% year-on-year. According to forecasts of the Ifo Institute in Munich, the inflation rate in Germany at the end of the year was around 1.7% and prices are expected to continue to rise. In 2018, inflation could rise by 1.9% and in 2019 by 2.2%, its highest since mid-2012. According to estimates by the European Central Bank, inflation could reach 2%. This increase would correspond to the ideal value for the economy and for price stability.

Developments in interest rates over recent years have been beneficial for borrowers overall while putting savers at a disadvantage. Apart from a small break in 2011, the ECB has steadily lowered interest rates over the past few years. The key interest rate, the 'main refinancing rate', has been at 0% since March 2016. On average, the current mortgage rates are roughly dependent on their fixed-interest periods, and range between 1.3% (5 years), 1.5% (10 years) and 2.0% (15 years).

b) State of the German residential real estate market

Germany remains an attractive location and investment market for both residential and commercial real estate. Transaction volumes have been steadily increasing since 2009, reaching a peak in 2015 with a record value of EUR 79 billion. In 2017, the transaction volume remained stable at a high level, reaching EUR 73bn after EUR 66bn the previous year. Once again, transactions were dominated by the sales of office properties. In terms of buyer groups, German investors were most active in both the commercial (53%) and residential (75%) real estate transactions. In the residential segment, mainly smaller and medium-sized portfolio deals were closed.

c) Performance of the German residential property market

The real estate industry is one of the largest and most important sectors for the German economy. With gross value add of more than EUR 500bn a year, the real estate industry accounts for 18.2% of total value creation. This makes the real estate industry significantly larger than, say, the automotive industry or retail.

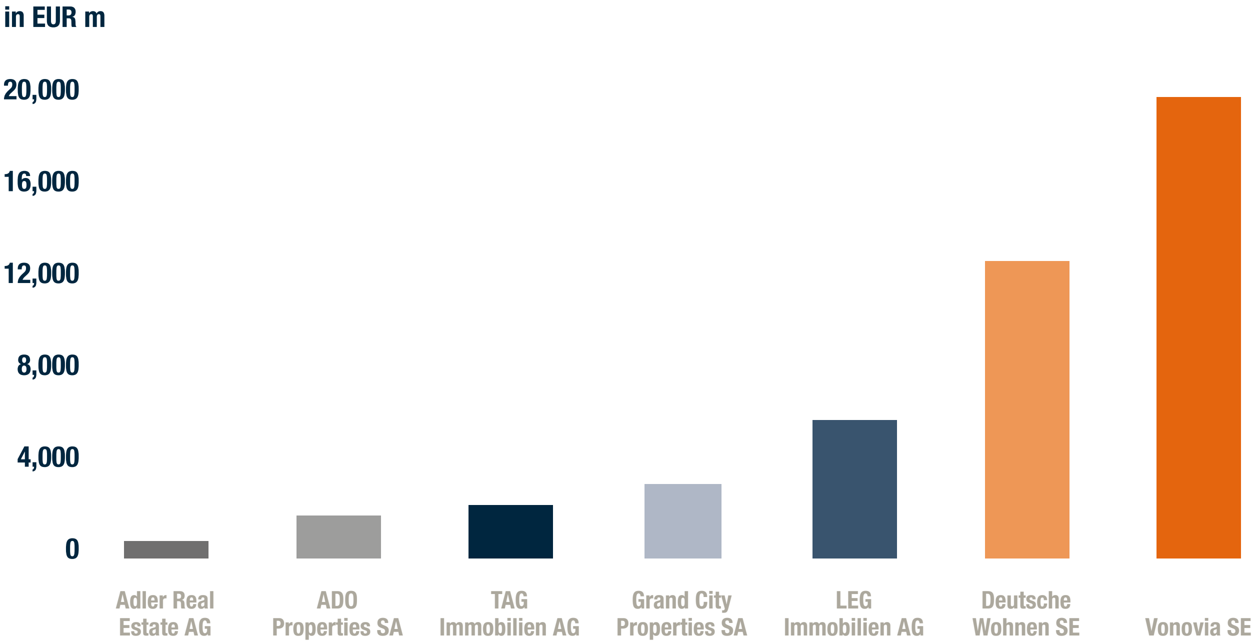
Real estate is also a very fragmented industry with over 815,000 companies and another 3.9m private landlords. One special characteristic is the stability of the German real estate industry. Despite turbulent macroeconomic conditions with the New Economy crisis, financial crisis and sovereign debt crisis, the real estate industry has developed very positively in recent years.

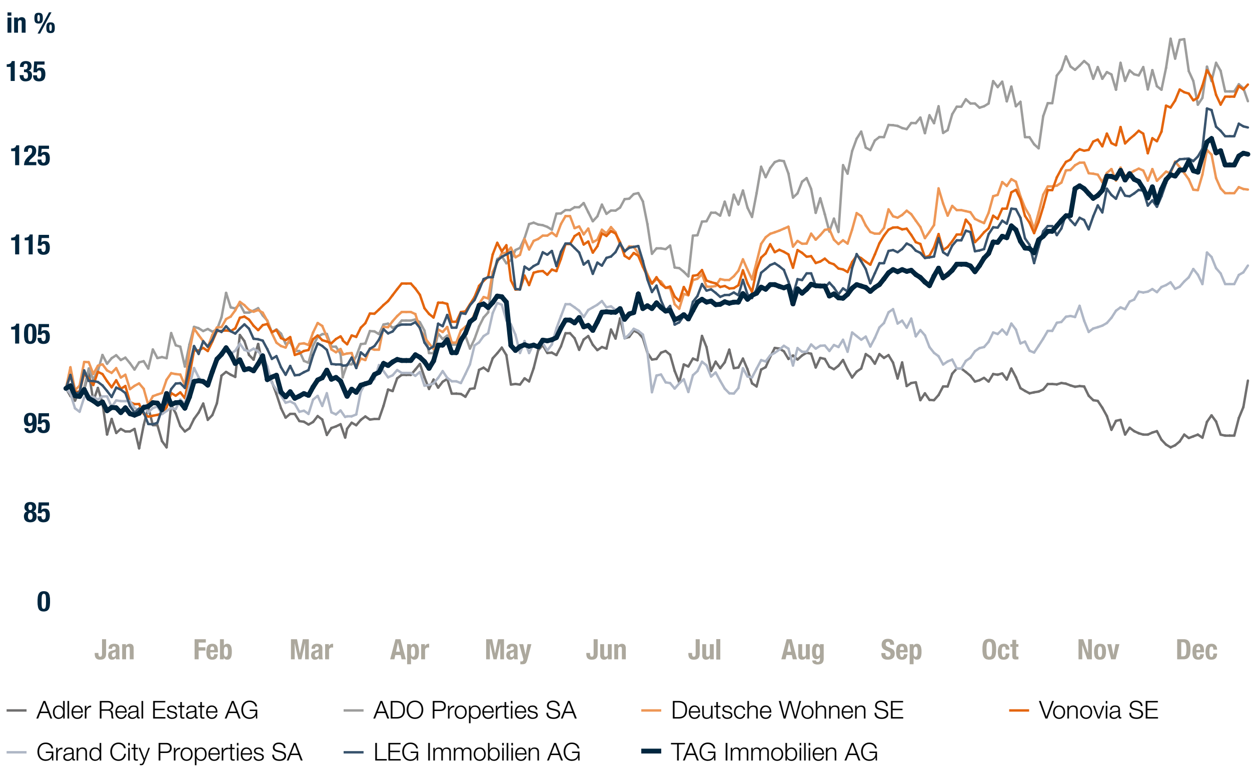
Branch of industry	Number of companies 2015	Revenues in EUR m 2015	Employees subject to social security deductions 2016
Real estate trading	15,128	18,493	9,966
Leasing and letting	232,854	97,829	108,475
Brokerage and management	54,282	29,545	133,859

At the end of 2015, around 82.2m people were living in Germany, in some 41.4m flats spread over 19.4m buildings, with a combined floor space of around 3.79bn square metres. The average German household has relatively low real estate assets, valued at EUR 125,000. The home ownership rate in Germany has increased slightly in recent years. At around 45.5%, however, it is still at the lower end of the European average and has stagnated recently, or even fallen slightly since 2013 among younger age groups under the age of 45.

However, the market for real estate equities has grown very strongly. About EUR 90bn are now invested in German real estate through this form of indirect real estate investment. Open- and closed-end funds have also grown again in recent years, albeit with an increasing focus on institutional investors.

In the comparison group of listed real estate corporations, the market capitalisation at the end of 2017 – or the share price performance in 2017 – was as follows:





Source: Bloomberg

The commercial property investment market closed 2017 with its third-best result in the last 10 years. In 2017, residential property and housing portfolios with a size of 50 units or more changed hands for around EUR 14bn, which represents a 7% increase in transaction volume compared to 2016. However, the number of traded residential units fell by 16% year-on-year. In total, around 117,000 residential units were traded in 2017 from January to the end of December. Given the rising rents and continuing housing shortages, domestic and foreign investor interest remains strong, as the investments promise continuous returns with low risk.

This drives up prices. Compared with 2016, average prices per residential unit rose by 27% to around 117,000 euros. The strongest price increases were seen in A and C cities. In both categories of cities, average prices rose by around a third year-on-year. This primarily reflects rental growth expectations even outside the big cities.

The fact that the number of residential units sold fell in almost all city categories probably reflects the scarcity of supply. In 2017, open-ended special funds and real estate companies were again the largest investors by far. The proportion of German buyers decreased slightly compared to the average of the last five years (81%) to 77%. Among foreign buyers, investors from Switzerland and France were the most active.

In the current year 2018, a transaction volume of more than EUR 15bn is likely to be achieved, not least due to the planned takeover of BUWOG AG by Vonovia SE.

d) Development of the individual regions

Northern Germany (Hamburg and Salzgitter segments)
Hamburg is one of the most important industrial locations in Germany. As the second-largest city, Hamburg offers an important economic sector in addition to Berlin in terms of trade, transport and the aviation industry. Good infrastructure, innovative companies and a skilled workforce are some of the factors contributing to the current growth of its economy. Accordingly, flat prices in Hamburg have increased by more than 70% since 2009 (in 2017 by around 8% year-on-year), and a strong increase is expected for 2018 as well. Hamburg's attractiveness is also reflected in its ongoing population increase. 5.3 million people now live in the metropolitan area (Hanseatic city of Hamburg: about 1.8 million inhabitants in December 2015). Unemployment in the city fell to 6.5% in December 2017.

Salzgitter is located in southeastern Lower Saxony. Its economic structure is characterized by an above-average proportion of manufacturing, especially the railway, steel and vehicle industries, making Salzgitter one of Lower Saxony's leading industrial locations. International companies that have operations in the region include Salzgitter AG, Volkswagen AG, Alstom, MAN and Robert Bosch Elektronik GmbH. In November 2017, the city of Salzgitter had a population of about 107,000. In December 2017 the unemployment rate in Salzgitter was 9.8%.

Berlin and Brandenburg (Berlin segment)
More than 6 million people live in Berlin and Brandenburg. Berlin is a major centre for politics, media, culture, and science in Europe and one of the most visited cities on the continent. The unemployment rate reached a record low of 8.4% in December 2017, and the strong employment growth of around 4% seen in 2016 is continuing.

Berlin is a very popular place to live. This is reflected in particular in the rising rental and price levels. In the first half of 2017, quoted rents in Berlin rose to EUR 10.80 per sqm, nudging towards EUR 11.00 per sqm. House and apartment prices in Berlin also increased by around 10% year-on-year in 2017. This increase is forecast to continue into the future. By 2030, population increase of more than 250,000 inhabitants is expected, and Berlin lacks affordable housing in the middle and especially the lower price segment.

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 clear trend reversal. More and more people from former West Germany are moving to eastern Germany.

Germany is heading towards an economic boom, and eastern Germany can benefit as well. A stable foundation already exists – over the course of the year, exports and investments increased enormously. In the first three quarters of 2017, an average of 130,000 more people were employed in eastern Germany than in the same period the previous year.

TAG's second Housing Market Report for Eastern Germany, published in October 2017, confirms the positive demographic development in the former East Germany. One aspect is that asylum seekers continue to swell the population. Another is that older people in particular are increasingly abandoning their home villages and moving to the nearest town in search of better infrastructure and senior-friendly housing.

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 7.1% in December 2017. In November, the city had a population of over 247,000.

Demand for housing in Erfurt, too, continues to rise. With a population of around 210,000, the capital of Thuringia offers good infrastructural conditions, which contributes to its attractiveness as a business location, and is home to well-known companies such as Zalando, Siemens and Deutsche Post. Unemployment in Erfurt decreased by 26.5% between 2010 and 2016, and was 6.6% in December 2017.

Dresden is one of the leading business hubs in Germany. Its economy is booming, its population growing, and the purchasing power of its households is on the rise. 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 2017 was 6.1%.

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. Reasons include low wages and labour costs, reasonable land and real estate prices, and low utility and disposal costs. The unemployment rate in the city of Gera, whose population that now exceeds 100,000, dropped to 9.2% at the end of December 2017.

Leipzig, a university and trade fair city in Saxony, is combining a wide range of activities to continually increase the economic efficiency of the city in the medium term. The city's economic strategy focuses on selected emerging industries: the automotive and supply industries, healthcare and biotechnology, energy and environmental technology, logistics, media, and the creative industries. Economically strong sectors, represented among others by BMW and Porsche in the automotive sector, make the location particularly future-proof. Young people in particular are drawn to Leipzig. The unemployment rate of the city of Leipzig, which comprised about 595,000 inhabitants as of December 31, 2017, was 7.0% in December 2017.

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, tradeshows, culture, education, and services. The unemployment rate in the Rostock region was 6.3% at the end of December 2017.

North Rhine-Westphalia (Rhine-Ruhr segment)

In 2017, Germany's westernmost state, North Rhine-Westphalia was still the country's most populous with a population of approximately 18 million. With GDP at EUR 669.7 billion, NRW generated 21.4% of Germany's total gross domestic product in 2016, putting it at the forefront of the federal states. As Germany's core industrial region, it is home to international corporations, but also to many SMEs, as well as big-name retail companies such as Aldi, Metro and Rewe. The unemployment rate was 7.0% in December 2017.

e) Business Development

The operating performance of the portfolio was extremely gratifying. The developments in vacancy reduction and rental growth are presented below, broken down by region.

Vacancy

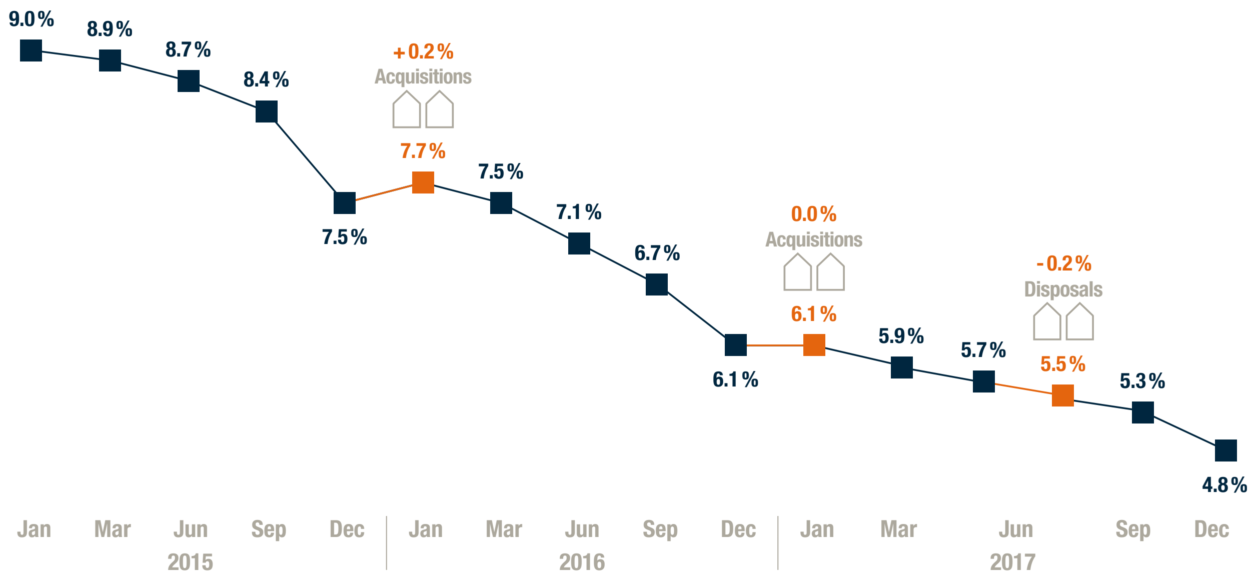
The positive development in vacancy reduction seen in the past few years was continued in the 2017 financial year. Vacancy in the Group's residential units was reduced from 6.1% at the beginning of 2016 to just 4.8% at year-end. This represents a reduction of 1.3 percentage points (previous year: decrease by 1.6 percentage points). In 2017, a decline of 0.2 percentage points was attributable to the sale of a residential real estate portfolio in Brandenburg an der Havel with a high vacancy rate. Across the portfolio, vacancy in December 2017 was 5.8% folllowing 6.5% at the beginning of the year, despite purchases with high initial vacancy rates.

