TAG

We
create
value

Annual Report 2006

TAG | Annual Report | 2006

TAG Group in figures

in TEUR	2006	2005
Revenues	107,334	153,549
a) Sale of properties	72,732	121,119
b) Rental income	25,077	27,119
c) Construction management expenses and other	9,525	4,561
EBITDA	6,162	757
EBIT	17,099	-13,772
EBT	6,425	-32,262
Consolidated net income/loss	2,845	-35,465
Earnings per share in EUR	0.14	-4.65
Total assets	693,251	482,458
Equity	288,703	90,241
Equity ratio in %	41.6	18.7

	12/31/2006	09/30/2006
NAV per share in EUR	11.35	11.26
NNAV per share in EUR	11.00	10.22

WKN/ISIN	830350/DE0008303504
Ticker symbol	TEG
Subscribed capital in EUR	32,566,364.00
Number of shares	32,566,364
Free float	94 %
Sector	Real Estate
Market Sector	SDAX
Stock exchange	Munich, Frankfurt/Main

Stock Price in EUR	01/02/2006	8.13
Stock Price in EUR	12/29/2006	9.24
High for period under review 2006 in EUR	05/08/2006	10.15
Low for period under review 2006 in EUR	07/24/2006	7.76
Market capitalisation in TEUR	12/29/2006	300,913

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Andreas Ibel
Chairman of the Management Board

Erhard Flint
Member of the Management Board

Dear shareholders, ladies and gentlemen,

With the completion of two equity issues last year, TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft (TAG) impressively continued on its growth trajectory. As a result, the turnaround together with the Company's strategic reorientation has been successfully achieved. Admission to the SDAX and market capitalisation of over EUR 350 million clearly testify to the Company's successful position in the financial market.

The comprehensive reinforcement of TAG's equity resources was commenced at the beginning of the year with a smaller equity issue of EUR 21 million. This was followed in August by a successful second, major equity issue, which generated proceeds of around EUR 160 million. The successful placement of fresh equity reflects the confidence which international investors are placing in the Group's strategy and in the German real estate market, a fact which is mirrored in the sharp rise in market capitalisation. A large part of the equity issue was subscribed to by international investors with a medium and long-term investment horizon.

As a result of the equity issue, the equity ratio more than doubled to around 42 percent, while market capitalisation grew more than threefold to EUR 301 million. In addition, it provided the Company with the resources for acquiring real estate in the planned volume of EUR 800 million, resulting in an increase in total assets to EUR 1.3 billion.

As a capital-heavy market participant, TAG will be using the proceeds from the transaction to continue on the course of growth which it has adopted. Looking forward, it will continue to pursue a buy, build & hold strategy aimed at unlocking long-term value.

In 2006, TAG's acquisition activities reached the previously announced figure of EUR 250 million. Since summer 2006, properties comprising 1,350 residential units as well as 19 commercial properties have been acquired in Berlin, Munich, Leipzig as well as in the Rhine/Ruhr region. Spending on portfolio extensions is heightening the share of rental income in total revenues and ensuring steady and stable cash flows. The successful extensions to service business and the collaboration with international real estate investors are generating further profitable income for TAG.

Given difficult market conditions, TAG has been exercising restraint in the acquisition of commercial real estate over the past few years. However, upbeat market trends as well as discussion of German REIT (G-REIT) legislation prompted a decision to broaden the portfolio of commercial real estate via purchases in Munich and in the Rhine/Ruhr region.

In addition to these activities, TAG systematically adjusted its Group structure in 2006 in the light of the expected REIT legislation. Thus, in December 2006, TAG acquired 90 percent of the capital of Bau-Verein Gewerbeimmobiliengesellschaft mbH in response to the current G-REIT parliamentary bill stipulating that REITs may hold only commercial real estate and excluding residual properties with the exception of new buildings completed after 31 December 2006.

All activities relating to commercial real estate will be pooled in TAG Gewerbe AG, as it is to be known in the future. With this structure, together with appropriate equity resources and IFRS accounting, TAG will have an ideal basis for reacting swiftly and flexibly to the requirements of German REIT legislation.

Preface by the Management Board

TAG can look back on an extremely encouraging year in 2006. Earnings before tax (EBT) came to EUR 6.4 million, substantially exceeding the guidance of EUR 6.0 million which had been raised in August 2006.

Consolidated post-tax earnings came to EUR 2.8 million in 2006. TAG's real estate portfolio widened in value from EUR 374 million to EUR 516 million.

In conjunction with its figures for the 3rd quarter of 2006, TAG also disclosed its net asset value (NAV) for the first time. The capitalised income value method applied by internationally renowned valuation companies to measure the value of the real estate accords with the principles of the International Valuation Standards and makes a decisive contribution to ensuring that TAG can be valued appropriately in the capital markets. The NAV stands at EUR 11.26 per share including minority interests and EUR 10.22 per share net of minority interests.

In the final quarter of the year, NAV net of minority interests rose to EUR 11 per share. This trend reinforces the view expressed by the analysts at SES Research GmbH in Hamburg, who consider the Company to be undervalued given its favourable outlook for sustained NAV growth. They consider a "premium of 15 percent on the NAV" as of October 2006 to be justified, not least of all because the Company's peers are trading at around 30 percent above their NAV.