We thus significantly exceeded the forecast we issued last year, which – without major acquisitions or disposals – stipulated a vacancy of below 6.0% across the Group's entire portfolio. Nearly all of the regions TAG operates in contributed to this satisfactory result, as the following chart illustrates:

Salzgitter	from 7.5 % to 5.2 %	-2.3 percentage points
Chemnitz	from 11.8 % to 9.7 %	-2.1 percentage points
Rostock	from 4.4 % to 3.2 %	-1.2 percentage points
Gera	from 9.6 % to 8.6 %	-1.0 percentage points
Leipzig	from 4.6 % to 3.6 %	-1.0 percentage points
Erfurt	from 2.5 % to 1.7 %	-0.8 percentage points
Dresden	from 3.8 % to 3.1 %	-0.7 percentage points
Rhine-Ruhr	from 3.3 % to 2.9 %	-0.4 percentage points
Hamburg	from 4.3 % to 4.0 %	-0.3 percentage points
Berlin	from 5.1 % to 4.9 %	-0.2 percentage points

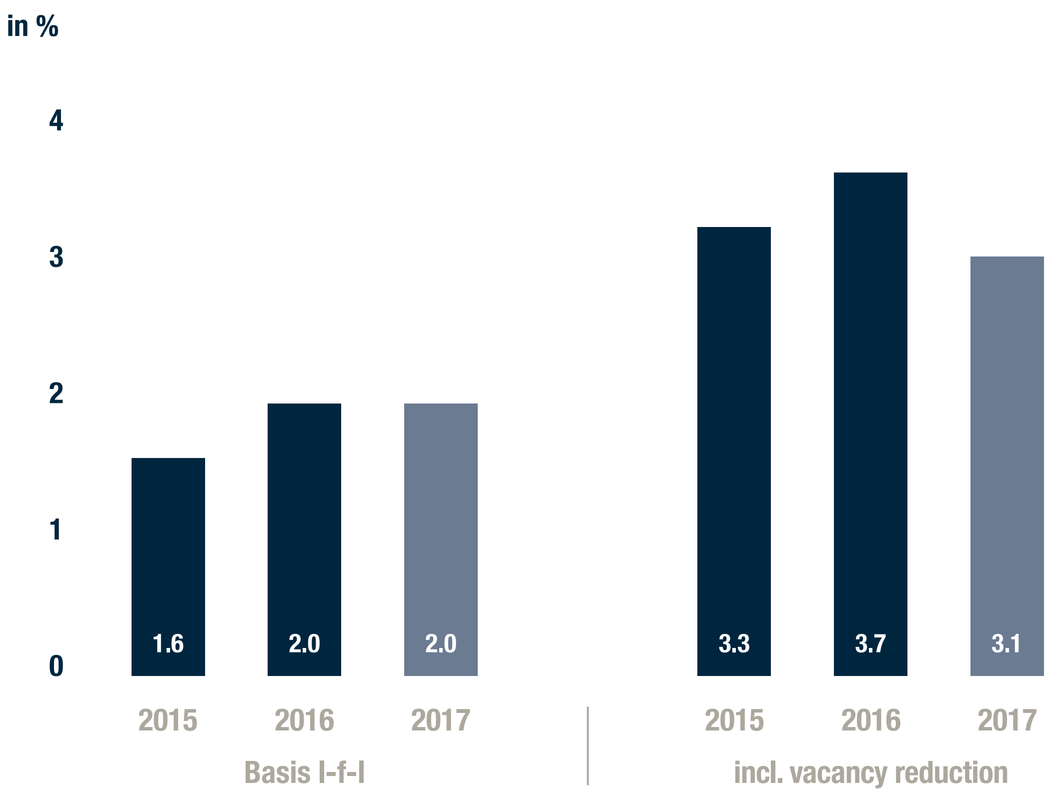
Major vacancy reductions were achieved particularly in the regions of Salzgitter (vacancy reduction by 2.3 percentage points) and Chemnitz (-2.1 percentage points). No region in the TAG real estate portfolio still had double-digit vacancy rates at 31 December 2017. Furthermore, a vacancy rate of less than 2.0% was achieved for the first time within the Group: 1.7% in the Erfurt region.

The following graphic once again illustrates the positive development in vacancy over time in FY 2015 to 2017:



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) as in the previous year. If one includes the effects of the vacancy reduction, overall rental growth on a like-for-like basis amounted to 3.1% (3.7% in FY 2016). Thus, the previous year's forecasts were also achieved in reference to rental growth, for which a like-for-like overall increase in rents of between 3.0% and 3.5% was stipulated, including effects from vacancy reduction. The following chart shows the rental growth of the past three financial years:



Average rent in the portfolio's residential units increased from EUR 5.11 per sqm to EUR 5.20 per sqm in 2017. New lettings were made at an average of EUR 5.47 per sqm in FY 2017. This, too, reflects an increase over the previous year (EUR 5.40 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 EUR m	In-place yield %	Vacancy Dec-2017 %	Vacancy Dec-2016 %	Current net cold rent EUR/sqm	Reletting rent EUR/sqm	L-f-l rental growth y-o-y %	L-f-l rental growth y-o-y ** %	Maintenance EUR/sqm	Capex EUR/sqm
Berlin	9,243	532,461	566.2	5.9	4.9	6.8	5.52	6.11	3.8	4.0	6.16	6.42
Chemnitz	7,334	423,646	278.4	7.9	9.7	13.1	4.81	4.84	0.8	3.3	10.51	22.08
Dresden	6,191	402,194	431.0	6.0	3.1	3.8	5.54	5.72	2.5	3.3	4.23	5.53
Erfurt	9,357	527,535	498.1	6.4	1.7	2.6	5.10	5.59	1.7	2.7	4.67	5.70
Gera	9,664	562,343	390.0	7.7	8.6	9.7	4.87	5.20	1.9	3.0	5.25	10.15
Hamburg	7,099	434,834	421.1	6.5	4.0	4.3	5.44	5.72	2.2	2.2	8.24	4.32
Leipzig	8,849	524,187	409.5	7.5	3.6	4.5	5.08	5.35	1.1	2.0	5.49	5.18
Rhine-Ruhr	4,429	283,262	271.5	6.4	2.9	3.5	5.27	5.48	1.5	1.8	11.19	6.39
Rostock	5,468	325,028	283.7	7.1	3.2	4.4	5.35	5.53	1.5	2.6	6.29	8.00
Salzgitter	9,177	563,077	449.2	7.3	5.2	7.5	5.15	5.32	2.7	5.4	7.73	14.11
Total residential units	**76,811**	**4,578,567**	**3,998.8**	**6.8**	**4.8**	**6.1**	**5.20**	**5.47**	**2.0**	**3.1**	**6.74**	**8.88**
Acquisitions	4,915	282,263	182.0	7.9	14.4		4.98				1.12	2.72
Commercial units within res. portfolio	1,221	154,760			17.6	17.5	7.53					
Total residential portfolio	**82,947**	**5,015,590**	**4,180.8**	**7.1**	**5.7**	**6.5**	**5.25**				**6.22**	**8.26**
Other*	193	39,188	94.7	5.7	9.9	11.6	12.77				6.68	35.21
Grand total	**83,140**	**5,054,778**	**4,275.4**	**7.1**	**5.8**	**6.5**	**5.31**				**6.22**	**8.47**

* including commercial properties and serviced apartments

** including effects from vacancy reduction

Revaluation of the portfolio at 30 June 2017 and 31 December 2017, and re-estimate of future transaction costs (change in valuation method)

The 2017 financial year marked the first time that two valuations were carried out – at 30 June and 31 December 2017 - by CBRE GmbH as an independent appraiser. Until now, the valuation was carried out at 30 September of a given year and was then adjusted with an update at 31 December of that year in the event of major developments regarding individual properties. Besides the associated increase in transparency, the main reason for reducing the interval between valuations is the price dynamic currently observed in German residential real estate, which is also clearly evident in the areas where TAG operates.

In past financial years, including the reports as at 31 December 2016, transaction costs for the valuation of investment properties were determined depending on the respective relevant market. In addition to the asset deal market, the share deal market was taken into account in which applicable tax legislation allows for avoiding property transfer tax in particular if the transaction is structured accordingly. Therefore, the share deal market, being the more favourable market, was taken as the basis for transactions in the former East Germany except Berlin and for Lower Saxony, and the market-specific transaction costs of a potential buyer were estimated at 0.2% accordingly. The transaction costs deducted for all other federal states averaged 8.3%.

Effective 30 June 2017, a change in the estimate of expected future transaction costs was made, whereby from now on the asset deal market is always taken as the basis for estimating transaction costs in all markets, and thus all transaction costs incurred in asset deals are deducted in the valuation. This change in estimate was made largely due to growing uncertainty about the future admissibility under tax law of transfer tax-neutral property transfers by structuring them as share deals. For this reason, as of 30 June 2017, the transaction costs deducted for all properties amounted to 7.8% on average. The valuation change (revised estimate of future transaction costs) resulted in this one-time valuation loss of EUR 256.7m at 30 June 2017.

At 31 December 2017, the second complete valuation of the real estate portfolio took place, leading to an overall valuation result for the 2017 financial year of EUR 293m and, excluding the effects of the revaluation of future transaction costs, a valuation gain of EUR 549.7m. Of this figure, around EUR 138.1m is attributable to better operating performance than projected in the previous valuation, and around EUR 411.6m to ‘yield compression’.

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

Region (in EUR m)	Dec-2017 Fair value (IFRS)	Dec-2017 Fair value (EUR/sqm)	Dec-2017 Implied multiple	FY 2017 Revaluation gain/loss	Share of yield compression	Share of operational performance/other market developments	Change in treatment of transaction costs	FY 2017 Net revaluation gain/loss	Dec-2016 Fair value (IFRS)	Dec-2016 Fair value (EUR/sqm)	Dec-2016 Implied multiple
Berlin	566.2	1,002.4	15.8	98.2	78.8	19.4	-42.1	56.2	522.0	864.5	14.6
Chemnitz	278.4	606.7	11.9	20.0	13.5	6.5	-17.5	2.5	226.5	585.6	12.0
Dresden	431.0	1,038.3	16.1	80.5	65.8	14.7	-26.5	54.0	374.8	902.9	14.4
Erfurt	498.1	862.6	14.1	83.9	66.1	17.8	-41.5	42.4	407.7	830.4	13.8
Gera	390.0	660.7	12.5	36.5	21.6	15.0	-36.0	0.6	382.8	651.5	12.7
Hamburg	421.1	950.0	14.9	44.6	37.4	7.2	-7.7	36.9	387.5	860.4	13.8
Leipzig	409.5	763.1	12.8	51.8	36.9	14.9	-28.1	23.7	372.9	725.0	12.4
Rhine-Ruhr	271.5	917.3	14.5	42.2	32.1	10.1	-2.7	39.6	288.0	860.6	13.7
Rostock	283.7	860.9	13.8	25.3	20.2	5.2	-21.7	3.7	272.8	827.4	13.6
Salzgitter	449.2	795.6	13.4	65.5	39.3	26.2	-31.7	33.7	407.6	722.0	12.7
Total residential units	**3,998.8**	**837.2**	**14.0**	**548.6**	**411.6**	**137.0**	**-255.5**	**293.1**	**3,642.6**	**778.7**	**13.4**
Acquisitions	182.0	761.4	15.0	0.4	0.0	0.4	0.0	0.4	111.8	722.4	13.0
Total residential portfolio	4,180.8	833.6	14.0	549.0	411.6	137.4	-255.5	293.5	3,754.4	776.9	13.4
Other	**94.7**	**2,415.6**	**17.5**	**0.7**	**0.0**	**0.7**	**-1.2**	**-0.4**	**102.2**	**2,251.9**	**17.3**
Grand total*	**4,275.4**	**845.8**	**14.1**	**549.7**	**411.6**	**138.1**	**-256.7**	**293.0**	**3,856.6**	**790.6**	**13.5**

The valuation multiplier of the portfolio (as a relation of the IFRS book to actual rent) increased from 13.5 at the end of 2016 to 14.1 at 31 December 2017. This corresponds to a gross initial yield of 7.1% (previous year: 7.4%). In price per square metres, the total portfolio now has a value of around EUR 845.00 after around EUR 790.00 at 31 December 2016.

Early refinancing of bank loans / Investment Grade rating

From June to August 2017, bank loans with a total nominal value of EUR 416.9m, an average interest rate of 3.3% p.a. and a remaining fixed-interest period averaging 0.9 years were refinanced ahead of schedule, significantly reducing the interest charge on these loans to currently 1.7% p.a. At the same time, this refinancing was made long term, which means the new average maturity and period of interest rate fixation of these loans is now 9.1 years. This results in future interest savings of approximately EUR 7.4m per annum vis-à-vis the original nominal amount, which won't be fully reflected in consolidated net profit, however, until the 2018 financial year. In the course of the refinancing, the total nominal value of these renegotiated bank loans was increased significantly to EUR 560.7m. Minus the expected breakage fees of EUR 7.5m, this generated additional liquidity of around EUR 136.3m, which can be used for further acquisitions or for repaying loans that are subject to a higher interest rate.

In August 2017, the ratings agency Moody‘s published an issuer rating for TAG with the grade 'Baa3' and a stable outlook. This Investment Grade rating underscores TAG's strong operating performance and stable financing structure. At the same time, it increases TAG's future flexibility in matters of financing, and supports the Group's strategy of continuously optimising the financing structure.

Issuance of new convertible bond 2017/2022 and partial repurchase of corporate bond 2013/2018

Immediately after refinancing the bank loans and receiving the investment grade rating, another major step towards reducing TAG's future financing costs was taken in August 2017: A new convertible bond was issued on the capital market with a total nominal value of EUR 262m and a maturity on five years to September 2022. It can be converted into approximately 14.6m TAG shares or repaid in cash. The coupon of the convertible bond is 0.625% p.a.

The initial conversion price amounts to EUR 17.93, which corresponds to an effective conversion premium of approximately 50% above the reference price, as the conversion price will only be adjusted due to dividend payments if the dividend paid exceeds EUR 0.57 per share.

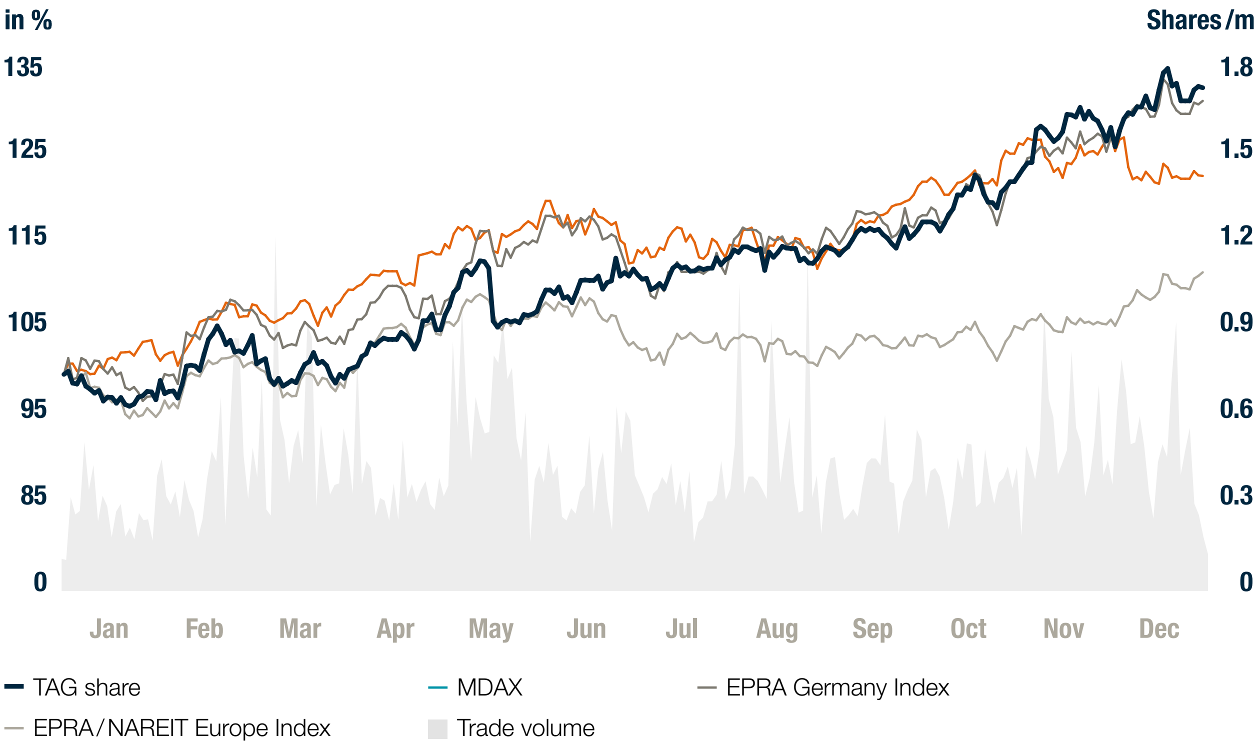
Also in August 2017, to further optimise the capital and financing structure, the creditors of the corporate bond issued in 2013 with a total nominal value of EUR 310.0m and an interest coupon of 5.125% p.a. (effective interest rate of 4.83%), which matures in August 2018, were offered an early repurchase of the corporate bond against a cash payment. The offer was accepted in the amount of EUR 116.1m of the nominal value. After additional bonds with a volume of EUR 3.0m were acquired on the market in the fourth quarter of 2017, the volume of this corporate bond outstanding at the balance sheet date is EUR 191.0m.

Based on the total nominal value of the new convertible bond of EUR 262m, the annual interest savings, at 0.625% p.a. compared with 4.83% p.a. for the still-outstanding corporate bond, amounts to approximately EUR 11.0m per year. This interest savings will become fully effective in August 2018, when the remaining balance of the corporate bond is repaid.

f) The TAG share and the capital market

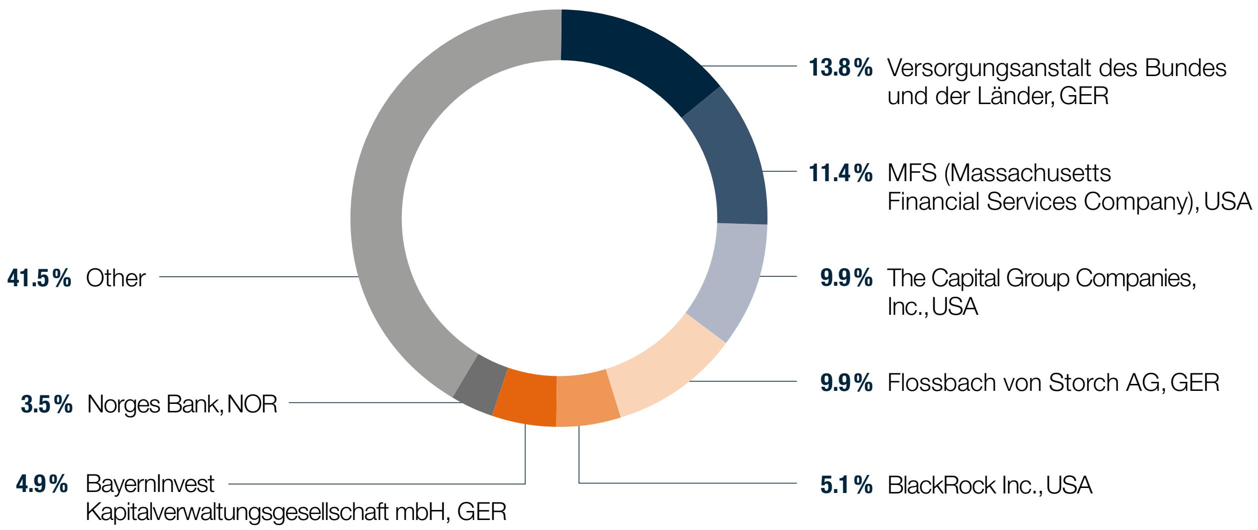
At the end of the 2017 financial year, the MDAX-listed TAG share traded at EUR 15.84, reflecting a 26% increase (previous year: 9%) over the share price of EUR 12.56 at the beginning of the year. If one also takes into account the dividend of EUR 0.55 per share paid out in May 2017, the Group's overall share performance was +31% (previous year: +14%).

This put the share well above the European and German benchmark indices: The EPRA index, comprised of various European real estate companies listed on international stock exchanges, merely increased by roughly 9%. At the national level, the MDAX also had a positive year in FY 2017, rising by 18%, while the EPRA Germany, the index that groups the key German real-estate stocks, rose by 25%.



TAG's market capitalisation was EUR 2.3 billion on 31 December 2017, compared to EUR 1.8 billion on 31 December 2016. The share capital and number of shares at 31 December 2017 were EUR 146,498,765.00 and 146,498,765 shares, the same as in the previous year.

Free float at the reporting date was 99.96% of the share capital; 0.04% of the share capital (60,000 shares) is held by TAG as treasury shares for use as Management Board compensation. As before, national and international investors with a predominantly long-term investment strategy make up the majority of TAG shareholders, as the following diagram shows:



The highest closing price of the TAG share in 2017 was EUR 16.06 on 19 December 2016, and the lowest was EUR 12.19 on 20 January 2017. The average daily trading volume on XETRA in 2016 was approximately 349,000 shares, putting it roughly on par with the previous year (approximately 357,000 shares per day).

Placement of 4.1m treasury shares in March 2017

In March 2017, TAG successfully placed 4,095,124 treasury shares with institutional investors by way of an accelerated book-building process. The shares were offered at EUR 12.48 per share, which represented a 2.0% premium on the share's most recent closing price on XETRA, and an 8.2% premium on the Net Asset Value (NAV) per share of EUR 11.53 per share as at 31 December 2016. The shares were the last remaining shares of those that were repurchased in October 2014 for EUR 9.30. This transaction resulted in gross issuing proceeds of EUR 51.1m.

Dividend payment in May 2017

TAG lets its shareholders participate substantially in the company's success by paying an attractive dividend. At the Annual General Meeting on 16 May 2017, a dividend of EUR 0.57 per share, after EUR 0.55 per share for the 2016 financial year, was approved and subsequently paid out. To continue establishing the share as an attractive dividend stock in the future, we plan to distribute a dividend that we are increasing again in the amount of EUR 0.65 per share for the 2017 financial year.

g) Acquisitions and sales during the financial year

Acquisitions in the 2017 financial year

Nearly 5,000 residential units were acquired in the 2017 financial year for a total purchase price of EUR 171.5 million. On average, a purchase multiplier of 12.2 times the current annual net rent was paid, which corresponds to an annual gross initial yield of 8.2%. Vacancy in the acquired portfolios averaged 13.8%, and therefore again offers development opportunities for active asset management within the Group.

The acquisitions recorded during the 2017 financial year are summed up in the following table:

	Brandenburg Feb-2017	Saxony- Anhalt Mar-2017	Saxony-Anhalt, Lower Saxony, Thuringia Jun-2017	Saxony Oct- 2017	Thuringia Nov-2017	Total FY 2017
Units	1,441	1,252	1,445	328	480	4,946
Current net cold rent EUR/sqm/month	4.77	4.82	4.78	4.91	4.32	4.78
Vacancy in %	19.3	7.2	6.3	31.4	22.7	13.8
Purchase price in EUR m	41.9	42.9	63.0	11.2	12.5	171.5
Current net cold rent EUR m p. a.	3.42	3.47	5.34	0.77	1.07	14.07
Location	Brandenburg an der Havel	Halle an der Saale	Various Locations (e.g. Halle an der Saale, Goslar, Meiningen)	Chemnitz	Gotha	
Closing	Jun-2017	Jun-2017	Jun-2017 (mainly)	Dec-2017	Dec-2017	
Multiples	12.3x	12.4×	11.8×	14.6×	11.7x	12.2×

Sales in the 2017 financial year

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

In the 2017 financial year, sales of nearly 2,000 residential units were recorded. In addition to the ongoing smaller-scale sales business, including privatisations, the sale of a portfolio of 457 units in Freiburg was negotiated for a selling price of 22.1 times the annual net rent. Another sale of 535 residential units in Brandenburg an der Havel took place as part of a swap with the seller of the 1,441 residential units shown under acquisitions at the same location. The sales price of EUR 5.5m – or purchase price of EUR 41.9m – shown in the table corresponds to the underlying price in the negotiations. Because exchange transactions are subject to special accounting rules based on fair value, the items shown on the balance sheet deviate from this. In this context, sales revenues of EUR 9.4m, which yielded a net sales result of EUR 0.1m and a purchase price of EUR 45.8m, which after the revised estimate of the transaction costs led to a valuation loss of EUR 4.0m, were recorded.

In October 2017, 267 residential units were sold in Berlin for a price of around EUR 36.1m, which resulted in a book profit (before the effects from the next revaluation of the portfolio as at 31 December 2017) of EUR 1.8m. The selling price corresponds to a multiplier of 31.1 times the current annual net rent. The net cash proceeds from the sale (purchase price minus repayment of bank financing) will be around EUR 30.3m. The transfer of ownership rights, benefits and obligations is expected on 31 March 2018.

In November 2017, part of the portfolio from Saxony-Anhalt which had been earmarked for resale directly upon acquisition in June 2017 – 265 units – was resold at multiples of 12.4 times and at a book profit of EUR 0.8 million.

The following table provides an overview of the sales recorded in the 2017 financial year:

	Brandenburg Feb-2017	Freiburg Jun-2017	Berlin Oct-2017	Halle an der Saale Nov-2017	Ongoing disposals 2017	Total 2017
Units	535	457	267	265	427	1.951
Current net cold rent EUR/ sqm/month	3.61	6.21	6.65	3.48		
Vacancy in %	33.4	0.0	3.5	23.9		
Selling price in EUR m	5.5	59.0	36.1	6.6	22.5	129.7
Current net cold rent in EUR m p.a.	0.96	2.67	1.16	0.53	1.62	6.94
Net cash proceeds EUR m	0.0	c. 41.2	c. 30.3	6.6	20.5	c. 98.6
Book profit in EUR m	0.1	13.5 (before revaluation to selling price at 30 Jun-2017)	1.8 (before revaluation to selling price at 31 Dec-2017)	0.8 (before revaluation to selling price at 31 Dec-2017)	1.7	17.9
Location	Brandenburg an der Havel	Freiburg	Berlin	Halle an der Saale	Various (e.g. Berlin, Hamburg, Gera)	
Closing	Jun-2017	Nov-2017	Mar-2018	Jan-2018	2017/2018	
Multiples	5.7x	22.1x	31.1x	12.4x	13.9x	18.7x

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

Results of operations

Rental revenues and net rental income

The positive development of rental growth and vacancy reduction is also reflected in the rental income. Besides this, the portfolios taken over at the end of FY 2016 and over the course of FY 2017 contributed to the rise in rental income. In all, rental revenues increased from EUR 275.2m to EUR 293.0m.

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 224.7m in the previous year to EUR 293.0m. The margin also improved year-on-year, to 80.5% (previous year: 79.7%).

The highest rental income in 2017 by volume was generated in the Berlin (region) segment, with EUR 37.7m (2016: EUR 35.4 m), and the lowest in absolute terms in the Rhine-Ruhr and Rostock regions with EUR 21.5m (2016: EUR 20.9m) and EUR 20.5m (2016: 19.8m), respectively. After deducting maintenance costs and directly allocable staff and materials costs, the segment results amounted to EUR 26.7m (2016: EUR 26.1 m) in the Berlin region, and EUR 13.6m and EUR 14.1m (2016: EUR 12.9m and 13.9m) in the Rhine-Ruhr and Rostock regions.

Results from sales of investment properties and properties held as inventories

At EUR 100.3m, revenues from the sale of inventory and investment properties were above the previous year's EUR 51.4m. The major sales of financial year 2017 were, besides the ongoing smaller sales of individual flats and apartment houses, the sale of a portfolio in Freiburg at a purchase price of EUR 59.0m.

Besides the book profits, the sales results also include commission expenses of EUR 1.1m (previous year: EUR 0.9m) for ongoing sales; allocations to accruals for compensation risks and litigation costs from building projects and sales from previous years of EUR 1.0m (previous year: EUR 1.3 m); and other selling costs, e.g. redemption fees for obligations to restore, and registry costs, of EUR 0.2m (previous year: EUR 0.1m).

Revenues from services and net service income

In view of the significantly expanded business activities and the expected continued growth in the business volume of the service companies, unlike in the previous year's consolidated financial statements, in FY 2017 a separate net service income item is shown in the income statement for the first time, and compared with the corresponding amounts newly calculated for the 2016 financial year. The revenues from services, totalling EUR 33.1m (previous year: EUR 13.3 million), relate to the business fields of energy management, multimedia, small repair services, in-house caretaker and maintenance services, and homeowner association management. After taking into account the directly attributable purchase and material costs, the net service income amounts to EUR 15.3m (previous year: EUR 7.6m).

Other operating income

Other operating income increased slightly year-on-year in FY 2017 to EUR 5.7m (previous year: EUR 4.1m), mainly attributable to reversals of provisions, and other income for other accounting periods.

Revaluations

The revaluation of investment properties and effects from the valuation of inventory properties resulted in a very positive overall valuation result of EUR 293.0m in 2017 (previous year: EUR 163.1m). While the revaluation result of newly acquired properties, at EUR 0.4m, was below the previous year's level of EUR 3.7m, the annual revaluation of the investment properties already in the portfolio resulted in a clear profit increase to EUR 295.1m (previous year: EUR 161.5m).

Personnel expenses

As the Group continued to expand its handyman, caretaker, multimedia and energy management services, personnel expenses in FY 2017 increased to EUR 41.4m (previous year: EUR 38.1m).

In this context, a total of EUR 16.4m (previous year: EUR 15.0m) 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 2.4m (previous year: EUR 2.2m).

Other operating expenses

At EUR 25.8m, other operating expenses were above the previous year's level of EUR 18.7m. They mainly refer to IT costs, legal, consulting and audit costs, rental costs for leased business premises, car and travel expenses, and communications costs. In addition, the item includes as a one-off effect of EUR 8.5m in 2017 as a provision for tax risks relating to potential liabilities from property transfer taxes for transactions in 2011-2012.

Of this, a total of EUR 2.4m (previous year: EUR 1.9m) in directly allocable expenditures is assigned to the individual segments. There were no significant differences between the individual segments, and the Salzgitter region had the highest expenses at EUR 0.5m (previous year: EUR 0.3m).

Depreciation/amortisation of intangible assets and property, plant and equipment
The amortisation of intangible assets and property, plant and equipment of EUR 3.8m (previous year: EUR 3.0m) relate exclusively to scheduled depreciation, mainly to IT software and the Group's own owner-occupied properties, which are to be accounted for at amortised cost according to IFRS, and to business equipment.

Share of profit or loss of associates, income from associated companies, impairment of financial assets, and interest income
The total financial result, i.e. the result of investment income, income from associated companies, depreciation on financial assets, interest income, and interest expenditure, was EUR -82.4m (previous year: EUR -89.5m. Eliminating non-recurring effects in the form of breakage fees in connection with sales, and the early repayment of bank loans and corporate bonds, as well as non-cash gains or losses from derivatives and convertible bonds, leads to a P&L financial cash result excluding special items of EUR -67.0m for FY 2017 after EUR -75.8m in 2016.

This development clearly shows the further, continual improvement in financing costs achieved in 2017. The average interest rate on bank loans was reduced to 2.24% on 31 December 2017 (previous year: 2.82%); the total cost of borrowing at the reporting date was 2.34% compared to 3.15% at the end of the previous year.

At EUR 2.6m, the sum total of income from investments, equity earnings from associated companies, and impairment of financial assets were not material, as in the previous year (EUR 0.3 m).

EBT
The Group had originally forecast earnings before taxes (EBT) of EUR 107.0m to EUR 108.0m or EUR 0.75 per share for the financial year 2017 (excluding fair value changes in investment properties and valuation of portfolio properties, and also excluding results from derivative financial instruments). At 30 June 2017, this forecast was increased to between EUR 111m and EUR113m, or EUR 0.77 per share.

In the 2017 financial year, TAG generated EBT – calculated in this way – of EUR 106m (previous year: EUR 87.8m), or EUR 0.73 per share (previous year: EUR 0.65), which was slightly lower than the previous year's published forecast. Excluding the provision for property transfer tax risks of EUR 8.5m, EBT amounted to EUR 114.5m or EUR 0.79 per share.

Taxes on income
Taxes on income and earnings amounted to EUR 82.8m in 2017, compared with EUR 46.0m in 2016. The proportion of actual tax expenses in 2017 was EUR 3.1m (previous year: EUR 1.7m), the remaining expenses of EUR 79.7m (previous year: 44.3m) relate to non-cash deferred taxes, primarily from the valuation of investment properties and from the activation of or value adjustments to deferred taxes on tax loss carry-forwards.

Consolidated net profit
Overall, in the 2017 financial year TAG achieved consolidated net profit of EUR 313.7m (previous year: 200.7m). The main reasons for the significant increase in consolidated net profit were the EUR 16.6m improvement in net rental income, the EUR 130.0m increase in valuation, and a EUR 7.1m improvement in the financial result. Meanwhile, the deferred tax expenses, which increased by EUR 35.5m, had a negative impact.

Adjusted EBITDA

For the 2017 financial year, the adjusted EBITDA (not including results of sales) / EBITDA margin in relation to income from rental activities were as follows:

in EUR m	2017	2016
EBIT	**478.9**	**336.2**
Revaluations	-293.0	-163.1
Depreciation	3.9	3.0
Special items	8.5	0.9
Valuation result	0.0	-1.8
EBITDA (adjusted)	198.3	175.2
Rental income	293.0	275.2
EBITDA MARGIN (adjusted)	67.7%	63.7%

The special items in the reporting year relate to the provisions of EUR 8.5m for potential tax risks. In the previous year, special items were mainly related to project costs resulting from the conversion of the ERP system, and severance payments for personnel.

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 2017	FY 2016	Q4 2017	Q3 2017
Net income	**313.7**	**200.7**	**220.0**	**19.6**
+ taxes	82.8	46.0	58.7	4.5
+ financial result	82.4	89.5	14.6	26.4
EBIT	**478.9**	**336.2**	**293.3**	**50.5**
- Net financial result (cash, after one-off's)	-67.0	-75.8	-15.5	-16.5
- Cash Taxes	-3.1	-1.7	-0.3	-0.7
+ Adjustments				
Valuation result	-293.0	-163.1	-253.7	0.2
Depreciation	3.9	3.0	1.1	0.9
Dividend payments to minorities	-0.8	-0.7	-0.2	-0.2
One-off's (real estate transfer tax)	8.5	0.9	8.5	0.0
Net revenues from sales	0.0	-1.8	0.9	-0.3
FFO I	**127.4**	**97.0**	**34.1**	**33.9**
- Capitalised maintenance	-12.0	-9.2	-2.8	-5.6
AFFO before modernisation capex	**115.4**	**87.8**	**31.3**	**28.3**
- Modernisation capex	-30.8	-37.3	-10.4	-6.2
AFFO	**84.6**	**50.5**	**20.9**	**22.1**
+ Net revenues from sales	0.0	1.8	-0.9	0.3
FFO II (FFO I + net revenues from sales)	**127.4**	**98.8**	**33.2**	**34.2**
Weighted average number of shares outstanding (in 000)	145,709*	135,666	146,439*	146,439
FFO I per share (EUR)	**0.87**	**0.72**	**0.23**	**0.23**
AFFO per share (EUR)	**0.58**	**0.37**	**0.14**	**0.15**

*Not including potential shares from Convertible Bond 2017/2022 (does not currently trade 'in money')

FFO I increased significantly year-on-year in 2017, both in absolute terms (from EUR 97.0m to EUR 127.4m) and on a per-share basis (from EUR 0.72 to EUR 0.87. The quarter-by-quarter development of FFO I in 2017 with EUR 28.5m in Q1, EUR 30.9m in Q2, EUR 33.9m in Q3 and finally EUR 34.1m 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 0.77 per share for financial year 2017, which corresponded to an absolute FFO I of between EUR 110m and EUR 112m. This forecast was raised on 30 June 2017 to EUR 0.82 per share, or between EUR 119m and EUR 121m. With FFO I of EUR 127.4m and FFO I per share of EUR 0.87 for FY 2017, even this forecast was exceeded.

Assets position

Assets

The total assets at 31 December 2017 were EUR 4.6 billion after EUR 4.0 billion at 31 December 2016. In addition to investment properties of EUR 4,166.0m (previous year: EUR 3,777.8m), the Group's total real estate assets also include properties reported under property, plant and equipment totalling EUR 9.8m (previous year: EUR 10.1 m); inventories of EUR 48.1m (previous year: EUR 51.7m); and real estate reported under non-current assets held for sale of EUR 51.5m (previous year: EUR 17.0m). At 31 December 2017, total real estate assets amounted to EUR 4,275.4m, as compared to EUR 3,856.6m at the end of the previous year.

Cash and cash equivalents at 31 December 2017 totalled EUR 263.7m compared to EUR 74.5m at 31 December 2016.

Investments and Capex reporting

In the 2017 financial year, TAG further expanded its residential real estate portfolio considerably with acquisitions, and signed contracts for the acquisition of approximately 5,000 units (previous year: 1,650) for a total purchase price of EUR 171.5m (previous year: EUR 63.6m).

Beyond this, in 2017 TAG invested around EUR 71.9m (previous year: EUR 71.5m) in its residential portfolio for routine maintenance and for modernisation/renovation. A total of EUR 29.1m was spent on maintenance recognised as expense (previous year: 25.0m), and EUR 42.8m on capitalisable investment (previous year: EUR 46.5m), broken down as follows:

in EUR m	2017	2016
Major projects (e.g., modernization of entire residential complexes)	16.0	20.3
Modernisation of apartments		
Previously vacant apartments	14.8	17.0
Change of tenants	12.0	9.2
Total expenditures on modernisation	**42.8**	**46.5**

Total investments (ongoing maintenance recognised in profit and loss and capitalised renovation and modernisation) in the Group's residential units amounted to EUR 15.12 per sqm in 2017, after EUR 15.41 per sqm in the previous year, and EUR 14.23 per sqm across the whole portfolio (previous year: EUR 14.65 per sqm).

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

in EUR m	2017	2016
Acquisitions in the financial year	0.8	0.1
Project developments	1.3	0.7
Portfolio without the acquisitions of the financial year (like-for-like portfolio)	40.7	45.7
Total refurbishment expenses	**42.8**	**46.5**

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

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

Financial position

Equity

In the 2017 financial year, the placement of 4.1m treasury shares increased shareholder equity by a total of EUR 50.4m. In May 2017, a dividend payment in the amount of EUR 83.5m was made for the 2016 financial year.

Taking into account the significantly higher consolidated net profit compared to the previous year, equity as at 31 December 2017 totalled EUR 1,646.6m (31 December 2016: EUR 1,365.6m). The equity ratio in FY 2017 was 35.5%, compared to 34.0% at the end of the previous year.

Net Asset Value (NAV)

In past business years, TAG did not assess all of its 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).

Due to the valuation change in financial year 2017, where on the asset deals market is always taken as the basis for estimating transaction costs, in all markets. From now the calculation of the NAV uniformly shows the transaction costs for the entire portfolio deducted in the valuation. For the previous year, the NAV before the flat-rate transaction cost deduction is also shown.

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

in EUR m	31 Dec-2017	30 Sep-2017	31 Dec-2016
Equity (without minorities)	**1,625.9**	**1,409.9**	**1,350.9**
+ Deferred taxes on investment properties and derivatives	362.3	**305.9**	**287.1**
+ Fair value of financial derivatives	8.4	**7.5**	**4.0**
+ Difference between fair value and book value for properties valued at cost	24.8	**12.0**	**0.0**
= EPRA NAV	**2,021.4**	**1,735.3**	**1,642.0**
- Standardized transaction costs	0.0	0.0	-225.4
= EPRA NAV (incl. standardized transaction costs))	2,021.4	1,735.3	1,416.6
Number of shares outstanding (in ´000)	146,439*	146,439*	142,344
EPRA NAV per share (EUR)	13.80	11.85	11.53
EPRA NAV per share (EUR) (incl. standardized transaction costs)	13.80	11.85	9.95

*Not including potential shares from the Convertible Bond 2017/2022 (does not currently trade 'in money')

The Group had originally predicted net asset value (NAV) of between EUR 11.60 and EUR 11.70 per share for the 2017 financial year. This forecast too was exceeded, mainly due to a valuation result that exceeded expectations.