At the end of the year, the previous Management Board member Andreas Ibel was appointed Chairman of the Management Board effective 1 January 2007, replacing Dr. Lutz R. Ristow, who was appointed Chairman of the Supervisory Board.

Dock 4, HafenCity, Hamburg

With the completion of the equity issues, the very successful investments as well as the strategic reorientation of the Group, TAG is ideally positioned to make optimum use of the opportunities arising in the German real estate market, which will widen not least of all due to the introduction of G-REITs. The favourable ratings assigned by analysts as well brisk interest on the part of foreign and domestic investors confirm the optimism with which TAG is facing the new year and the strategy which it has adopted.

We wish to thank our employees for their great dedication. We are also grateful to our customers, partners and shareholders for the fruitful relations with them and the confidence which they place in us.

Hamburg, April 2007
TAG Tegernsee Immobilien- und Beteiligungs-AG

Andreas Ibel

Erhard Flint

TAG in the German real estate market

Attractive opportunities for investors

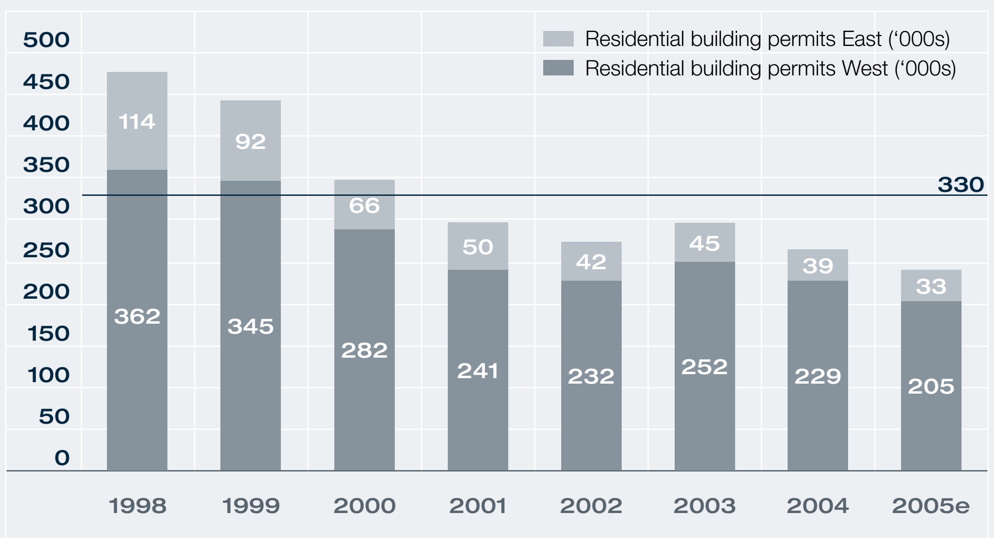
The German real estate market is currently one of the most attractive anywhere in the world for international investors.

Whereas the real estate markets in most European countries have hit or even passed their cyclical zenith, Germany has been growing at a moderate rate for fifteen years according to statistics. Continued growth potential, relatively favourable prices and still low interest rates are providing a good backdrop for investments. With its activities in residential and commercial real estate, TAG is well poised to make the most of various opportunities on a sustained basis.

The market for residential real estate Rising rentals, sought-after historical buildings

Living in the city is becoming more expensive – this is one of the main trends to emerge in the German residential real estate market in 2006. According to the price statistics of the German Real Estate Association (IVD) for 2006/2007, rentals on new tenancies for residential property were up an average of one percent year on year. This trend was particularly pronounced in the case of old buildings in towns and cities with a population of over 300,000. Whereas rentals for old buildings in good locations rose by 0.4 percent nationally, an increase of 2.78 percent was registered in large cities. At EUR 8.75 per square meter, the highest rentals were paid in Munich (three rooms, 70 square meters, medium residential quality). With new construction activity still low, the real estate experts at IVD assume that rentals in cities will continue to rise, accompanied by growing demand for old buildings.

Number of finished apartments in Germany



Source: Kepler Equities, Frankfurt

— Demand

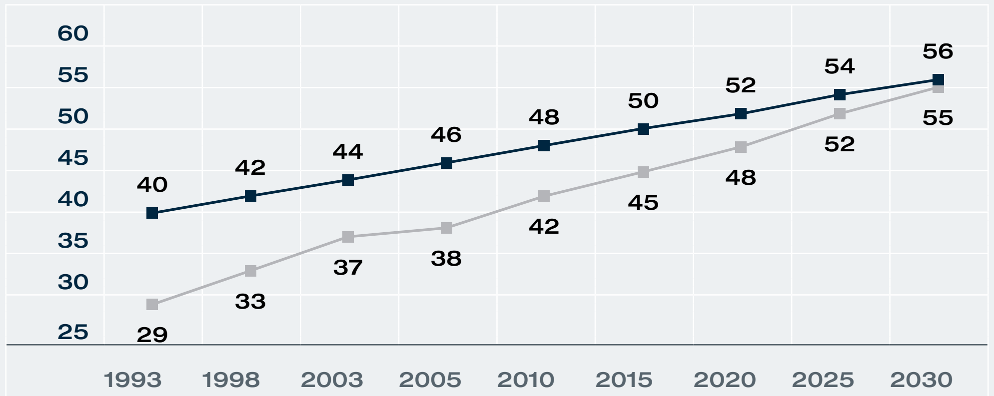
The residential real estate market in Germany remains interesting for foreign investors as well. With around 39 million dwellings, it is the largest market in Europe, with 40 percent of dwellings owned by commercial operators. A study published by HSH Nordbank expects 1.5 million dwellings in Germany to be sold to investors via portfolio transactions between now and 2015. Potential sellers are companies seeking to concentrate solely on their core activities as well as local governments whose tight budget situation is forcing them to sell their real estate holdings.