Financing and liquidity

The loan-to-value (LTV) ratio at 31 December 2017 is calculated as follows:

in EUR m	12/31/2017	12/31/2016
Non-current and current liabilities to banks	1,935.4	1,826.5
Non-current and current liabilities from corporate bonds	322.2	443.7
Non-current and current liabilities from convertible bonds	256.2	0.0
Cash and cash equivalents	-263.7	-74.5
Net financial debt	**2,250.1**	**2,195.7**
Book value of investment properties	4,166.0	3,777.8
Book value of property reported under tangible assets	9.8	10.1
Book value of property held as inventory	48.1	51.7
Book value of property reported under non-current assets held for sale	51.5	17.0
Real estate volume	**4,275.4**	**3,856.6**
Difference between fair value and book value for properties valued at cost	24.8	0.0
Book value of property for which purchase prices have already been paid in advance	-0.3	-9.0
Relevant real estate volume for LTV calculation	**4,299.9**	**3,847.6**
LTV	**52.3%**	**57.1%**

The TAG Group's degree of indebtedness was reduced to 52.3% as of 31 December 2017 (previous year: 57.1%). The main reason for this significant reduction by 4.8 percentage points were, besides the improved operating results and the placement of shares in March, was the strong year-on-year improvement in the real estate valuation results.

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

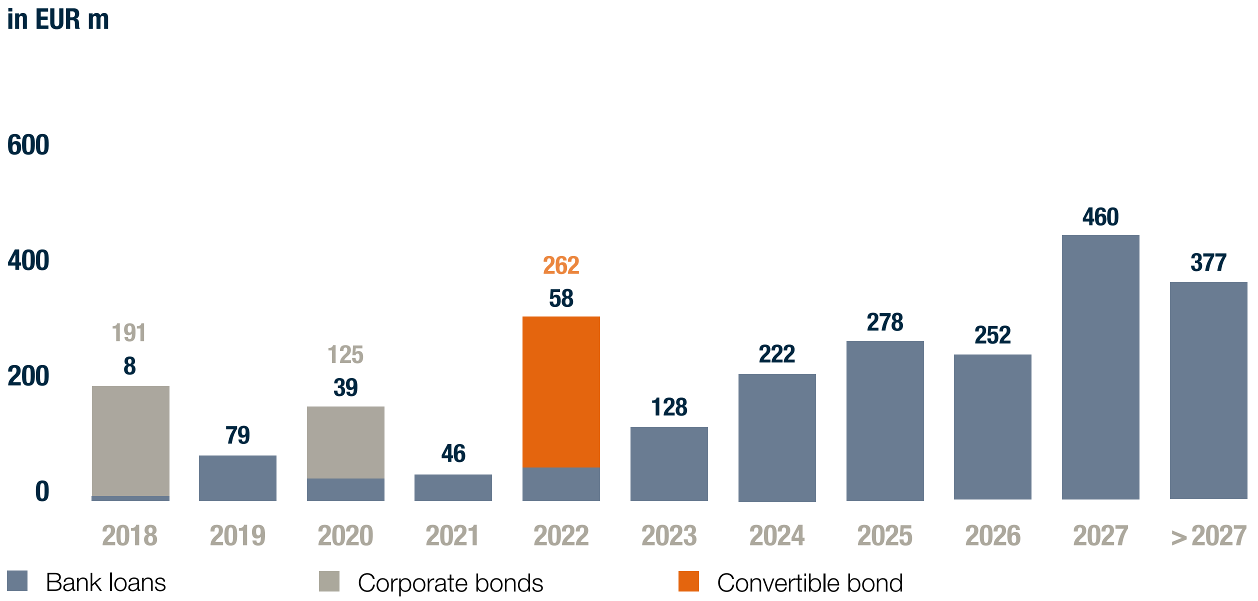
In capital market financing, with a view to further optimising its capital and financing structure, in August 2017 TAG offered the holders of a bond with an originally outstanding nominal value of EUR 310m maturing in August 2018 the early repurchase of the securities. The offer was accepted in the amount of EUR 116.1m. Following the acquisition of further bonds with a volume of EUR 2.9m in the fourth quarter of 2017, the key data of the two outstanding corporate bonds is as follows:

Corporate bond WKN A1TNFU	Corporate bond WKN A12T10
Original volume: EUR 310m	Volume: EUR 125m
Volume outstanding: EUR 191m	
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): 4.83%	Interest rate: 3.75%
Issue price: at par (200m)/ at 103% (110m)	Issue price: at par

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

Convertible bond WKN A2GS3Y
Volume: EUR 262 million
Nominal value per bond: EUR 100,000.00
Interest rate: 0.625%
Issue price: at par
Conversion price: EUR 17.9331

The following table shows the maturity of all liabilities as of 31 December 2017:



A total of EUR 459m (2018: EUR 79m; 2019: EUR 127m; 2020: EUR 129m; 2021: EUR 131m) in fixed-interest bank loans will come due by 31 December 2021, or can be refinanced with no breakage fee upon maturity because the fixed-interest rate stipulated in the contract expires. The average interest rate of these bank loans is 2.87% (loans maturing in 2018), 3.57% (loans maturing in 2019), 3.65% (loans maturing in 2020), and 2.69% (loans maturing in 2021). So 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 as well.

The Management Board expects that all loans maturing in 2018, all of which are in euros, will be renewed as scheduled. As at the balance sheet date, the Group had the following freely available cash and cash equivalents, which are also shown in the consolidated cash flow statement in this amount:

in EUR m	12/31/2017	12/31/2016
Cash and cash equivalents as stated in the consolidated balance sheet	263.7	74.5
Cash and cash equivalents not available on the reporting date	-14.4	-7.4
Cash and cash equivalents as shown on the consulidated cash flow statement	**249.3**	**67.1**

Above and beyond this, TAG has available credit lines totalling EUR 72.5m at various banks (previous year: EUR 46.4m). As of 31 December 2017, EUR 0m had been drawn down (previous year: EUR 39.3m).

Overall assessment of the economic situation
As in the previous year, in FY 2017 TAG was again able to achieve excellent results in its key operational indicators, such as rental growth and percentage points in vacancy reduction. In addition, the residential portfolio was expanded significantly thanks to successful acquisitions in FY 2017.

At EUR 127.4m, FFO was well above the previous year's level (EUR 97.0m). On a per-share basis, FFO I increased to EUR 0.87 after EUR 0.72 in 2016. NAV per share, at EUR 13.80, significantly exceeded the forecast of between EUR 11.60 and EUR 11.70.

Thus the earnings and asset position continue to be positive and increasing. TAG has sufficient liquidity and is financed for the long term.

Proposed dividend
Based on this positive development, TAG's Management Board intends to propose to the Annual General Meeting, subject to the requisite approval of the Supervisory Board, an increased dividend of EUR 0.65 per share for the 2017 financial year (previous year: EUR 0.57 per share).

i) HR report

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

	2017	2016
Employees in operations	509	484
Administration and central functions	105	102
Caretakers	297	219
Handymen	50	28
Total	961	833

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

III. Material events after the reporting date

There were no material events after the reporting date.

IV. Forecast, opportunities and risk report

Forecast

Economic conditions
The German economy is in a steady and broad-based upswing with a foundation of a solid domestic economy. Capacities are well utilised, employment is at record levels and consumer prices are stable. In 2017, the economy grew more strongly than it has since 2011. Gross domestic product increased by 2.2% on a price-adjusted basis. For 2018, an increase of 1.9% is expected. These are the figures indicated by the German government's assessment of Germany's economic development and economic situation in January 2018.

For eastern Germany, the ifo Institute also expects economic output to grow by 2.0% in the year ahead. Germany is heading towards an economic boom, and eastern Germany can benefit from this as well. Employment should continue to grow. The Ifo Institute in Dresden expects the workforce to increase by 110,000 in eastern Germany in 2017. In 2018, the population in the states of the former East Germany foundation is likely to grow by some 85,000 people. The upswing is now on a broad and stable foundation. Over the course of the year, exports and investment grew strongly. This also benefited capital goods producers and commercial construction in eastern Germany, whose momentum picked up noticeably. In contrast, the rate of expansion in residential construction slowed after a very strong 2016. Over the broader forecasting period, industrial momentum is expected to accelerate further, which will also impact providers of business-related services. Providers of consumer-related services continue to benefit from the good situation in the labour market, although the momentum in this sector is expected to slow slightly.

Forecast for the 2018 financial year

Our strategy for shareholders focuses on total return per share. In contrast to previous years, growth in absolute numbers is no longer a priority for TAG, as the group's real estate portfolio of more than 83,000 units has reached a size that allows us to effectively manage our portfolio. For this reason, in the future we will continue to focus even more on optimising the portfolio and effectively increasing our cash flows.

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

Due to the strong operating performance and the further reduction of 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 issues the following forecasts for 2018

- FFO (FFO I, i.e. without sales), of EUR 135m to EUR 137m (2017: EUR 127.4m), or EUR 0.93 (2017: EUR 0.87) per share;
- EBT of between EUR 135m and EUR 137m (2016: EUR 106.0m), or EUR 0.93 (2016: EUR 0.73) per share; and
- NAV per share of EUR 14.00 to EUR 14.10 (31 December 2017: EUR 13.80), assuming a dividend pay-out of EUR 0.65.

We expect vacancy across our portfolio, again excluding any further major acquisitions or sales, to decrease further to between 5.3% and 5.5% (31 December 2017: 5.8%). As for rent, we expect to see 'like for like' annual growth of around 2.5% to 3.0% (2017: 3.1%), 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.

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

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

Group Controlling supports the Management Board and the organisational units required to submit reports by means of recurring internal report controls. Risks are regularly recorded and evaluated, and countermeasures already taken are reviewed and followed up on. Moreover, as needed, 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 also 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 inheritances and real estate purchases are applied.

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

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

TAG's strategic concentration on dynamic urban centres and selected other locations limits these risks. Select purchases of residential real estate also serve to strengthen its concentration on a high-quality, high-yield portfolio. To prepare for acquisition decisions, general and regional market developments are continually 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 continually and can help to avert defaults with minimum delay. Although there are always individual risks of default, in its entirety, we consider it to be marginal.

Portfolio appraisal risks

The market value (fair value) of the real estate shown in the consolidated financial statements is based on calculations that are currently performed twice 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 discretionary exogenous factors such as rental levels and vacancies. In addition, encumbrances in the existing portfolios, such as lead pipes, can influence the appraisal.

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

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

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

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

The Group has loans totalling EUR 1,503.7m (previous year: EUR 1,408.6m), for which financial covenants specifying certain capital service ratios and debt /equity 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 take-over 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 98% of the total lending volume (previous year: nearly 94%). As in the previous year, all corporate or convertible bonds had 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 cash flows.

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

The Group enters into long-term fixed-rate loans so as to minimise interest rate risks. In addition, there are derivatives concluded in the past (mainly interest rate swaps) in the amount of EUR 23.1 million (previous year: 60.1 million), which minimise the interest rate risk when interest rates are rising. Future changes in market interest rates may cause the derivatives to exert adverse effects on the hedge accounting reserve in equity or consolidated net earnings.

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 of construction defects years later and after the usual warranty period of five years are possible. A number of these proceedings are still pending in the courts for cases where 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
(1) Income 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 the 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.

(2) Property transfer tax risks
In previous financial years 2011/1012, TAG carried out several transactions to acquire real estate companies in corporate law structures that were intended to make the respective acquisition of shares exempt from property transfer tax. The shares were acquired by integrating an intermediary partnership. At the time the transactions were made, the property transfer tax exemption on these transactions was derived from the legal provisions and jurisprudence published at that time or the proclamations issued on this by the tax administration and coordinated with the authorities in a number of cases.

With a judgment in September 2017, published at the beginning of the 2018 financial year, the Federal Finance Court (BFH) changed its legal opinion on the property transfer tax exemption for transactions with such corporate structures. Specifically, it deals with the question of the property transfer tax attribution of shares held by intermediary partnerships. TAG had regularly used this structure in the financial years up to and including 2012. Due to the legal uncertainty engendered by the new BFH ruling, it cannot be ruled out that for certain acquisitions of shares in the financial years up to 2012, the risk of a retrospective property transfer tax burden exists – regardless of any possible protection provided by legitimate expectations based on the previous legal situation, and any statute of limitations that may have already become effective due to notifications to the tax authorities. For this, a provision of EUR 8.5m was formed as of 31 December 2017.

Although the Company believes that the property transfer tax risks have been adequately covered by these provisions, it is possible that additional tax burdens could arise beyond the amount of the provision due to the currently unclear legal situation and a currently unforeseeable practice of the tax authorities. This applies, for example, to transactions with a possible retroactive property tax burden of around EUR 20m, for which the risk of a retroactive tax burden is very low, however, due to a limitation period that, in TAG's opinion, has already expired.

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

Apart from implementing our growth strategy and improving our capital market position, TAG also has a solid funding structure. The Group's financing is long-term. At 31 December 2017, the average maturity of all financial debt was 8.6 (previous year: 8.3) years, while the average term of bank loans was 10.3 years (previous year: 9.7).

TAG's business model – in particular its active asset management, which is reflected in continuous vacancy reduction – is well established on the capital market and with the banks. All these facts form the basis for a successful implementation of the Group's strategy and will continue to ensure that TAG is able to raise the funding it needs in the capital market as well as from banks.

Overall assessment

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

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

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

The structure of TAG's accounting-related internal monitoring system derives from the largely centralised organisation of its accounting system. All of the Group's financial statements are prepared by its own employees, for the most part at the Group headquarters in Hamburg. Although parts of the accounting are handled locally – e.g. payroll accounting by an external service provider, and rental accounting by the Group's shared service centres – 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 2017 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 swaps relative to the hedged loans is reviewed quarterly.

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

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

VI. Disclosures in accordance with Sections 315 a (I) of the German Commercial Code

TAG Immobilien AG is a capital market-oriented Company as defined in Section 264d of the German Commercial Code. Therefore, information on equity, the equity structure, and voting rights is required in accordance with Section 315 (4) of the German Commercial Code. The information provided in the following is based on the conditions that existed as of 31 December 2017:

Composition of share capital
The Company's share capital stood at 146,498,765.00 as of 31 December 2017, unchanged from the previous year. As in the previous year, it was divided into 146,498,765 shares. The computed pro rata amount of share capital attributable to each share is EUR 1.00. All shares carry the same rights. Each share entitles the owner to one vote; the dividend entitlement is determined by the number of shares held.

Limitations on voting rights and transfer of shares
Restrictions on voting rights may arise from the provisions of the Companies Act. For example, under certain circumstances, shareholders are prohibited from voting as per Section 136 (1) of the German Stock Corporation Act (AktG). In accordance with Section 71b of the AktG, the Company is not entitled to exercise any voting rights resulting from the 60,000 treasury shares (previous year: 4,155,124) that are earmarked for Management Board remuneration.

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 2017, based on reports submitted to it pursuant to the German Securities Trading Act (WpHG):

- Pension institution of the federal and state governments, Karlsruhe, Germany
- MFS Massachusetts Financial Services Company, Boston, USA

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

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

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

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

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

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

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

Authorisation of the Management Board to issue new shares (authorised and contingent capital) and repurchase shares
In a resolution passed at the Annual General Meeting on 16 May 2017, 'Authorised Capital 2017' 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 29m by issuing up to 29,000,000 no-par value ordinary shares on a cash and/or non-cash basis, once or on repeated occasions, on or before 15 May 2022. The Management Board has not utilised this authorisation to date.

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

The ordinary general meeting on 17 June 2016 issued a new authorisation to acquire treasury shares representing up to 10% of the available share capital on the effective date or upon exercise of this authorisation, whichever is lower, up until 16 June 2021. The Company may not utilise this authorisation for the purpose of trading in treasury shares. This authorisation may not be used by the Company for the purpose of trading in treasury shares. In addition to the usual, legally mandated use options, it also includes the authorisation to assign and transfer the shares to members of the Management Board as part of their variable remuneration. The company 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 16.5m (previous year: EUR 5.0m), 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 with maturities of five and 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. As of 31 December EUR 316m of the corporate bond are still outstanding. In the case of the EUR 262.0m convertible bond issued in September 2017, there are special conversion options, or adjustments to the conversion price for bondholders, in the event of a change of control.

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

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

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

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

VII. Corporate Governance Statement In Accordance With § 315d HGB (German Commercial Code)

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

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

Remuneration scheme for the Supervisory Board

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

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

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

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

Supervisory Board Member	2017 TEUR	2016 TEUR
Rolf Elgeti	175	175
Lothar Lanz	105	105
Dr Philipp K. Wagner	20	20
Dr Hans-Jürgen Ahlbrecht	25	25
Harald Kintzel	20	20
Marco Schellenberg	20	20
Total	**365**	**365**

Remuneration scheme for the Management Board

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

The non-performance-based remuneration takes the form of a fixed annual salary paid out in twelve equal monthly instalments. Some members of the Management Board use a company car, which is taxed accordingly as a non-cash benefit. The members of the Management Board also receive further benefits as other remuneration, some of which are classified as non-cash benefits and are taxed accordingly. In particular, these include a Bahncard (for discounted rail travel), accident and liability insurance, private use of communications devices, and compensation for expenses incurred during business travel. The contracts with the members of the Management Board do not provide for any pension entitlements. Some Management Board members still have pension entitlements from a time before they began to work for the TAG Group. While these are non-forfeitable, they do not entail any new claims since then.

There are fixed calculation schemes for the variable remuneration. Only in exceptional cases can the Supervisory Board resolve a divergent procedure in view of extraordinary situations and/or extraordinary achievements by the individual Management Board member. In the event of any extraordinary development in the individual criteria, the Supervisory Board may change their individual weighting.

Members of the Management Board are not entitled to claim any additional bonuses or duplicate remuneration if they simultaneously serve on the Management Board or Supervisory Board of other companies in the Group. Variable remuneration is determined solely at 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, such member is entitled to payment of any part of the variable remuneration not yet paid out to them, or to any share-based compensation not yet allocated to them. In the event of any change of control, i.e. if a single shareholder or several shareholders acting jointly acquire a majority of the voting rights or a controlling influence over TAG, the members of the Management Board are entitled to terminate their service contract subject to advance notice of six months (special right of termination). If this special right of termination is exercised, the Company undertakes to pay a gross settlement amount on the date of departure that is equal to the annual gross salary, provided that the service contract still has a remaining period of at least 24 months as of the date of termination. If the remaining term is shorter at the time of termination of the Management Board contract, the Management Board contracts contain provisions that provide either the amount that is the gross salary for the remainder of the remaining term, or a gross settlement that is reduced pro rata temporis over the last 24 months based on a full gross annual salary as gross compensation. 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.

Variable remuneration for the 2017 financial year

In the 2017 financial year, as in the previous year, the variable remuneration was granted as 50% in cash and 50% in the form of TAG shares (using treasury shares purchased from the market). The criteria for this variable remuneration 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 TEUR 250.

60% 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 40% in the following year. In the event of a future negative development and failure to meet 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 law, 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.

Remuneration paid to the Management Board in the 2017 financial year
Remuneration accruing to the Management Board in the year under review (benefits granted) came to TEUR 2,129 (previous year: TEUR 1,955). The amounts paid to the members of the Management Board in the year under review, some of which include remuneration earned in earlier years as well, amount to TEUR 1,743 (previous year: TEUR 1,600).

in TEUR	Claudia Hoyer COO				Martin Thiel CFO				Dr Harboe Vaagt CLO			
	2016 (Actual)	2017 (Actual)	2017 (Min.)	2017 (Max.)	2016 (Actual)	2017 (Actual)	2017 (Min.)	2017 (Max.)	2016 (Actual)	2017 (Actual)	2017 (Min.)	2017 (Max.)
Granted												
Fixed remuneration	375	420	420	420	375	420	420	420	420	420	420	420
Ancillary benefits	14	14	14	14	7	7	7	7	14	14	14	14
Total	**389**	**434**	**434**	**434**	**382**	**427**	**427**	**427**	**434**	**434**	**434**	**434**
One-year variable remuneration	75	75	0	75	75	75	0	75	75	75	0	75
Multi-year variable remuneration	175	175	0	175	175	175	0	175	175	175	0	175
Total	**250**	**250**	**0**	**250**	**250**	**250**	**0**	**250**	**250**	**250**	**0**	**250**
Total remuneration	**639**	**684**	**434**	**684**	**632**	**677**	**427**	**677**	**684**	**684**	**434**	**684**
Inflow												
Fixed remuneration	375	420	420	420	375	420	420	420	420	420	420	420
Ancillary benefits	14	14	14	14	7	7	7	7	14	14	14	14
Total	**389**	**434**	**434**	**434**	**382**	**427**	**427**	**427**	**434**	**434**	**434**	**434**
One-year variable remuneration	83	75	0	75	83	75	0	75	83	75	0	75
Multi-year variable remuneration	63	118	0	118	0	58	0	58	83	118	0	118
Total	**146**	**193**	**0**	**193**	**83**	**133**	**0**	**133**	**166**	**193**	**0**	**193**
Benefit expenditures	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total remuneration	**535**	**627**	**434**	**627**	**465**	**560**	**427**	**560**	**600**	**627**	**434**	**627**

In 2017, each member of the Management Board acquired the right to receive 8,085 TAG shares (previous year: EUR 10,617) on a future date, on the basis of the volume-weighted average XETRA price of the TAG share in November and December 2017 of EUR 15.46 (previous year: EUR 11.7732). Including a discount to allow for the absence of a dividend entitlement, this translates to a fair value of TEUR 112 (previous year: TEUR 115) per member of the Management Board as at 31 December 2017.

Variable remuneration from the 2018 financial year

In light of the amendment to the German Corporate Governance Code in 2017, which recommends a multi-year, future-oriented assessment basis for variable compensation, in 2017 the Supervisory Board addressed updating the Management Board's variable remuneration and adopted a new regulation at its meeting on 29 November 2017, which is effective starting from the 2018 financial year. This new regulation differentiates between the

- Short-term Incentive Plan (STIP), which is based on the development of financial KPIs and is intended as immediately payable cash compensation, and the
- Long-term Incentive Plan (LTIP), which is assessed on total shareholder return (TSR) over a 3-year period and is paid in TAG shares.

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

- Increase in EPRA NAV per share in the financial year (after elimination of the dividend paid in the financial year)
- Increase in FFO I per share in the financial year
- Increase in EBT per share in the financial year, not taking into account the results from the revaluation of the investment properties and from the revaluation of derivative financial instruments

The STIP cash remuneration is paid out in full following the Supervisory Board's resolution on the variable remuneration of the financial year in question, and is capped at TEUR 125.

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

The basis for calculating the share price performance is the volume-weighted average price (VWAP) of the TAG share over a period of two months prior to the reporting date of the financial year at the beginning and the end of a three-year period. To ensure that the measurement basis relates to the future, the target TSR for the 3-year performance period is set at 30%:

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

The actual TSR is compared with the result of the peer group and, if the actual TSR is at least 2% better or 2% worse, this is taken into account by making allowances or deductions. If the actual TSR is better than the performance of the peer group, a supplement of 25% is applied, and in the case of a poorer performance a deduction of 25% is applied.

The peer group is made up of listed real estate companies that, as portfolio holders, have substantial residential real estate in Germany. The peer group currently comprises the following companies: Vonovia SE, Deutsche Wohnen SE, LEG Immobilien AG, Grand City Properties S.A., ADO Properties and Adler Real Estate AG. The values within the group are given equal weighting. In individual cases, the Supervisory Board may change the composition of the peer group if comparability no longer exists due to takeovers or changes in business models, or if the companies shift their focus abroad, or if the inclusion of a given competitor is no longer appropriate for other reasons.

The variable share-based remuneration in the form of the LTIP is capped at TEUR 300. The assignment of the TAG shares that the Management Board is entitled to through the LTIP takes place after the end of the respective three-year period following the Supervisory Board's resolution of the variable remuneration.

Hamburg, 1 March 2018

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

CONSOLIDATED BALANCE SHEET

Assets in TEUR	Notes	12/31/2017	12/31/2016
Non-current assets			
Investment properties	(1)	4,166,008	3,777,757
Intangible assets	(2)	1,825	2,256
Property, plant and equipment	(3)	23,992	16,996
Investments in associates	(4)	0	103
Other financial assets	(5)	6,537	7,626
Deferred taxes	(6)	45,434	38,795
		4,243,796	**3,843,533**
Current assets			
Property held as inventory	(7)	48,149	51,690
Other inventories	(7)	318	280
Trade receivables	(8)	8,716	14,642
Income tax receivables	(6)	7,066	4,000
Derivative financial instruments	(13)	0	5
Other current assets	(9)	11,324	11,081
Cash and cash equivalents	(10)	263,669	74,487
		339,242	**156,185**
Non-current assets held for sale	(11)	**51,502**	**17,049**
		4,634,540	**4,016,767**

Equity and liabilities in TEUR	Notes	12/31/2017	12/31/2016
Equity	(12)		
Subscribed capital		146,439	142,344
Share premium		779,689	736,964
Other reserves		-66	-617
Retained earnings		699,848	472,227
Attributable to the equityholders of the parent company		1,625,910	1,350,918
Attributable to non-controlling interests		20,738	14,650
		1,646,648	**1,365,568**
Non-current liabilities			
Liabilities to banks	(13)	1,858,037	1,675,758
Liabilities from corporate bonds	(13)	124,930	434,962
Liabilities from convertible bonds	(13)	255,628	0
Derivative financial instruments	(13)	8,030	2,938
Retirement benefit provisions	(14)	5,942	6,132
Other non-current liabilities	(15)	6,648	7,478
Deferred taxes	(6)	358,910	272,334
		2,618,125	**2,399,602**
Current liabilities			
Liabilities to banks	(13)	77,399	150,683
Liabilities from corporate bonds	(13)	197,291	8,764
Liabilities from convertible bonds	(13)	547	0
Derivative financial instruments	(13)	328	1,017
Income tax liabilities	(6)	7,805	7,244
Other provisions	(16)	37,117	21,521
Trade payables	(17)	7,794	11,857
Other current liabilities	(18)	41,486	50,511
		369,767	**251,597**
		4,634,540	**4,016,767**

CONSOLIDATED INCOME STATEMENT

in TEUR	Notes	01/01/–12/31/2017	01/01/–12/31/2016 (adjusted*)
Rental income		293,037	275,193
Rental expense		-57,117	-55,831
Net rental income	(19)	235,920	219,362
Revenues from the sale of real estate		100,309	51,436
Expenses on the sale of real estate		-100,285	-49,641
Sales result	(20)	24	1,795
Revenues from services		33,098	13,261
Expenses from property services		-17,840	-5,617
Services result	(21)	15,258	7,644
Other operating income	(22)	5,660	4,077
Fair value changes in investment properties and valuation of properties held as inventory	(23)	293,043	163,087
thereof due to changes in expected transaction costs		-256,660	0
thereof due to changes in other input factors		549,703	163,087
Personnel expense	(24)	-41,367	-38,056
Depreciation/amortisation	(2, 3)	-3,849	-3,031
Other operating expense	(25)	-25,787	-18,697
EBIT		**478,902**	**336,181**
Net income from investments	(26)	3,556	351
Profit or loss from investments in associates	(4, 26)	-7	-11
Impairments of financial assets	(26)	-945	0
Interest income	(26)	3,035	2,776
Interest expense	(26)	-88,022	-92,603
EBT		**396,519**	**246,694**
Income taxes	(6)	-82,845	-46,015
Consolidated net income		**313,674**	**200,679**
attributable to non-controlling interests	(12)	2,583	-689
attributable to equityholders of the parent company		311,091	201,368
Earnings per share (in EUR)	(27)		
Basic earnings per share		2.14	1.48
Diluted earnings per share		2.08	1.45

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	Notes	01/01 – 12/31/2017	01/01 – 12/31/2016
Net income as shown in the income statement		**313,674**	**200,679**
Items that will later be classified as expense			
Unrealised gains and losses from hedge accounting	(12)	700	2,355
Deferred taxes on unrealised gains and losses	(6)	-149	-572
Other comprehensive income after taxes		551	1,783
Total comprehensive income		**314,225**	**202,462**
attributable to non-controlling interests	(12)	2,583	-689
attributable to equityholders of the parent company		311,642	203,151

CONSOLIDATED CASHFLOW STATEMENT

in TEUR	Notes	2017	2016
Consolidated net income		313,674	200,679
Net interest income/expense through profit and loss	(26)	84,987	89,827
Current income taxes through profit and loss	(6)	3,056	1,714
Depreciation/amortisation on intangible assets and property, plant and equipment	(2, 3, 5)	4,794	3,031
Profit or loss from investments in associates and other financial assets	(4, 5)	- 3,549	-340
Fair value changes in investment properties and valuation of properties held as inventory	(23)	- 293,043	-163,087
Gains/losses from the disposal of investment properties	(1, 20)	484	-649
Gains from the disposal of tangible and intangible assets		1	4
Impairments rent receivables	(19)	6,415	4,735
Changes to deferred taxes	(6)	79,788	44,300
Changes in provisions	(16)	15,406	4,257
Interest received		283	1,788
Interest paid		- 69,794	-77,951
Income tax payments		- 5,562	383
Changes in receivables and other assets		- 8,190	-5,429
Changes in payables and other liabilities		- 4,277	-1,263
Cashflow from operating activities		**124,473**	**101,999**

in TEUR	Notes	2017	2016
Payments received from the disposal of minority interests		0	14,513
Payments made for the purchase of minority interests		-569	0
Payments received from the disposal of investment properties (less selling costs)	(1, 20)	80,049	45,655
Payments made for investments in investment properties	(1)	-214,315	-154,440
Payments received from the disposal of intangible assets and property, plant and equipment		18	19
Payments made for investments in intangible assets and property, plant and equipment	(2, 3)	-10,434	-4,679
Payments received from other financial assets	(5)	3,796	5,681
Cashflow from investing activities		**-141,455**	**-93,251**
Purchase of treasury shares	(12)	0	- 780
Proceeds from the issuance of treasury shares (net, after costs)	(12)	50,417	57,018
Payments made for incentivised conversion of convertible bonds	(13)	0	-9,438
Proceeds from the issuance of convertible bonds		259,120	0
Payments made for the repayment of corporate bonds		-125,444	0
Dividends paid		-83,470	-72,876
Distribution to minority investors		-1,456	-407
Proceeds from new bank loans		791,393	112,463
Repayment of bank loans		-691,377	-123,592
Cashflow from financing activities		**199,183**	**-37,612**
Net change in cash and cash equivalents		182,201	-28,864
Cash and cash equivalents at the beginning of the period		67,046	95,910
Cash and cash equivalents at the end of the period		**249,247**	**67,046**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

in TEUR	Attributable to the parent's shareholders						Noncon-trolling interests	Total equity
			Other reserves					
	Sub-scribed capital	Share premium	Reta-ined ear-nings	Hedge accoun-ting reserve	Retained earnings	Total		
Amount on 01/01/2017	**142,344**	**736,964**	**46**	**-663**	**472,227**	**1,350,918**	**14,650**	**1,365,568**
Consolidated net income	0	0	0	0	311,091	311,091	2,583	313,674
Other comprehensive income	0	0	0	551	0	551	0	551
Total comprehensive income	0	0	0	551	311,091	311,642	2,583	314,255
Colonia settlement offer	0	-756	0	0	0	-756	0	-756
Issuance of treasury shares	4,095	47,012	0	0	0	51,107	0	51,107
Costs related to the issuance of treasury shares	0	-690	0	0	0	-690	0	-690
Share-based compensation	0	336	0	0	0	336	0	336
Dividends paid	0	0	0	0	-83,470	-83,470	0	-83,470
Change in non-controlling interests	0	-3,177	0	0	0	-3,177	3,505	328
Amount on 12/31/2017	**146,439**	**779,689**	**46**	**-112**	**699,848**	**1,625,910**	**20,738**	**1,646,648**
Amount on 01/01/2016	**125,469**	**618,317**	**46**	**-2,446**	**343,735**	**1,085,121**	**35,431**	**1,120,552**
Consolidated net income	0	0	0	0	201,368	201,368	-689	200,679
Other comprehensive income	0	0	0	1,783	0	1,783	0	1,783
Total comprehensive income	0	0	0	1,783	201,368	203,151	-689	202,462
Purchase of treasury shares	-60	-720	0	0	0	-780	0	-780
Disposal of minority interests	0	-2,999	0	0	0	-2,999	12,082	9,083
Colonia settlement offer	0	-4,032	0	0	0	-4,032	-15,730	-19,762
Issuance of treasury shares for colonia shares	2,032	14,055	0	0	0	16,087	-16,087	0
Issuance of treasure shares	5,000	53,250	0	0	0	58,250	0	58,250
Costs related to the issuance of treasury shares	0	-1,232	0	0	0	-1,232	0	-1,232
Conversion of bonds	9,903	61,088	0	0	0	70,991	0	70,991
Deferred taxes convertible bonds	0	-1,109	0	0	0	-1,109	0	-1,109
Share-based compensation	0	346	0	0	0	346	0	346
Dividends paid	0	0	0	0	-72,876	-72,876	0	-72,876
Initial consolidation of real estate asset companies	0	0	0	0	0	0	-357	-357
Amount on 12/31/2016	**142,344**	**736,964**	**46**	**-663**	**472,227**	**1,350,918**	**14,650**	**1,365,568**

CONSOLIDATED SEGMENT REPORT

		Segment by LIM Region												
in TEUR		**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 income)	2017	37,689	22,343	26,622	33,631	30,983	29,691	34,314	21,489	20,459	32,711	4,115	-1,010	293,037
	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
Segment expenses	2017	-8,455	-9,102	-4,630	-7,422	-8,596	-6,888	-6,827	-6,775	-4,927	-11,598	-1,234	243	-76,211
	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
Rental expenses	2017	-1,246	-884	-849	-1,457	-1,758	-1,215	-1,184	-1,487	-646	-1,279	-741	-178	-12,924
	2016	-1,084	-1,072	-981	-1,436	-2,071	-1,077	-1,130	-1,714	-761	-1,639	-492	652	-12,805
Investment costs	2017	-6,836	-7,985	-3,674	-5,541	-6,370	-4,953	-5,548	-4,491	-3,851	-9,682	-187	592	-58,526
	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
Impairment losses on receivables	2017	-605	-381	-230	-543	-558	-969	-248	-993	-540	-1,028	-321	0	-6,416
	2016	-487	-206	-211	-709	-311	-601	-96	-657	-554	-801	-102	0	-4,735
Other income / expenses	2017	232	148	123	119	90	249	153	196	110	391	15	-171	1,655
	2016	330	78	164	176	138	164	176	-7	64	26	-11	-589	709
Segment results I	2017	29,234	13,241	21,992	26,209	22,387	22,803	27,487	14,714	15,532	21,113	2,881	-767	216,826
	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
Personnel expenses (LIM region)	2017	-2,111	-1,515	-1,127	-1,432	-2,403	-1,383	-1,875	-837	-1,187	-2,029	-476	0	-16,375
	2016	-2,015	-1,424	-1,059	-1,241	-2,239	-1,254	-1,682	-733	-1,057	-1,893	-444	0	-15,041
Other operating expenses (LIM region)	2017	-395	-288	-217	-379	-306	-281	-287	-283	-232	-537	-214	981	-2,438
	2016	-360	-313	-193	-266	-119	-235	-256	-228	-210	-274	-58	568	-1,944
Segment results II	2017	26,728	11,438	20,648	24,398	19,678	21,139	25,325	13,594	14,113	18,547	2,191	214	198,013
	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
Segment assets	2017	612,435	290,069	437,307	519,492	393,544	452,673	478,287	283,127	291,585	449,201	67,719		4,275,439
	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

This Group segment report is an integral part of the notes

NOTES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of TAG Immobilien AG, Hamburg, (hereinafter referred to as 'TAG' or the 'Company') as of 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) in the form required to be applied in the European Union. In addition, the provisions contained in Section 315e (1) of the German Commercial Code were observed.

TAG is a real estate company that concentrates on the German residential real estate market. The Group's real estate assets are spread over various locations in northern and eastern Germany as well as North Rhine-Westphalia. As of 31 December 2017, TAG had around 83,000 residential units under management. The Company is registered with the Local Court of Hamburg under HRB 106718 and has registered offices at Steckelhörn 5, 20457 Hamburg.

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

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

TAG's consolidated financial statements and the Group management report were prepared by the Management Board and released for publication on 1 March 2018 subject to approval by the Supervisory Board.

Consolidation

As of 31 December 2017, a total of 73 (previous year: 72) companies were fully consolidated and included in the consolidated financial statements. The changes over the previous year resulted from the acquisition of a real estate asset company and the establishment of two new companies, while two subsidiaries were merged within the Group.

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

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

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

In addition to holding a majority of the voting rights, the parent company is deemed to exert control if it has the practical possibility of exerting material influence on the subsidiary. These enterprises are included in the consolidated financial statements from the date on which the TAG Group obtains control. They are de-consolidated from the date on which the possibility of exerting control ceases. If shares in subsidiaries are considered to be of subordinate significance from the Group's perspective, they are classified as available-for-sale financial instruments.

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

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

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

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

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

Presentation changes in the consolidated income statement

In the course of 2016, the existing business model was expanded with the inclusion of multimedia and energy management services in addition to the existing janitor, tradesman and condominium management activities. To reflect this broader service business, the following adjustments were made to the presentation of the consolidated income statement effective 31 December 2017. At the same time, the equivalent figures for the previous period (2016) were duly restated.

- The net service income of TEUR 5,303 included in rental expenses in 2016 primarily arising from multimedia services, energy management, janitor services and tradesman activities is now reported within net service income as service revenues of TEUR 10,920 and service expense of TEUR 5,617.
- The service income of TEUR 2,341 reported in other operating income in 2016, which primarily arises from condominium management, is now reported within service revenues.

These adjustments do not have any impact on consolidated net profit, consolidated equity, loan to value (LTV) and the consolidated cash flow statement, or the performance indicators funds from operations (FFO) and net asset value (NAV).