Company	Number of apartments
Deutsche Annington (Terra Firma)	230,000
Gagfah Holding	150,000
Saga-GWG (Hamburg)	135,000
GSW (Cerberus)	110,000
LEG NRW GmbH (Land NRW)	100,000
THS Treuhandstelle (Bund, IGBCE, RAG)	80,000
RAG Immobilien AG	66,000
DKB Immobilien AG Gruppe	55,000
LWB mbH (Leipzig)	52,000
LEG BW (Baden Württemberg)	47,000
Immeo Wohnen (Morgan Stanley et al)	40,000
DGAG GmbH (HSH Nordbank et al)	28,000
Corpus (Sparkasse Düsseldorf et al)	14,000
Bayerische Bau- und Immobilien (BIAG)	12,500

Source: Kepler Equities, Frankfurt

Demand will also continue to rise due, among other things, to the ownership rate of 43 percent, which is still low compared to other countries. This is generating potential for growth particularly in large cities such as Berlin (13 percent) and Hamburg (22 percent). Demographic aspects are also spurring the real estate market – at least in the metropolitan regions: According to forecasts, population growth will be confined to urban areas. At the same time, the proportion of one and two-person households has widened from 55 percent in 1970 to 70 percent in 2004. As well as this, a study conducted by market research institute Empirica indicates that average residential space per capita will rise from 46 to 56 square metres in the old German states by 2030.

Space per capita (sqm)

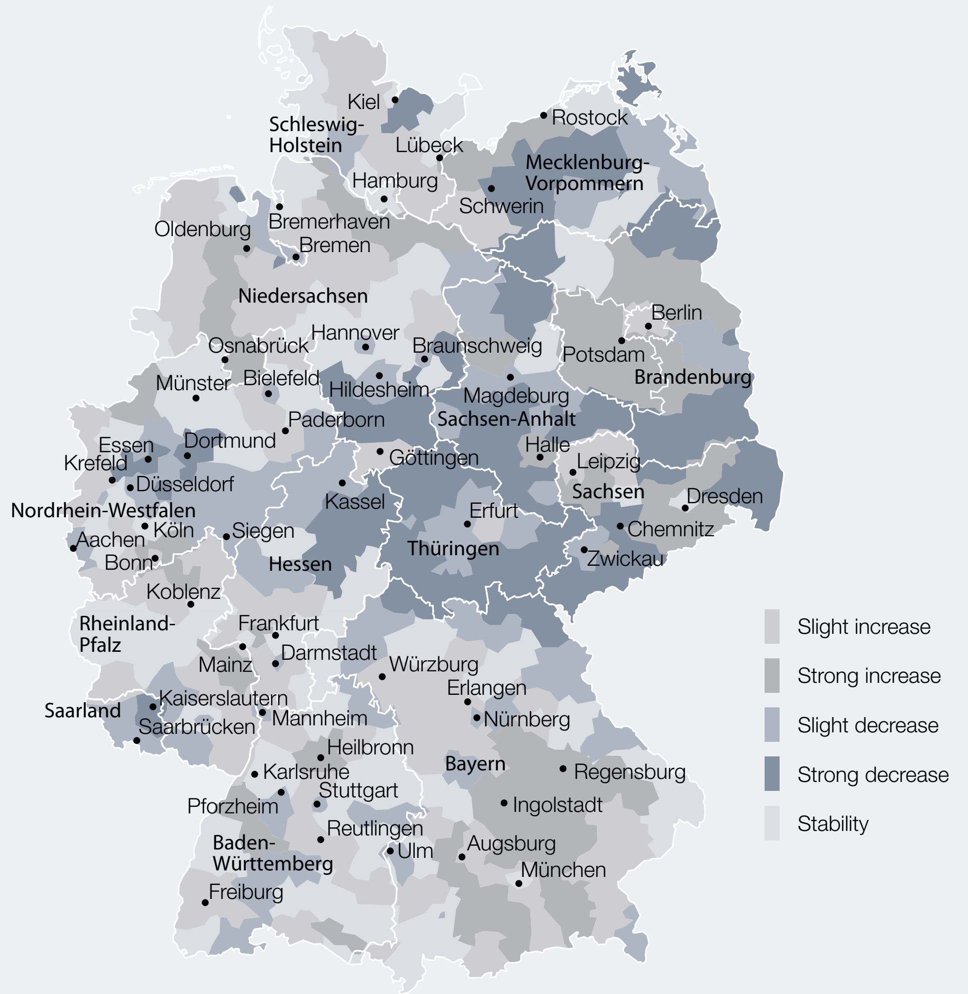


Source: Kepler Equities, Frankfurt

— West Germany — East Germany

TAG is ideally positioned to capitalize on these trends via its subsidiary, the Bauverein Group, which holds portfolios of residential real estate in cities such as Hamburg, Leipzig, Berlin and Munich. Combined with its many years of experience in developing and managing new and old buildings, this will give rise to great market opportunities. Sixty percent of all residential buildings in Germany are older than 30 years; this, too, is a factor rendering portfolio development a growth market, particularly in good locations, from which TAG stands to benefit.