Recognition and valuation principles

Principles

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

Investment properties

Depending on its intended use, TAG initially recognises real estate as investment properties, inventory 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.

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

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

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

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

Intangible assets

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

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

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

Property, plant and equipment

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

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

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

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

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

Properties held as inventories and other inventories

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

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

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

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

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

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

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that realisation of the related income tax benefit through future taxable profits is probable. 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.

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

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

Differentiation of equity capital

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

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

Financial liabilities

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

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

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

If an embedded derivative is separated, the components are recognised and measured separately in accordance with the applicable guidance.

Cash flow hedge accounting

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

Derivatives with no hedging relationship

Derivatives with no hedging relationship are initially recognised at their fair value on the trading day. The fair value is calculated using established valuation models on the basis of observable market inputs. The changes in the fair value of these derivatives are also recognised in the income statement.

Retirement benefit provisions

In the past, the Group had defined benefit plans for former members of the Management Board and employees at individual subsidiaries as well as their family members. Expenses incurred with the benefits granted under this plan are calculated using the projected unit credit method. The amount to be carried as a liability is the sum total of the present value of the defined benefit obligation. A non-nettable reimbursement claim is reported within other assets.

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

Other provisions

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

Leases

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

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

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

Revenue recognition

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

Rental income from investment properties as well as available-for-sale properties which are regularly leased when acquired or sold is recorded on a straight-line basis over the term of the lease. In addition, net rental income includes the effects of the settlement of operating 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).

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

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

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

Share-based compensation

As of 2016, the members of the TAG 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 balance sheet date; the fair value equals the value of the shares on the balance sheet 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.

New standards and interpretations

First-time adoption of new standards in 2017

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 IAS 7	Cash flow statements: disclosure initiative
Amendments to IAS 12	Income taxes: clarifications
IFRS improvements cycle 2014-2016	Amendments to and clarification of IFRS 12

The amendments to IAS 7 improve the information provided on the Company's financial position by stipulating disclosures on changes to financial liabilities that are allocated to the Company's financing activities. The disclosures are presented in the form of a statement reconciling the open and closing amounts in the balance sheet (see note 13).

The amendments to IAS 12 govern the recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. These amendments do not have any material effect on these consolidated financial statements.

The IFRS improvements from 2014-2016 were only applied in connection with IFRS 12 in 2017. In particular, it is clarified that the disclosures required under IFRS 12 must also include those shares in subsidiaries, joint ventures and associated companies that are classified as held for sale as defined in IFRS 5. This amendment does not have any material effect on the consolidated financial statements.

New standards not yet applied

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

Standard	Index	Application mandatory for accounting periods commencing on or after
Endorsed by the EU		
IFRS improvements cycle 2014-2016	Amendments and clarifications to IFRS 1 and IAS 28	1/1/2018
IFRS 9	Financial instruments	1/1/2018
IFRS 15	Revenue from contracts with customers	1/1/2018
Clarifications to IFRS 15	Revenue from contracts with customers	1/1/2018
Amendments to IFRS 4	Financial instruments and insurance contracts	1/1/2018
IFRS 16	Leases	1/1/2019
EU endorsement pending		
IFRIC 22	Foreign currency transactions	1/1/2018
Amendments to IFRS 2	Share-based payment	1/1/2018
Amendments to IAS 40	Transfers	1/1/2018
IFRIC 23	Uncertainty over income tax treatments	1/1/2019
Amendments to IFRS 9	Financial instruments	1/1/2019
Amendments to IAS 28	Investments in associates and joint ventures	1/1/2019
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between an investor and its associate/joint venture	1/1/2019
IFRS improvements cycle 2015-2017	Amendments to and clarification of IFRS 13, IFRS 11, IAS 12 and IAS 23	1/1/2019
IFRS 17	Insurance Contracts	1/1/2021

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

The effects of the future application of IFRS 9, IFRS 15 and IFRS have been reviewed by the Company and are described below. The effects of other amendments to the standards on the consolidated financial statements are currently being reviewed.

IFRS 9: Financial instruments

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

IFRS 9 provides for a new classification and valuation system for financial assets which reflects the business model used to hold them and the characteristics of its cash flows. It defines three important categories for financial assets: amortised cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). The standard eliminates the previous IAS 39 categories 'held to maturity', 'loans and receivables' and 'available for sale'.

In the past, TAG has measured at amortised cost various equity instruments for which no listed price was available on an active market and whose fair value could not be reliably measured. The categorisation of these instruments as FVTPL is expected to result in a fair value gain of around EUR 1 million. The standard is not expected to have any material effect on the recognition of other financial instruments.

In the future, impairments of financial assets will be measured using the expected-loss model rather than the incurred-loss model. This will give rise to two valuation levels:

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

Valuation on the basis of lifetime expected credit losses is applied if there has been a significant increase in credit risk since initial recognition; otherwise, the 12-month credit loss concept is applied. However, the lifetime expected credit loss concept should always be used for trade receivables and contractual assets with no material financing component. This will presumably result in additional impairments of around TEUR 70. No additional impairments will be necessary for the other financial assets.

There are few changes to the guidance for classifying financial liabilities.

In connection with hedge accounting, the guidance for mapping the Company's risk management activities more transparently in the balance sheet is now less strict compared with IAS 39. TAG does not expect any material effects on its consolidated financial statements in this context.

The amendments to IFRS 9 must be applied retroactively. However, the Group will make use of the exception allowing it to refrain from restating the comparison information for prior periods and for recognising all effects in equity as of 1 January 2018.

IFRS 15: Revenue from contracts with customers

IFRS 15 provides a broad framework for determining if, in what amount and when revenues are recognised. Under this standard, revenues are recognised on the basis of the transfer of control over goods and services to the customer in an amount equalling the expected consideration. It replaces the existing guidance on recognising revenues, including IAS 18 Revenue.

The Group's business model is to lease residential real estate on a long-term basis. All material functions related to real estate management are performed by its own employees. In addition, it performs janitor and tradesman duties for many of its assets. As well as this, Group companies have been supplying tenants with multimedia services and supplying heat on a commercial basis (energy management) since 2016.

The leasing activities are leasing components that fall within the scope of IAS 17 and, from 2019, IFRS 16. They must be distinguished from non-leasing components, particularly those activities that are invoiced via operating costs. Previously, the operating costs were reported net under leasing expenses. Under IFRS 15, it is necessary to draw a distinction on the basis of whether the services recognised as operating costs arise from the originated provision of services as a principal or are sourced as an agent from a third party.

For these purposes, the additional expenses have been assigned to three categories:
- Internal service
- External service
- No service/cost transfer

To date, the principal/agency distinction has been made on the basis of the opportunities and risks arising from the provision of the services in accordance with IAS 18. Under IFRS 15, however, it will now be necessary to determine whether a party had control over the services prior to transfer to the customer. Indicators for this assessment, which must be viewed in their entirety and are not cumulative, include the primary responsibility for performance of the service, the potential inventory risk of not being able to recharge the costs and the power to set the price of the service. In addition, operating costs also include components that do not offer a tenant any separate benefit and are thus not distinct services. With these contractual components, the agreed consideration is allocated to the other identified components on the basis of their relative standalone selling prices.

TAG has not yet completed the classification of contractual components on the basis of IFRS 15. Consequently, it is not possible to conclusively assess the effect on the presentation of its income statement. However, the first-time application of IFRS 15 will not result in any differences in the timing or the amount in connection with the recognition of these revenues. Consequently, there will be no impact on equity as of 1 January 2018.

The Group assumes that there will be no differences in the timing or amount of revenues arising from the sale of real estate.

The Group intends to apply the modified retrospective method for the purposes of first-time application and to refrain from restating the comparison amounts. As only the presentation is changed, this will not have any material effect on equity as of 1 January 2018.

IFRS 16: Leases

IFRS 16 provides revised guidance on the recognition, management and presentation of leases as well as the disclosure duties. There are no material changes for lessors. However, lessees must now recognise all assets and liabilities under leases. An exception may be utilised in the case of short-term or minor-value leases.

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

TAG expects the first-time application of the standard to cause an increase in total assets due to the recognition of rights of utilisation and lease liabilities. This will result in a corresponding decline in the equity ratio. In the income statement, rental expenses and the cost of premises will for the most part be replaced by depreciation of the right of utilisation and interest on the lease liability. This will cause an increase in EBITDA (adjusted) and cash flow from operating activities. This will also fundamentally result in an increase in FFO; an adjustment to the methodology for calculating this indicator is currently under discussion.

TAG has not yet decided which model or accounting conveniences it will use when the standard is introduced. Consequently, it is not yet possible to quantify the effect of first-time application.

Material judgements and estimates

Discretionary decisions

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

- With respect to the real estate held by the Group, the Management Board must determine as of the balance sheet date whether it is held on a long-term basis for rental or for investment or whether it is available for sale. Depending on the outcome of this decision, real estate is allocated to investment properties, 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 carrying amounts of assets and liabilities within the next financial year are detailed below. In applying the recognition and valuation methods, the Management Board has utilised the following accounting estimates which have a material effect on the amounts shown in the consolidated financial statements:

- The fair value of investment properties is determined solely on the basis of the results of the independent valuers who are retained for this purpose. It is calculated using the discounted cash flow method on the basis of expected future cash flows. 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. More information can be found in the comments on the adjustments to the valuation of investment properties. The fair values of these properties as of the reporting date stood at EUR 4,166.0 million (previous year: EUR 3,777.8 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 carrying amount of these properties stood at EUR 48.1 million (previous year: EUR 51.7 million).
- For the purpose of testing the other financial assets for any impairment, the carrying amounts at which the other financial assets (loans) are recognised are compared with the fair values at the end of each year. For this purpose, the appropriateness of the carrying amounts is assessed on the basis of information available on the associates and borrowers. In the event of any evidence of an impairment of the fair values, the carrying amounts are adjusted accordingly. The carrying amount of the financial assets stood at EUR 6.5 million as of the reporting date (previous year: EUR 7.6 million) and is made up of investments in and loans to real estate companies, as well as other non-current receivables.
- With respect to other provisions, various assumptions have been made, e.g. with respect to the probability and amount of the utilisation of provisions for repairs, damages and litigation and tax risks. For this purpose, account is taken of all information available as of the balance sheet date. Other provisions are valued at EUR 37.1 million as of the reporting date (previous year: EUR 21.5 million).

NOTES ON THE BALANCE SHEET

1. Investment properties

The table below shows the development of the investment property portfolio:

Investment properties	TEUR
Amount on 01/01/2016	**3,531,108**
Additions from real estate acquisitions	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**
Additions from real estate acquisations	181,842
Portfolio investments	41,044
Transferred to available-for-sale assets	-51,442
Sales	-78,687
Change in market value	295,494
Amount on 12/31/2017	**4,166,008**

The vast majority of the investment properties are 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	2017 TEUR	2016 TEUR
Rental income	284,848	269,630
Operating expenses (maintenance, facility management, land taxes, etc.)	-54,881	-48,895
Total	229,967	220,735

The fair value of all of the Group’s real estate assets was measured by CBRE GmbH as an independent expert effective 30 June 2017 and 31 December 2017. The fair value of the investment properties is calculated using the discounted cash flow method in line with the International Valuation Standards. For this purpose, the expected future cash flow surpluses for each period are discounted using a market-oriented discount rate for the property in question as of the measurement date. Whereas the cash inflows are normally comprised of net rentals, the cash outflows (gross) chiefly include the management costs borne by the owner.

The underlying detailed planning period is generally ten years. A potential discounted terminal value for the property in question is forecast for the end of this period, reflecting the most likely price 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 sum total of the discounted cash surpluses and the discounted potential selling value equals the gross present value of the property in question. The net present value is calculated by deducting the costs that arise in an orderly transaction.

The assumptions underlying the valuation of the fair value of the real estate are made by the independent valuer on the basis of his professional experience and are subject to uncertainty. If the discount and capitalisation rate were 0.5 percentage points higher, the fair value would decline by EUR 405 million (previous year: EUR 326 million); if the discount and capitalisation rate were 0.5 percentage points lower, the fair value would increase by EUR 507 million (previous year: EUR 397 million). Changes in future net rental income exert a corresponding influence depending on rental income, vacancies, and administration and maintenance costs.

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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Market value (in EUR m)	**574.3**	**517.0**	**289.7**	**266.4**	**437.3**	**374.8**	**282.9**	**290.1**	**519.4**	**452.8**
Net cold rent p.a. (in EUR m)	37.9	34.4	22.8	21.7	27.4	25.8	19.3	20.3	34.0	28.7
Vacancy (in %)	7.2	7.0	11.1	13.4	3.6	5.0	4.7	5.5	3.1	4.7
Valuation parameters (average)										
Net cold rent to market rent (in %)	91	90	96	96	94	94	95	93	92	93
Increase in market rent p. a. (in %)	0.8	0.6	0.4	0.3	0.9	0.7	0.9	0.9	0.8	0.7
Maintenance costs (in EUR/sqm)	8.3	7.8	8.9	8.3	9.1	8.5	9.1	8.8	9.5	8.3
Administration costs (in EUR per unit)	205	201	237	220	245	232	260	237	229	215
Structural vacancy (in %)	3.5	3.9	4.7	5.4	3.0	3.1	2.0	2.1	2.2	2.5
Discount rate (in %)	5.5	5.6	5.8	6.2	5.4	6.1	5.5	6.1	5.5	6.0
Capitalisation rate (in %)	4.5	5.0	5.4	5.9	4.5	5.4	4.6	5.1	4.6	5.3

Segment	Gera		Hamburg		Leipzig		Rostock		Salzgitter	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Market value (in EUR m)	**392.9**	**383.9**	**442.0**	**400.3**	**469.2**	**387.4**	**291.1**	**272.3**	**449.2**	**407.6**
Net cold rent p.a. (in EUR m)	31.3	28.7	29.8	28.3	36.2	29.3	20.9	19.8	33.3	31.0
Vacancy (in %)	9.7	11.0	4.3	4.5	4.9	5.6	4.7	5.7	5.6	9.8
Valuation parameters (average)										
Net cold rent to market rent (in %)	93	92	93	93	94	94	93	94	96	95
Increase in market rent p. a. (in %)	0.5	0.5	0.9	0.8	0.6	0.4	0.6	0.5	0.6	0.5
Maintenance costs (in EUR/sqm)	9.0	7.7	8.4	7.6	8.7	7.9	9.1	8.5	9.1	8.5
Administrative costs (in EUR per unit)	236	212	243	217	231	222	240	228	244	230
Structural vacancy (in %)	5.0	5.1	2.0	2.4	4.6	4.8	3.3	3.4	2.8	4.3
Discount rate (in %)	5.9	6.1	5.5	5.6	5.7	5.9	5.5	6.0	5.5	6.0
Capitalisation rate (in %)	5.4	5.6	4.5	4.7	5.1	5.4	4.9	5.5	4.9	5.5

The valuation parameters shown are derived from the reports as of 31 December 2017 and 30 September 2016. The measurements are based on tenant lists and vacancies in prior periods. Allowance is made for any fluctuation as of the applicable reporting date where there is evidence of any material differences.

The ‘Other activities’ segment predominantly includes the remaining commercial real estate activities and the serviced apartments operated by the Group. The market value of these investment properties equals EUR 18.2 million (previous year: EUR 25.2 million).

Investment properties – reassessment of future transaction costs and modification to valuation methodology

In the last few years, including the reporting date 31 December 2016, the transaction costs in connection with the measurement of the fair value of the investment properties have been determined on the basis of the relevant market. In addition to the asset deal market, allowance was also made for the share deal market in which, in accordance with prevailing tax law, it is possible to structure a transaction to avoid realty transfer tax in particular. The share deal market was therefore utilised as the most advantageous market for the new German states excluding Berlin as well as for Lower Saxony, and a deduction of 0.2% was made to allow for the market-specific transaction costs of a potential buyer. The transaction costs deducted for all the other German states equalled an average of 8.3%.

Effective 30 June 2017, there was a change in the methodology for estimating these expected future transaction costs in that the market for asset deals is now uniformly applied in all markets as a basis for estimating the transaction costs. Accordingly, all transaction costs arising in connection with asset deals are deducted at a single rate. This methodological change primarily reflects the growing uncertainty as to the future legality under tax law of real estate transactions structured as share deals to avoid realty transfer tax. Accordingly, transaction costs are deducted at an average uniform rate of 7.8% for all real estate assets as of 31 December 2017.

The adoption of the new valuation method (reappraisal of future transaction costs) resulted in a non-recurring fair value valuation loss of EUR 256.5 million as of 30 June 2017. Regular valuation as of 30 June and 31 December 2017 yielded revaluation gains of EUR 551.6 million, resulting in total net revaluation gains of EUR 295.1 million (previous year: EUR 165.2 million) on the real estate portfolio in 2017.

The format of the income statement has been extended to include the effects of the reassessed transaction costs. Two sub-line items have been added to 'Changes in the fair value of investment properties and property held as inventories'. One of these is 'of which due to changed market assessment of transaction costs' and includes the aforementioned non-recurring effects arising from the changed method for accounting for transaction costs. The other one is entitled 'of which due to other market parameters' and includes the effect of other parameters such as changes in the yield compression, vacancies or net rentals as of the reporting date. No adjustments to the comparison figures for the previous period are necessary.

2. Intangible assets

The table below analyses the movements in intangible assets.

Acquisition and production costs	TEUR
Amount on 01/01/2016	**8,018**
Additions	585
Disposals	-2
Amount on 01/01/2016	**8,601**
Additions	855
Disposals	-108
Amount on 12/31/2017	**9,348**
Cumulative depreciation	**TEUR**
Amount on 01/01/2016	**5,059**
Additions	1,288
Disposals	-2
Amount on 12/31/2016	**6,345**
Additions	1,286
Disposals	-108
Amount on 12/31/2017	**7,523**
Book value on 12/31/2016	**2,256**
Book value on 12/31/2017	**1,825**

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 01/01/2016	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
Additions	0	9,579	9,579
Disposals	0	-260	-260
Amount on 12/31/2017	11,494	21,609	33,103

Property, plant and equipment Cumulative depreciation	Real estate TEUR	Operating and office equipment TEUR	Total TEUR
Amount on 01/01/2016	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
Additions	294	2,269	2,563
Disposals	0	-240	-240
Amount on 12/31/2017	1,714	7,397	9,111
Book value on 12/31/2016	10,074	6,922	16,996
Book value on 12/31/2017	9,780	14,212	23,992

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

4. Investments in associated companies

GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, Hamburg, was merged with Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH, Hamburg, in the year under review. Subsequently, GIB GmbH was dissolved effective 30 September 2017 and liquidation proceedings commenced. The shares held in Texas Gewerbeimmobilien S.à.r.l., Luxembourg, are valued at TEUR 0 in accordance with the statutory provisions governing the allocation of that company's revenues.

Both companies were deconsolidated and are now recognised as investments.