Population Trends 1999-2020e



Source: Kepler Equities, Frankfurt

The market for commercial real estate – Record figures in 2006; great interest on the part of foreign investors

The German commercial real estate market hit a new record in 2006. According to the calculations of consulting company Jones Lang LaSalle, investment volumes in Germany reached EUR 49.5 billion, an increase of 141 percent over the previous year. This made Germany the most coveted country for real estate investments ahead of France and the United Kingdom. Investors from the United States and the United Kingdom in particular invested in Germany, with Munich attracting particularly strong demand. According to commercial real estate broker Atis Real, investment volumes in that city came to EUR 4.9 billion, an increase of 228 percent over the previous year. It was followed by Berlin with EUR 4.2 billion, an increase of 139 percent, and Hamburg (EUR 3.9 billion, up 135 percent).

These figures are consistent with the results of the market analysis entitled “Emerging Trends in Real Estate Europe 2007” conducted by consulting company Pricewaterhouse-Coopers (PwC), according to which Munich and Hamburg are amongst the ten most attractive real estate markets in Europe for the first time.

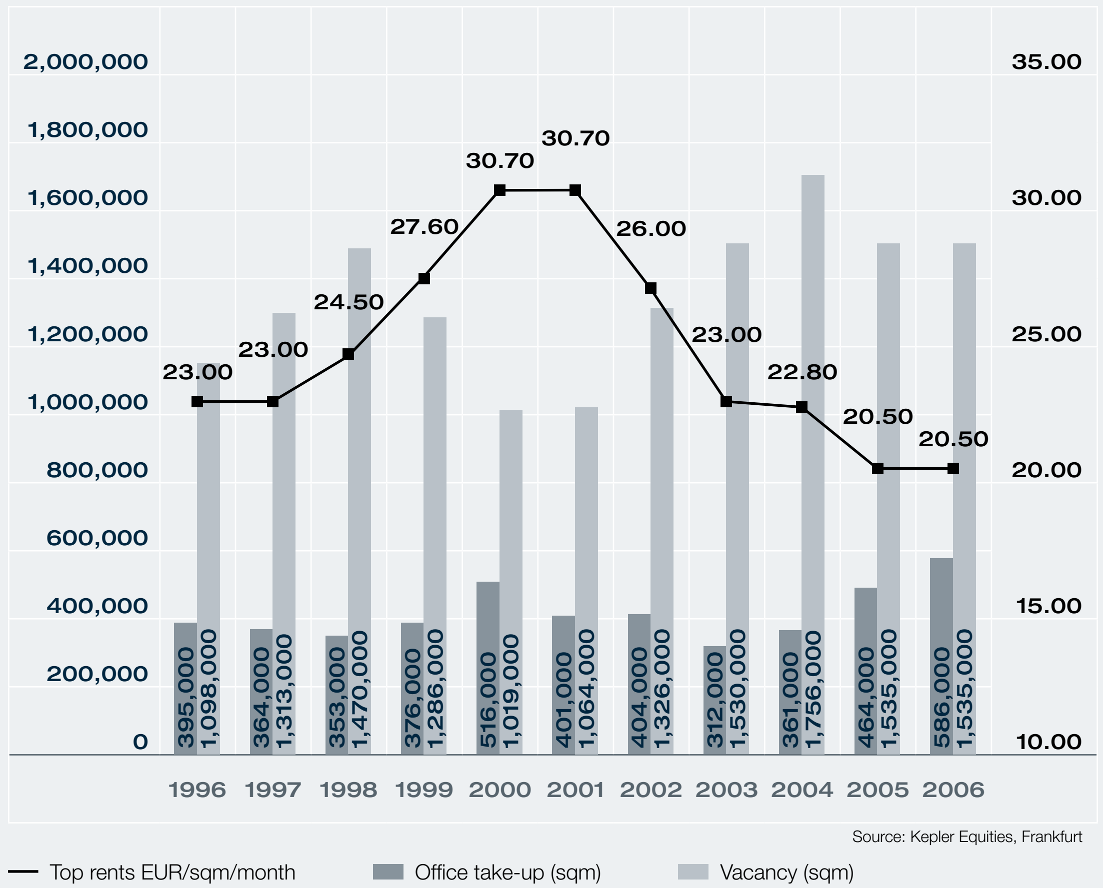
Largest Commercial Portfolio Deals in 2006

Sector	Name	No. of objects	Price EURm	Seller	Origin of seller	Purchaser	Origin of Purchaser
Retail	Karstadt Portfolio	97	4500	Karstadt Quelle AG	Germany	Whitehall (Goldman Sachs)	Global
Mixed	Project „Mars“	61	2100	DBRE	Germany	Eurocastle/ Fortress	Global
Office	Project „Hercules“	47	1100	DEKA	Germany	Oaktree	Global
Office	Project Cole & Bridge	Cole: 4 Bridge: 6	1004	DBRE	Germany	CDP/SITQ, Eurocastle/Fortress	France/Canada, USA
Retail	Lidl Portfolio	250	1000	Lidl & Schwarz	Germany	Babcock and Brown	Australia
Office	Project Nautilus I and Nautilus II	Naut I: 10 Naut II: 4	860	DIFA	Germany	Tishman Speyer, IVG	USA, Germany
Office	Primo I and Primo II	38	816	City of Hamburg	Germany	IXIS	France
Retail	Max Bahr DIY Portfolio	77	800	Max Bahr	Germany	Nomura International	Japan
Office	Leo II	36	768	State of Hesse	Germany	CA Immobilien AG	Austria
Retail	Brune Portfolio	4	710	Brune	Germany	Merrill Lynch/ ECE	USA

The reasons for the strong interest on the part of international investors in the real estate markets are to be found in what by international standards are the low prices and the favourable economic outlook. The upcoming introduction of tax-privileged real estate investment trusts (REITs) is also luring investors. Experts assume that 20 – 40 REITs will be floated in the next ten years, resulting in an issue volume of well over EUR 100 million.

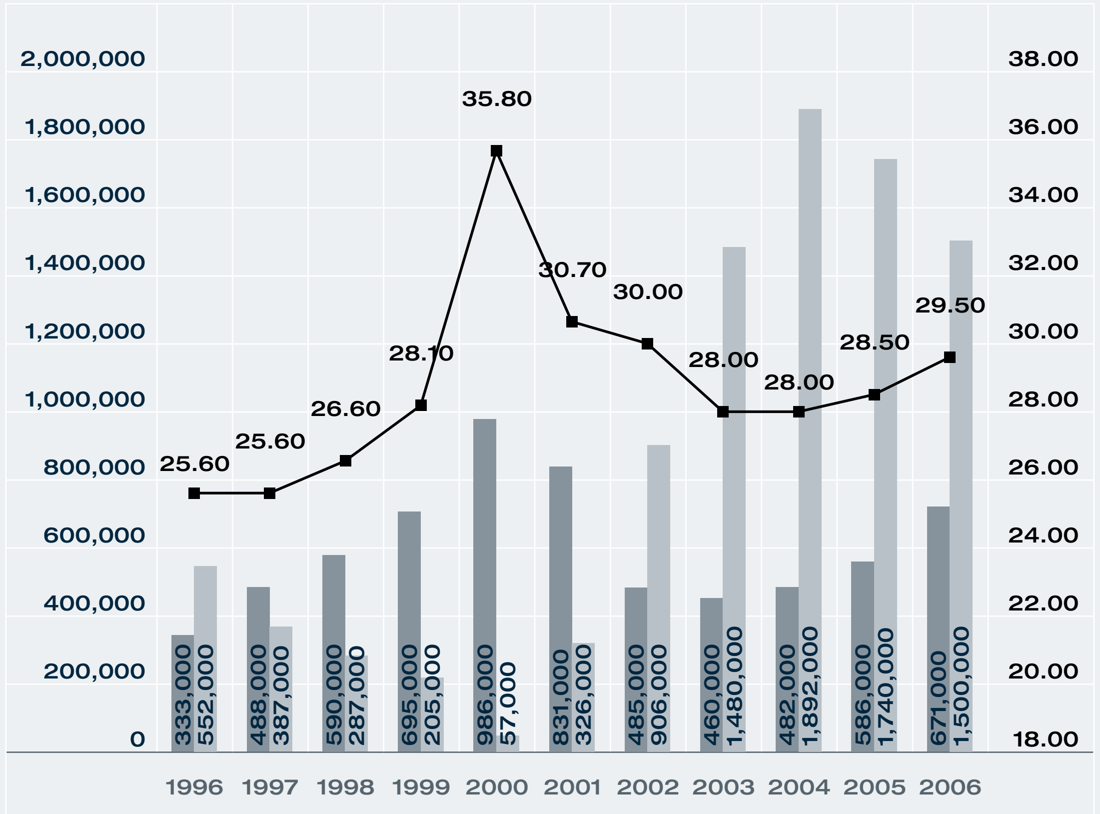
In addition to the high value potential, rising office rentals are also attracting investors. After years of declining rentals, market observers at the German Real Estate Association (IVD) are registering a recovery in large cities. As in previous years, only retail properties in top locations in large cities are growing, whereas rentals in smaller towns and cities and in inferior locations are continuing to sag.
Rentals for high-quality office space in cities with a population of 200,000 or more rose by 1.38 percent year on year and by as much as 2.51 percent in cities with a population of 300,000 or more. In this respect, the location is decisive.