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 01/01/2016	**13,516**
Additions	115
Disposals	-5,445
Amount on 12/31/2016	**8,186**
Additions	14
Disposals	-190
Amount on 12/31/2017	**8,010**

Cumulative depreciation	TEUR
Amount on 01/01/2016	**560**
Amount on 12/31/2016	**560**
Additions	913
Amount on 12/31/2017	**1,473**
Book value on 12/31/2016	**7,626**
Book value on 12/31/2017	**6,537**

6. Current and deferred income tax assets and liabilities

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

	2017		2016		
Deferred income taxes	**TEUR Assets**	**TEUR Equity and liabilities**	**TEUR Assets**	**TEUR Equity and liabilities**	**Change**
Unused tax losses (incl. interest carried forward)	49,947	0	56,021	0	-6,074
Investment properties	442	-364,861	793	-288,303	-76,909
Intangible assets	1	0	21	0	-20
Property, plant and equipment	0	-2	0	-4	2
Other financial assets	0	-930	0	-1,340	410
Liabilities	832	-4,807	884	-2,968	-1,891
Provisions	4,029	-199	1,103	-76	2,803
Derivative financial instruments	2,072	0	330	0	1,742
Total	57,323	-370,799	59,152	-292,691	-79,937
Offset	-11,889	11,889	-20,357	20,357	–
Deferred income taxes recorded on the face of the balance sheet	**45,434**	**-358,910**	**38,795**	**-272,334**	**–**
				Change in 2017	-79,937
				reported through equity:	-149
				Change in cash:	-79,788

The items recorded within equity include hedge accounting effects.

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

Income taxes	**2017 TEUR**	**2016 TEUR**
Current income tax expense	-3,057	-1,715
Deferred income taxes	-79,788	-44,300
Total	**-82,845**	**-46,015**

Current income taxes include tax expenses for 2017 and a tax refund claim for earlier years of TEUR 588 (previous year: TEUR 544). Deferred income tax assets of TEUR 686 relate to prior periods (previous year: TEUR 94). Deferred income tax liabilities of TEUR 73,714 (previous year: TEUR 47,307) arose from changes in temporary differences. Expenses from changes in deferred income taxes on unused tax losses stood at TEUR 6,074 (previous year: income of TEUR 3,007).

As in the previous year, the income tax refund claims included in the consolidated balance sheet predominantly comprise refunds of investment income tax. Changes in income tax liabilities chiefly comprise income tax expenses for 2017 of TEUR 1,593 (previous year: TEUR 2,257). 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	2017 TEUR	2016 TEUR
Earnings before income taxes (EBT after other taxes)	396,519	246,694
Expected net tax expense (32.275%)	-127,976	-79,620
Reconciled with tax effects from:		
Income and expenses from earlier years	1,274	450
Impairment of deferred income taxes and utilisation of previously unrecognised unused tax losses/interest carried forward	-809	1,281
Tax-free returns and non-deductible expenses	-3,276	-3,803
Effects of trade tax exemption	51,038	37,451
Net gains/losses from consolidation	-1,548	-1,214
Others	-1,548	-560
Actual net income tax expense	**-82,845**	**-46,015**

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 %	2017	2016
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 20.89% (previous year: 18.65%). This increase is particularly due to the fact that a greater proportion of the net valuation income was attributable to entities not able to deduct trade tax.

Excluded from deferred income tax assets are unused corporate tax losses of EUR 185 million (previous year: EUR 178 million) and unused trade tax losses of EUR 172 million (previous year: EUR 158 million) as well as interest carried forward of EUR 6 million (previous year: EUR 17 million), as utilisation currently does not appear to be likely. The sum total of unrecognised temporary differences in connection with shares in subsidiaries and associates stands at EUR 56 million (previous year: EUR 42 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 01/01/2016	**12,809**
Additions	8,600
Impairments	-2,150
Disposals	-3,427
Reclassification from investment properties	35,858
Amount on 12/31/2016	**51,690**
Additions	1,237
Impairments	-2,451
Disposals	-2,327
Amount on 12/31/2017	**48,149**

The transfer from investment properties in the previous year concerned 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 4,673 (previous year: TEUR 9,382). This item also includes real estate which will probably only be sold after more than twelve months.

Other inventories primarily comprise heating material.

8. Trade receivables

Trade receivables break down as follows:

Trade receivables	2017 TEUR	2016 TEUR
Rent receivables	7,749	11,008
Receivables from the sale of properties	125	2,250
Others	842	1,384
Total	**8,716**	**14,642**

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 01/01/2016	**12,110**
Utilised	-5,421
Reversed	-4,605
Additions	7,593
First-time consolidation	389
Amount on 12/31/2016	**10,066**
Utilised	-3,629
Reversed	-4,725
Additions	9,319
Amount on 12/31/2017	**11,031**

In the year under review, impairments (individual adjustments and bad debts) of TEUR 6,415 (previous year: TEUR 4,735) 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	2017 TEUR	2016 TEUR
Rechargeable retirement benefit obligations	4,258	4,396
Loans to shareholders with non-controlling interests	3,600	3,004
Excess payments to suppliers	2,152	2,781
Others	1,314	900
Total	**11,324**	**11,081**

Loans to shareholders with non-controlling interests are mostly secured 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 cash flow statement includes the cash on hand and cash at banks less short-term overdraft facilities at banks. In this respect, cash and cash equivalents in the cash flow statement differ from the corresponding item reported in the balance sheet. The two items are reconciled in the notes to the cash flow statement.

As of the reporting date, cash and cash equivalents of TEUR 14,422 (previous year: TEUR 7,441) 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 recognised as of the reporting date are fully composed of investment properties and chiefly comprise a portfolio in Berlin valued at EUR 36.1 million, a commercial real estate asset in Cologne valued at EUR 7.5 million, and a portfolio in Halle valued at EUR 6.6 million. The contracts for these transactions have already been notarised; the ownership rights and obligations are expected to be transferred after the reporting date.

In the previous year, the 'Other Activities' segment had primarily comprised two commercial real estate assets valued at around EUR 12 million.

12. Equity

Share capital

The Company's fully paid-up share capital is unchanged from the previous year and stood at EUR 146,498,765.00 as of 31 December 2017. It is divided into 146,498,765 shares. They are bearer shares.

Treasury stock

In a resolution passed at the annual general meeting on 13 June 2014, the Company was authorised until 12 June 2019 to buy treasury stock in an amount of up to 10% of the existing share capital 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. Of these, 4,095,124 shares were still held by a wholly owned subsidiary effective 31 December 2016. TAG sold this treasury stock in March 2017 at a price of EUR 12.48 per share. Net of the issue costs, this resulted in an increase of EUR 50.4 million in the Company's equity.

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 share capital existing upon the authorisation taking effect - or if less - upon the authorisation being exercised. The authorisation may not be utilised by the Company to trade in treasury stock. 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. It still holds these shares.

Reported subscribed capital less treasury stock thus stands at EUR 146,438,765.00 (previous year: EUR 142,343,641.00).

Authorised capital

In accordance with a resolution passed at the annual general meeting of 16 May 2017, the Management Board is authorised, subject to the Supervisory Board's approval, to increase the Company's share capital once or repeatedly on or before 15 May 2022 on a cash and/or non-cash basis by a maximum amount of up to EUR 29 million by issuing up to 29 million new no-par-value shares in the Company's capital (Authorised Capital 2017). All other authorised capital was cancelled.

Contingent capital

In accordance with a resolution passed at the annual general meeting of 16 May 2017, the Management Board is authorised to issue convertible and/or option bonds in an amount of up to EUR 500 million on or before 15 May 2022. The Company's share capital was increased by up to EUR 29 million on a contingent basis to honour this obligation (contingent capital 2017/I). All other authorised and contingent capital was cancelled.

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 in 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 (cash flow hedges) net of deferred taxes and breaks down as follows:

Hedge accounting reserve	TEUR
Amount on 01/01/2016	**-2,446**
Unrealised gains and losses	3,260
Recorded in profit and loss	-905
Deferred income tax effect	-572
Amount on 12/31/2016	**-663**
Unrealised gains and losses	**1,030**
Recorded in profit and loss	-330
Deferred income tax effect	-149
Amount on 12/31/2017	**-112**

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

Cumulative consolidated earnings

This item is analysed in the consolidated statement of changes in equity. Subject to the Supervisory Board's consent, the TAG Management Board plans to propose a dividend of EUR 0.65 per share for 2017 (previous year: EUR 0.57 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 irredeemable minimum period is recognised within other non-current liabilities.

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

13. Financial liabilities

Changes in financial liabilities are as follows:

Financial liabilities in TEUR	01/01/17	Cashflow from financing activities	Changes in fair value	Other		12/31/17
				Interes expenses	paid interest	
Liabilities to banks	1,826,441	100,016	0	56,479	-47,500	1,935,436
Liabilities from corporate bonds	443,726	-125,444	0	24,517	-20,578	322,221
Liabilities from convertible bonds	0	255,175	0	1,000	0	256,175
Derivative financial instruments	3,955	3,945	1,492	14	-1,048	8,358
Total	**2,274,122**	**233,692**	**1,492**	**82,010**	**-69,126**	**2,522,190**

Liabilities to banks

Bank borrowings break down as follows: For the most part, collateral takes the form of real property liens, the assignment of rental income and pledges on investments in affiliated companies. The banks may only liquidate this collateral in the event of a material breach of the loan contract (e.g. failure to comply with financial covenants).

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 until 2018. The nominal value of this corporate bond outstanding as of the reporting date stood at EUR 191.0 million.

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.

Convertible bonds

TAG issued a convertible bond with a nominal value of EUR 262 million in August 2017. It has a term of five years and a coupon of 0.625% p.a. The initial conversion price is EUR 17.9331.

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

Derivative financial instruments

Derivative financial instruments include the fair value of the conversion right arising from the convertible bond. The value of this derivative on the date of issue was TEUR 3,945, which increased to TEUR 6,339 as of 31 December 2017.

Financial instruments also include a purchase price guarantee of TEUR 1,600 (previous year: TEUR 2,502) 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.

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

14. Retirement benefit provisions

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

Net liabilities	TEUR
Recognised on the face of the balance sheet as of 01/01/2016	**6,020**
Recognised appropriation	311
Reimbursement recognised (within equity)	159
Pension payments	-358
Amount on 12/31/2016	**6,132**
Recognised appropriation	111
Reimbursement recognised (within equity)	67
Pension payments	-368
Amount on 12/31/2017	**5,942**

An amount of TEUR 4,258 (previous year: TEUR 4,396) of this obligation concerns claims towards 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 current 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	2017	2016
Interest rate in %	1.69	1.57
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 363 (previous year: TEUR 356) 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 6,020 in 2015, TEUR 6,317 in 2014, TEUR 5,618 in 2013 and TEUR 5,126 in 2012.

15. Other non-current liabilities

This item primarily includes a residual purchase price obligation of TEUR 3,354 (previous year: TEUR 3,297) for a hereditary building right due for payment in 2023, and obligations to pay a guaranteed dividend to non-controlling shareholders of TEUR 3,243 (previous year: TEUR 4,060).

16. Other provisions

Other provisions break down as follows:

Other provisions in TEUR	Amount 01/01/2016	Utilised	Reversed	Added	Amount 12/31/2017
Outstanding invoices	13,548	11,401	1,922	19,421	19,646
Property transfer tax risk	0	0	0	8,500	8,500
Damages and litigation risk	3,030	224	344	1,559	4,021
Bonus	2,831	1,977	0	866	1,720
Legal, consulting and auditing costs	638	594	44	835	835
Others	1,474	1,053	243	2,217	2,395
Total	**21,521**	**15,249**	**2,553**	**33,398**	**37,117**

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

The tax risks comprise trade tax risks in connection with the acquisition of shares in 2011 and 2012.

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

17. Trade payables

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

18. Other current liabilities

This item breaks down as follows:

Other current liabilities	2017 TEUR	2016 TEUR
Put options of non-controlling shareholders	18,763	18,576
Tenant credit from advance payments and utility bills	10,185	14,385
Tax liabilities	2,108	508
Obligations from associated companies	2,087	2,087
Deferrals and accruals	859	1,107
Guaranteed dividend	827	754
Down payments received for real estate purchases	285	8,975
Others	6,372	4,119
Total	**41,486**	**50,511**

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

19. Net rental income

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

Rental expenses	2017 TEUR	2016 TEUR
Maintenance expenses	29,135	24,982
Non-recoverable charges	13,993	15,560
Operating costs of vacant real estate	7,574	10,554
Impairment losses on rent receivables	6,415	4,735
Total	**57,117**	**55,831**

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.

20. Net income from sales

Net income from sales breaks down as follows:

Income from sales	2017 TEUR	2016 TEUR
Revenues from the sale of investment properties	96,914	45,796
Expenses on the sale of investment properties	-97,399	-45,147
Net income from the sale of investment properties	**-485**	**649**
Net income from the sale of properties held as inventory	3,395	5,639
Revenues from the sale of inventories	-2,886	-4,493
Expenses on the sale of inventories	**509**	**1,146**
Total	24	1,795

The main sales in 2017 related to recurring minor sales of individual apartments and apartment buildings and a portfolio in Freiburg for a purchase price of EUR 59.0 million assigned to the Rhine-Ruhr segment. Revenue from sales in the previous year concentrated on various apartments or apartment buildings as well as individual commercial real estate assets in several segments.

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.

21. Net income from services

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

Income from property services	2017 TEUR	2016 TEUR
Energy services	12,932	4,455
Facility management	7,843	5,249
Multimedia services	7,862	123
Condominium management	1,802	1,625
Craftsmen services	2,352	1,425
Other	307	384
Total	**33,098**	**13,261**
Expenditure of property services		
Energy services	10,817	3,622
Facility management	1,667	1,119
Multimedia services	4,196	16
Condominium management	2	80
Craftsmen services	1,023	635
Other	135	145
Total	**17,840**	**5,617**
Net income from property services	**15,258**	**7,644**

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

22. Other operating income

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

Other operating income	2017 TEUR	2016 TEUR
Reversal of provisions	1,362	1,715
Derecognition of liabilities	1,043	566
Income from impaired receivables	244	309
Other out-of-period income	1,019	1,051
Other	1,992	436
Total	**5,660**	**4,077**

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

23. Changes in the fair value of investment properties and property held as inventories

This item comprises gains and losses from the ongoing valuation 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:

	2017 TEUR	2016 TEUR
Valuation losses on portfolio real estate	295,134	161,504
- amount due to changes in expected transaction costs	-256,496	0
- amount due to changes in other input factors	551,630	161,504
Valuation gains on real estate acquisitions	360	3,733
Properties held as inventories		
Impairments	-2,451	-2,150
- amount due to changes in expected transaction costs	-164	0
- amount due to changes in other input factors	-2,287	-2,150
Total	**293,043**	**163,087**

24. Personnel costs

Personnel expenses break down as follows:

Personnel expenses	2017 TEUR	2016 TEUR
Employees in operations	24,228	22,137
Administration and central functions	9,219	10,622
Caretakers	6,389	4,462
Craftsmen	1,531	835
Total	**41,367**	**38,056**

25. Other operating expenses

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

Other operational experditures	2017 TEUR	2016 TEUR
Allocation to accruals for real estate transfer tax risk	8,500	0
Legal, consulting and auditing costs (incl. IT consulting)	5,030	5,365
Cost of premises	1,943	1,963
Travel expenses (incl. motor vehicles)	1,410	1,480
Telephone costs, postage, office material	1,408	1,393
Other ancillary staff costs	1,236	1,206
IT costs	1,204	1,036
Investor Relations	563	923
Insurance	493	519
Incidental cost of monetary transactions	467	659
Advertising	454	656
Contributions and donations	441	381
Other	2,638	3,116
Total	**25,787**	**18,697**

In the year under review, other operating expenses includes payments under operating leases of TEUR 2,748 (previous year: TEUR 2,900) for IT hardware, motor vehicles and office space.

26. Net finance income/expense

Net finance income/finance expense has the following structure:

Financial result in TEUR	2017 TEUR	2016 TEUR
Investment income	3,556	351
Result from associated companies	-7	-11
Depreciation of financial assets	-945	0
Interest income	3,035	2,776
Interest expense	-88,022	-92,603
Finance income/expense	**-82,383**	**-89,487**
Non-cash interest from bonds	1,095	1,242
Premature termination compensation	14,417	10,456
Other non-cash items (i.e. derivatives)	178	1,966
Net finance income/expense (cash, without one-time invoice)	**-66,693**	**-75,823**

Investment income of TEUR 3,556 (previous year: TEUR 351) relates to long-term non-controlling interests as well as impairments of financial assets.

27. Earnings per share

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

Earnings per share	2017	2016
Consolidated net profit (in TEUR)		
Consolidated net profit excluding non-controlling interest	311,091	201,368
Interest expense on convertible bonds	2,299	2,490
Consolidated net profit excluding non-controlling interest (diluted)	313,390	203,858
Number of shares (in thousands)		
Weighted number of shares outstanding	145,709	135,666
Effect of conversion on convertible bonds	4,883	5,146
Weighted number of shares (diluted)	150,592	140,812
Earnings per share (in EUR)		
Basic	2.14	1.48
Diluted	2.08	1.45

NOTES ON THE CASH FLOW STATEMENT

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

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 break down as follows:

Cash and cash equivalents	2017 TEUR	2016 TEUR
Cash and cash equivalents as reported on the balance sheet	263,669	74,487
Cash at banks subject to drawing restrictions	-14,422	-7,441
Cash and cash equivalents	**249,247**	**67,046**

NOTES ON SEGMENT REPORTING

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

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

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

In line with internal reporting, the presentation of segment earnings I has been widened to include 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	2017 TEUR	2016 TEUR
Segment earnings II	**198,013**	**189,502**
Capitalized investment costs not deducted from segment earnings	27,658	25,205
Non-allocated vacancy expenses	-7,574	-10,554
Net gains/losses from sales	24	1,795
Fair value changes in investment properties and valuation of properties held as inventory	293,043	163,087
Non-allocated staff costs	-24,993	-23,015
Depreciation and amortisation	-3,849	-3,031
Other non-allocated income and expenses	-3,420	-6,808
Net finance expense	-82,383	-89,487
EBT	**396,519**	**246,694**

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 market, liquidity and loan risks. On the basis of the guidelines issued by the Company's managing bodies, risk management is based in the Central Finance department. The counterparty default risks for derivative financial instruments and financial transactions are minimised by selecting investment-grade financial institutions.

Capital risk management

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

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

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

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

Equity ratio	**2017 TEUR**	**2016 TEUR**
Equity	1,646,648	1,365,568
Total assets	4,634,540	4,016,767
Equity ratio in %	**35.5**	**34.0**

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

If input factors for different hierarchical levels are applied, the fair value is calculated on the basis of the lower hierarchical level. There were no transfers between the individual hierarchical levels in 2017.

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

	Fair value hierarchy	2017 TEUR	2016 TEUR
Assets			
Investment properties	Level 3	4,166,008	3,777,757
Derivatives with no hedging relationship	Level 2	0	5
Liabilities			
Derivatives with no hedging relationship	Level 2	8,163	2,701
Derivatives with a hedging relationship	Level 2	195	1,254

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

Derivative financial instruments are measured using established methods, the main inputs for which are derived from active markets. In the case of interest rate hedges, this is chiefly the discounted cash flow 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. The conversion right under the convertible bond, which is recognised separately, is measured using a binomial model.