German Top Office Locations: Berlin



Belziger Straße, Berlin

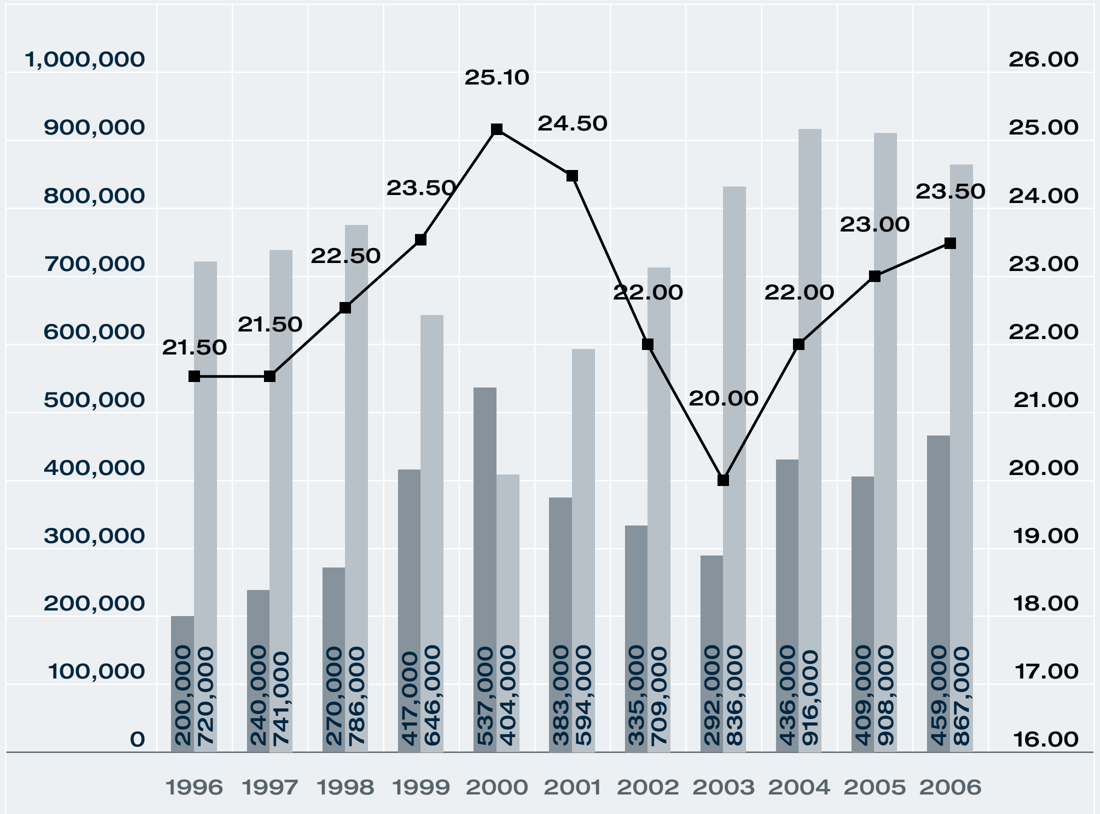
German Top Office Locations: Munich



Source: Kepler Equities, Frankfurt

— Top rents EUR/sqm/month Office take-up (sqm) Vacancy (sqm)

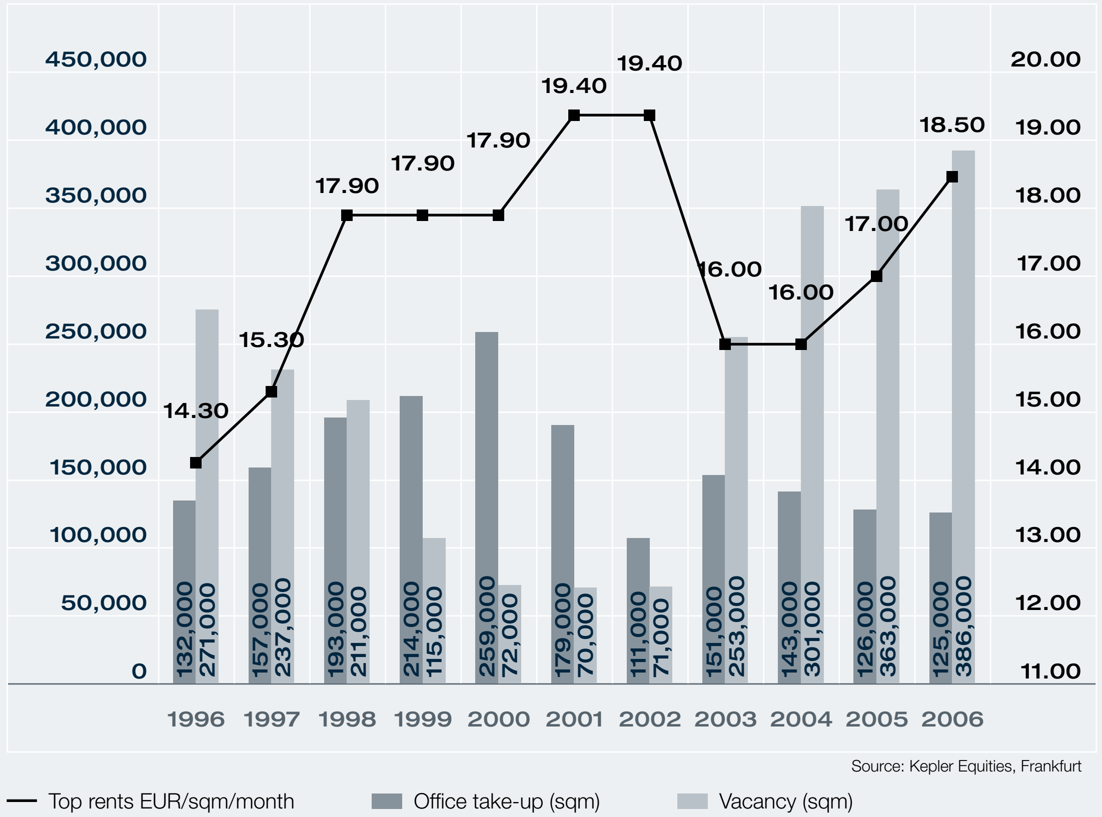
German Top Office Locations: Hamburg



Source: Kepler Equities, Frankfurt

— Top rents EUR/sqm/month Office take-up (sqm) Vacancy (sqm)

German Top Office Locations: Stuttgart



With top rents of EUR 29.50 per square metre, Munich is the most expensive market for commercial real estate, followed by Hamburg at EUR 23.50, Düsseldorf at EUR 21.50, Berlin at EUR 20.50 and Cologne at EUR 20.45 per square meter.

The future TAG Gewerbe AG already holds commercial real estate in metropolitan regions. The strategy of seeking long-term value growth being pursued by a company which is eligible for REIT status is attractive to investors seeking to benefit from the potential offered by the German market. Further earnings potential is to be unlocked via the support offered by service company TAG Asset Management GmbH for foreign investors.