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

31 December 2017	Book value TEUR	IAS 39 Category*	Fair value TEUR	Fair value hierarchy
Assets				
Other financial assets				
Investments	6,256	AfS	n/a	n/a
Other financial assets	281	LaR	281	Level 2
Trade receivables	8,716	LaR	8,716	Level 2
Other current assets	11,324	LaR	11,324	Level 2
Cash and cash equivalents	263,669	LaR	263,669	Level 2
Equity and Liabilities				
Liabilities to banks	1,935,436	AmC	1,973,186	Level 2
Liabilities from corporate bonds	322,221	AmC	327,472	Level 2
Liabilities from convertible bonds	256,175	AmC	267,792	Level 2
Other non-current liabilities	6,648	AmC	6,648	Level 2
Trade payables	7,794	AmC	7,794	Level 2
Other current liabilities	41,486	AmC	41,486	Level 2
31 December 2016				
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	11,857	AmC	11,857	Level 2
Other current liabilities	50,511	AmC	50,511	Level 2

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

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

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

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

Net profit/loss from financial instruments

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

31 December 2017	IAS 39 Category*	Interest TEUR	Impairments TEUR	Derecognition liabilities TEUR	Other TEUR
Loans and receivables	LaR	1,545	-6,171	0	0
Investments	AfS	0	0	0	3,556
Financial liabilities	AmC	-83,904	0	1,043	0
Derivative financial instruments with no hedging relationship	HfT	-1.497	0	0	0
31 December 2016					
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

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

Purposes of financial risk management

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

Market risks

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

As of 31 December 2017, there were interest rate swaps subject to hedge relationships with a nominal value of TEUR 6,125 (previous year: TEUR 44,597), of which TEUR 0 (previous year: TEUR 30,284) is due for settlement in less than one year and TEUR 6,125 (previous year: TEUR 14,313) between one and five years. The hedge cash flows will for the most part arise at the same time and will be recognised in net profit or loss for the period in question. These interest rate swaps have a negative market value of TEUR 195 (previous year: TEUR 1,303). Interest rate swaps not included in hedge relationships have a nominal value of TEUR 8,019 (previous year: TEUR 6,183) and are due for settlement in less than one year. These interest rate swaps have a negative market value of TEUR 224 (previous year: TEUR 203). As in the previous year, there is also a cap with a nominal value of TEUR 8,945 (previous year: TEUR 9,281) and a market value of TEUR 0 (previous year: TEUR 4), which is not included in a hedge relationship.

With respect to the existing financial instruments, an increase/decrease of 0.5% in the interest rate would result in an increase/decrease in the market value by EUR 0.1 million (previous year: EUR 0.2 million). On the other hand, there were floating-rate loans with a nominal value of around EUR 40.2 million as of 31 December 2017 (previous year: EUR 211.6 million). With respect to these loans, an increase/decrease of 0.5% in the interest rate would result in an increase/decrease in annual interest expense of EUR 0.2 million (previous year: EUR 1.1 million). The effects described above arising from the interest rate hedges and the floating-rate loans would affect the hedge accounting reserve within equity or directly affect consolidated net profit and consolidated equity in light of income tax considerations.

In addition, derivative financial instruments include the conversion right valued at EUR 6.3 million arising from the convertible bond issued in 2017 and the purchase price guarantee/obligation valued at EUR 1.6 million (previous year: EUR 2.5 million) to cover a potential impairment at one subsidiary. These derivatives are subject to the risk of changes in interest rates as well as share prices. An increase/decrease of 0.5% in interest rates would cause the obligations under these two financial instruments to rise by EUR 0.5 million or decline by EUR 0.3 million, respectively. An increase/decrease of 5% in share price would result in an increase of EUR 2.6 million or a decline of EUR 1.9 million, respectively, in the value of this obligation. The change would directly affect consolidated net profit and consolidated equity in the same amount in light of the effect on deferred taxes.

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 regions. Regular credit assessments are performed to determine the financial condition of the receivables. Impairments are fundamentally determined on the basis of the age structure of the receivables. Material receivables are predominantly held against customers with good credit ratings.

The carrying amount of the financial assets recognised in the consolidated financial statements less any impairments constitute the Group's maximum credit risk. 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 was not possible for the derivative financial assets of TEUR 4 reported in the previous year to be netted outside 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 cash flows and the reconciliation of the maturities of financial assets and liabilities.

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

Liabilities to banks	**2017 TEUR**	**2016 TEUR**
Due for settlement in less than 1 year	77,399	150,683
1 to 5 years	398,614	585,334
More than 5 years	1,459,423	1,090,424
Total	**1,935,436**	**1,826,441**

In addition, there are estimated future payment outflows from interest on bank borrowings due for settlement in less than one year of EUR 27 million (previous year: EUR 46 million), in more than one but less than five years of EUR 85 million (previous year: EUR 118 million) and in more than five years of EUR 156 million (previous year: EUR 254 million).

The corporate bond of EUR 191 million (previous year: EUR 310 million) will be repaid in 2018 and the corporate bond of EUR 125 million in 2020. The convertible bond issued in 2017 will expire in 2022 unless it is converted. In addition, there is estimated interest due for settlement in less than one year of EUR 16 million (previous year: EUR 21 million), and in more than one but less than five years of EUR 16 million (previous year: EUR 30 million).

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

The Group is able to utilise overdraft facilities. The total amount unutilised as of the reporting date stands at around EUR 73 million (previous year: EUR 7 million). The Group expects to be able to settle its liabilities from operating cash flow, the inflow of financial assets due for settlement and existing credit facilities at all times.

Finance risk

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

In addition, loans of a total of EUR 1,504 million (previous year: EUR 1,409 million) have been raised within the Group for which financial covenants specifying certain capital service ratios and equity/debt ratios have been agreed. If any of these covenants are breached, premature loan repayments may be necessary. As of 31 December 2017, all main financial covenants stipulated in the loan agreements 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 40.2 million (previous year: EUR 42.7 million). The relevant contracts provide for collateral equalling three monthly rental instalments to be provided.

OTHER INFORMATION

Other financial obligations

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

Other financial obligations TEUR	2017	2016
Rentals for business premises	2,476	2,993
Others (e.g. manager contracts, leases, rental guarantees)	4,581	5,033
Total	**7,057**	**8,026**

One part of the other financial obligations of TEUR 3,866 (previous year: TEUR 3,702) is due for settlement in less than one year, a further part of TEUR 3,192 (previous year: TEUR 4,128) between one and less than five years and a further part of TEUR 0 (previous year: TEUR 197) in more than five years.

Contingent liabilities

Tax risks (property transfer tax)
In previous financial years, TAG carried out several transactions to acquire real estate companies in corporate law structures that were intended to make the respective acquisition of shares exempt from property transfer tax. At the time the transactions were made, the property transfer tax exemption on these transactions was derived from the legal provisions and jurisprudence published at that time or the proclamations issued on this by the tax administration and coordinated with the authorities in a number of cases.

With a judgment from September 2017, published at the beginning of the 2018 financial year, the Federal Finance Court (BFH) changed its legal opinion on the property transfer tax exemption for transactions with such corporate structures. Specifically, it deals with the question of the property transfer tax attribution of shares held by intermediary partnerships. TAG had regularly used this structure in the financial years up to and including 2012. Due to the legal uncertainty engendered by the new BFH ruling, it cannot be ruled out that for certain acquisitions of shares in the financial years up to 2012, the risk of a retrospective property transfer tax burden exists – regardless of any possible protection provided by legitimate expectations based on the previous legal situation, and any statute of limitations that may have already become effective due to notifications to the tax authorities. For this, a provision of EUR 8.5m was created as of 31 December 2017.

Although the Company believes that the property transfer tax risks have been adequately covered by these provisions, it is possible that additional tax burdens could arise beyond the amount of the provision due to the currently unclear legal situation and a currently unforeseeable practice of the tax authorities. This applies, for example, to transactions with a possible retroactive property tax burden of around EUR 20m, for which the risk of a retroactive tax burden is very low, however, due to a limitation period that, in TAG's opinion, has already expired.

Minimum lease payments under operating leases

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

Fees payable to statutory auditors

The fees totalling of EUR 883 (previous year: TEUR 1,185) (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 860 (previous year: TEUR 1,172) for auditing services
- TEUR 2 (previous year: TEUR 2) for other attestation services
- TEUR 13 (previous year: TEUR 11) for tax consulting services, and
- TEUR 8 (previous year: TEUR 0) for other services.

The fees for auditing activities include trailing costs of TEUR 2 (previous year: TEUR 79) for the prior year. The tax consulting services entail advice in connection with the tax deductibility of interest on loans (interest barrier) and the tax risk management system. Other activities entailed internal training.

Headcount

TAG had the following average number of employees:

	12/31/2017	12/31/2016
Operational employees	509	484
Administration and central area	105	102
Caretakers	297	219
Handymen	50	28
Total	**961**	**833**

Related parties

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

Supervisory Board

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

- Rolf Elgeti, businessman, Potsdam (Chairman)
  - Fair Value REIT AG, Munich (Chairman; until November 2017)
  - 1801 Deutsche Leibrente AG (Chairman)
  - Staramba SE (formerly Social Commerce SE), Berlin
  - Laurus Property Partners, Munich
- Lothar Lanz, businessman, Berlin (Deputy Chairman)
  - Axel Springer SE, Berlin
  - Zalando SE, Berlin (Chairman)
  - Home24 AG, Berlin (Chairman)
  - Bauwert AG, Bad Kötzting (Chairman until March 2017, subsequently Deputy Chairman)
  - Dermapharm Holding SE, Gründwald (since January 2018)
  - Kinnevik AB, Stockholm
  - Dogan TV Holding A.S., Istanbul, Turkey (until March 2017)
- Dr Philipp K. Wagner, attorney, Berlin
  - Hevella Capital GmbH & Co. KGaA, Potsdam (since August 2017)
- 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 365) plus expenses and value added tax.

Management Board

The members of the Management Board and the offices they hold on other supervisory boards or comparable domestic and non-domestic supervisory bodies in 2017 are set out below:

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

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

Remuneration accruing to the Management Board in the year under review (incentives granted) came to TEUR 2,129 (previous year: TEUR 1,955).

One half of the variable remuneration paid to the Management Board consists of a cash component, and the other half entitlement to TAG shares that are transferred to the members of the Management Board after a vesting period of three years. The shares vesting in 2017 had a fair value of TEUR 112 (previous year: TEUR 115) per member of the Management Board.

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

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

Material events after the balance sheet date

No reportable events occurred after the reporting date.

Hamburg, 1 March 2018

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

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

Name of company	Registered office	Share in capital %
Parent company **TAG Immobilien AG**	**Hamburg**	
Fully consolidated companies		
Bau-Verein zu Hamburg Immobilien GmbH*	Hamburg	100.0
Bau-Verein zu Hamburg Wohnungsgesellschaft mbH	Hamburg	100.0
BV Hamburger Wohnimmobilien GmbH	Hamburg	100.0
VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG	Berlin	100.0
VFHG Verwaltungs GmbH	Berlin	100.0
Wohnanlage Ottobrunn GmbH	Hamburg	100.0
Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH	Hamburg	100.0
Bau-Verein zu Hamburg ‚Junges Wohnen' GmbH	Hamburg	100.0
URANIA Grundstücksgesellschaft mbH	Hamburg	100.0
Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH	Hamburg	100.0
TAG Handwerkerservice GmbH	Hamburg	100.0
TAG Steckelhörn Immobilien GmbH (vormals: BV Steckelhörn Verwaltungs GmbH)	Hamburg	100.0
TAG Brandenburg-Immobilien GmbH	Hamburg	100.0
TAG Gotha Wohnimmobilien GmbH & Co. KG	Hamburg	100.0
TAG Wohnen & Service GmbH	Hamburg	100.0
TAG Stuttgart-Südtor Verwaltungs GmbH	Hamburg	100.0
Ingenieur-Kontraktbau Gesellschaft für Ingenieurfertigbau mit beschränkter Haftung i. L.	Leipzig	100.0
TAG Potsdam-Immobilien GmbH	Hamburg	100.0
TAG Immobilien Wohn-Invest GmbH	Hamburg	100.0
TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH	Hamburg	100.0
TAG Wohnungsgesellschaft Sachsen mbH	Hamburg	100.0
TAG Immobilien Service GmbH	Hamburg	100.0
TAG Beteiligungs- und Immobilienverwaltungs GmbH*	Hamburg	100.0
Energie Wohnen Service GmbH	Hamburg	100.0
TAG Finance Holding GmbH	Hamburg	100.0
TAG Beteiligungsverwaltungs GmbH	Hamburg	100.0
TAG Nordimmobilien GmbH	Hamburg	100.0
TAG Sachsenimmobilien GmbH	Hamburg	100.0
TAG NRW-Wohnimmobilien & Beteiligungs GmbH	Hamburg	100.0
TAG 1. NRW-Immobilien GmbH	Hamburg	100.0
TAG 2. NRW-Immobilien GmbH	Hamburg	100.0
TAG Leipzig-Immobilien GmbH	Hamburg	100.0
TAG Marzahn-Immobilien GmbH	Hamburg	100.0
TAG SH-Immobilien GmbH	Hamburg	100.0
TAG Magdeburg-Immobilien GmbH	Hamburg	100.0
TAG Grebensteiner-Immobilien GmbH	Hamburg	100.0

TAG Klosterplatz-Immobilien GmbH	Hamburg	100.0
TAG Wolfsburg-Immobilien GmbH	Hamburg	100.0
TAG Chemnitz-Immobilien GmbH	Hamburg	100.0
TAG Spreewaldviertel-Immobilien GmbH	Hamburg	100.0
TAG Wohnen GmbH*	Hamburg	100.0
TAG Stadthaus am Anger GmbH	Hamburg	100.0
TAG TSA Wohnimmobilien GmbH*	Hamburg	100.0
Multimedia Immobilien GmbH	Hamburg	100.0
Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG	Hamburg	98.1
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH	Hamburg	94.8
TAG Bartol Immobilien GmbH	Hamburg	94.8
TAG Certram Immobilien GmbH	Hamburg	94.8
TAG Sivaka Immobilien GmbH	Hamburg	94.8
TAG Zidal Immobilien GmbH	Hamburg	94.8
TAG Chemnitz Straubehof Immobilien GmbH	Hamburg	94.8
TAG Chemnitz Muldental Immobilien GmbH	Hamburg	94.8
TAG Chemnitz Zeisigwald Immobilien GmbH	Hamburg	94.8
TAG Havel-Wohnimmobilien GmbH	Hamburg	94.8
TAG Wohnungsgesellschaft Thüringen mbH	Hamburg	94.0
TAG Wohnungsgesellschaft Gera mbH	Hamburg	94.0
TAG Wohnungsgesellschaft Gera-Debschwitz mbH	Hamburg	94.0
TAG Grasmus Immobilien GmbH	Hamburg	89.5
Emersion Grundstücksverwaltungsgesellschaft mbH*	Hamburg	89.5
Domus Grundstücksverwaltungsgesellschaft mbH	Hamburg	89.5
TAG Colonia-Immobilien AG	Hamburg	89.2
Colonia Wohnen GmbH	Hamburg	89.2
Colonia Immobilien Verwaltung GmbH	Hamburg	89.2
Colonia Portfolio Ost GmbH	Hamburg	89.2
Colonia Portfolio Berlin GmbH	Hamburg	89.2
Colonia Portfolio Bremen GmbH & Co. KG	Hamburg	89.2
Colonia Portfolio Hamburg GmbH & Co. KG	Hamburg	89.2
Colonia Wohnen Siebte GmbH	Hamburg	89.2
Colonia Portfolio Nauen GmbH & Co. KG	Hamburg	89.2
TAG Wohnimmobilien Halle GmbH & Co. KG	Hamburg	89.2
FC REF I GmbH	Grünwald	80.0
FC REF II GmbH	Grünwald	80.0

* Exemptions provided for in Section 264 (3) of the German Commercial Code utilized

Companies reported at equity		
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH	Hamburg	100.0
Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH i.L.	Hamburg	50.0
Texas Gewerbeimmobilien S.à.r.l.	Luxemburg	20.0

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of TAG Immobilien AG, Hamburg and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated income statement, statement of changes in consolidated equity and consolidated cash flow statement for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of TAG Immobilien AG for the financial year from January 1, 2017 to December 31, 2017.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017 and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Measurement of the fair value of investment properties.

The Financial Statement Risk
TAG Immobilien AG has recognized within its non-current assets investment properties valued at EUR 4,166.0m (90% of total assets), which were measured at their fair value as of the reporting date. Fair value measurement of the investment properties as of 31 December 2017 resulted in a measurement gain of EUR 295.5m, which was recognised through profit and loss.

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

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

In the year under review, a change was implemented within respect to the estimates underlying the measurement of the fair value of the investment properties with respect to the expected future transaction costs of a potential buyer. This change in the underlying estimates is exposed to a risk in that it may have an adverse effect on the presentation in the income statement and the notes to the consolidated financial statements.

Our Audit Approach

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

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

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

As well as this, we assessed whether the explanations provided by the company in the notes to the consolidated financial statements on the calculation of the fair value of the investment properties and the related uncertainties with respect to the estimates applied in connection with the expected future transaction costs of a potential buyer were presented appropriately in the income statement and in the notes to the consolidated financial statements.

Our Observations
The calculation method is appropriate and the assumptions and parameters applied are balanced. The presentation of the change in the estimates applied in the income statement and in the explanations in the notes to the consolidated financial statements is appropriate.

Other Information

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

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

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

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

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May16, 2017. We were engaged by the supervisory board on September 18, 2017. We have been the group auditor of the TAG Immobilien AG without interruption since the financial year 2012.

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

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Nils Madsen.

Hamburg, 2 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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

RESPONSIBILITYSTATEMENT

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, 1 March 2018

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

TAG FINANCIAL CALENDAR 2018

Publications

22 February 2018	Publication of the preliminary results 2017
22 March 2018	Publication of Annual Report 2017
26 April 2018	Publication of Interim Report – Q1 2017
23 May 2018	Annual General Meeting, Hamburg
12 June 2018	Capital Markets Day
9 August 2018	Publication of Interim Report – Q2 2018
30 October 2018	Publication of Interim Report – Q3 2018

Conferencen

15 January 2018	Kepler Cheuvreux German Corporate Conference, Frankfurt
21 February 2018	Oddo Seydler BHF German Conference micro, small & mid cap, Frankfurt
8 March 2018	dbConvertible Conference 2018, London
21 March 2018	Berenberg Convertible Bonds Conference, Paris
27 March 2018	Commerzbank German Real Estate Forum 2018, London
12 April 2018	HSBC European Real Estate Conference, Frankfurt
29 May 2018	Kepler Cheuvreux German Property Day, Paris
31 May 2018	Kempen European Property Seminar, Amsterdam
8 June 2018	dbAccess Berlin Conference, Berlin
29 August 2018	Berenberg Real Estate Seminar, Helsinki
30 August 2018	German sector conference Commerzbank AG, Frankfurt
4–6 September 2018	EPRA Conference, Berlin
24 September 2018	Berenberg & Goldman Sachs Corporate Conference, Munich
24–27 September 2018	Baader Investment Conference, Munich

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The English version of the 2017 annual report is a translation of the German version. The German version is legally binding.

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NOTES

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