Project development Stuttgart Südtor, Stuttgart

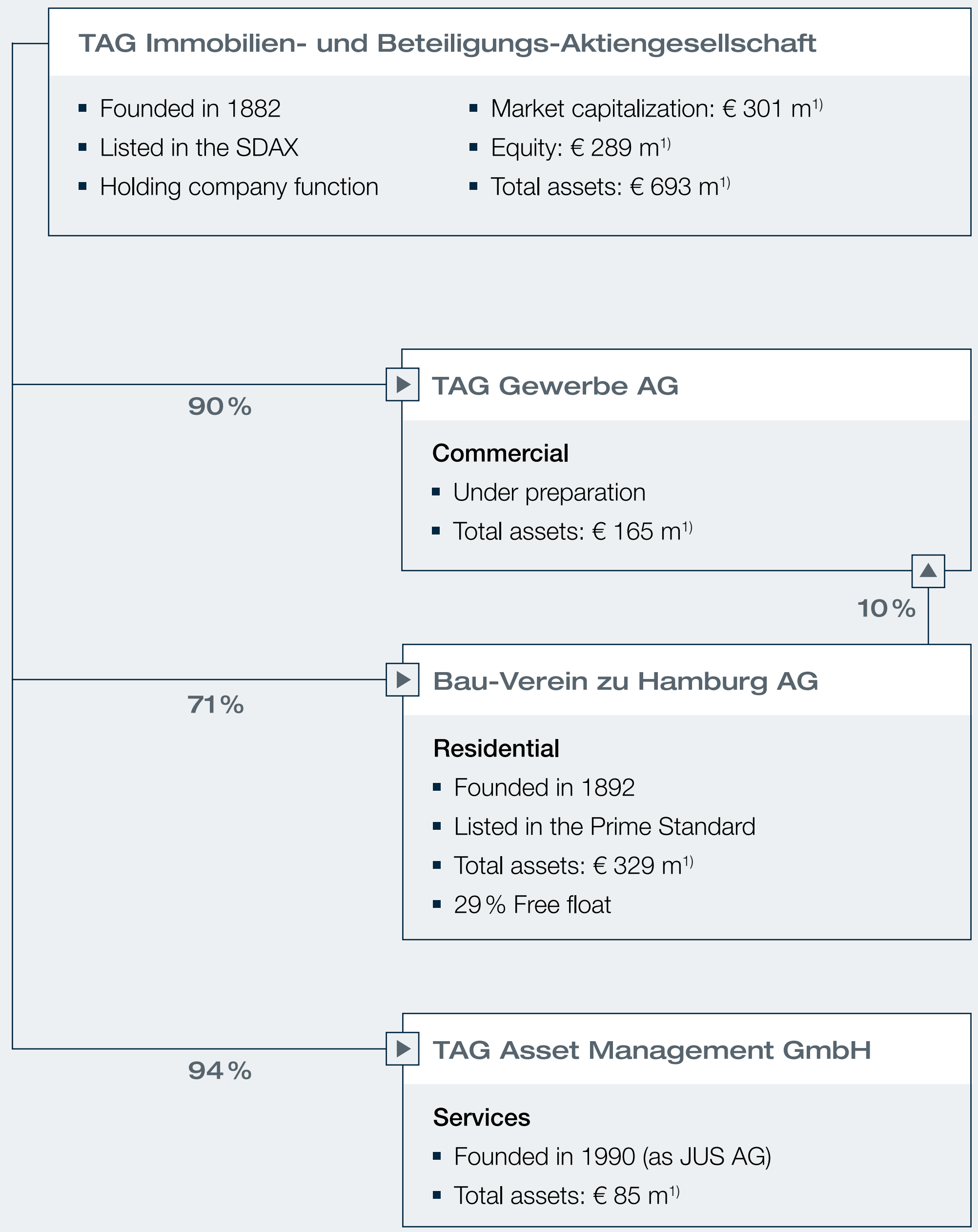
The Company

Real estate with growth potential

TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft (TAG) is the holding company within a structured real estate group focussing on high-growth German metropolitan regions. Via its subsidiaries, it is active in both the residential and the commercial real estate markets, with core business entailing the management and development of its own portfolios, new construction as well as portfolio management for third parties and real estate services.

TAG's activities concentrate on key metropolitan regions in Germany characterised by growth potential and real estate markets offering favourable long-term prospects. These include Berlin, Hamburg, Munich, Leipzig and the Rhine-Main region. The Company has around 5,000 residential and commercial units in its own portfolio, with a further 1,450 or so under construction or in the pipeline. On top of this, it manages 7,200 units for third parties.

TAG holds a 71 percent stake in Bau-Verein zu Hamburg AG, which is also listed in the Prime Standard. With a free float of 29 percent, the Bau-Verein Group is continuing to focus on residential real estate. As part of efforts to optimise the Group structure and to prepare for G-REIT status, Bau-Verein sold its commercial real estate holdings to TAG. Accordingly, TAG now directly holds 90 percent of the capital of the future TAG Gewerbe AG, with Bau-Verein retaining the balance of 10 percent. TAG holds a 94 percent stake in TAG Asset Management GmbH, which provides real estate services for the Group and third parties.



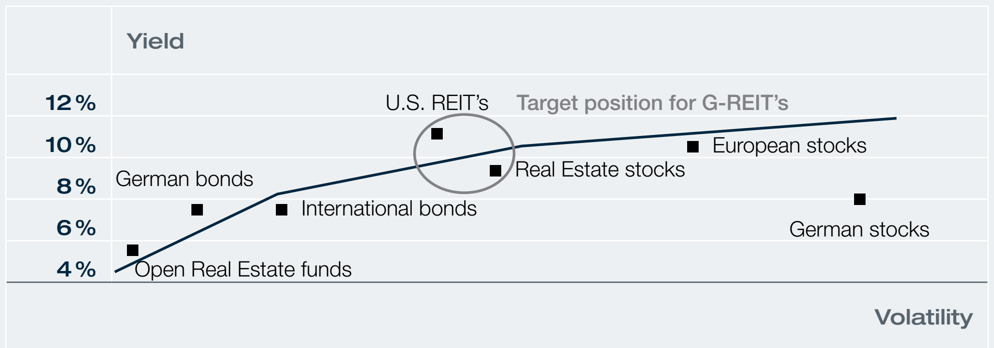
[1] 12/31/2006

With its head office in Hamburg, TAG has branches in Berlin, Leipzig and Munich, thus ensuring regional proximity to its real estate holdings.

On 18 December 2006, TAG was admitted to the German SDAX, which comprises 50 German small caps. As a result, it is attracting greater investor interest, leading to higher trading volumes and thus increased market capitalization.

German REIT – Well positioned

The retroactive introduction of the German REIT as a tax privileged investment vehicle as of 1 January 2007 will allow new opportunities to be harnessed in the German real estate market. With its Group structure, TAG is well poised to make the most of the G-REIT legislation passed by the upper and lower houses of parliament in Germany. By pooling its commercial real estate portfolio in the future TAG Gewerbe AG in December 2006, the Company has responded to the German federal government's decision to initially confine REITs to commercially used real estate as well as buildings completed after 31 December 2006. Experts assume that in the medium term residential portfolios will also be included in REIT status. In this case, TAG is waiting and ready with its listed subsidiary Bau-Verein as a further potential REIT candidate.



Source: DekaBank

— „Efficient Frontier“

Net asset value (NAV)

TAG has retained the services of independent third parties, primarily Cushman & Wakefield from Frankfurt, to calculate the market/fair values of its real estate. The structured capitalised income value method applied by internationally acknowledged valuation companies used to measure the value of real estate complies with the principles of the International Valuation Standards and will make a decisive contribution to helping investors to evaluate TAG's portfolios appropriately in the capital market. The market values measured together with the valuation of the Group's service business form the basis for calculating net asset value (NAV), the international benchmark for assessing and comparing real estate companies. TAG published its NAV for the first time as of 30 September 2006. It rose from EUR 10.22 per share in the third quarter to EUR 11.00 per share in the fourth quarter net of minority interests.

TAG Net Asset Value as at 12/31/2006

	in TEUR
Book value of properties	519,799
Difference in relation to market value	55,516
Service business (DCF value)	23,297
Market value of financial assets	8,413
Other assets	167,313
Net assets	**774,338**
Liabilities	-404,548
Net Asset Value	**369,790**
Minority interests	-11,526
Net Net Asset Value	**358,264**
Number of shares	32,566,364
NAV per share in EUR	11.35
NNAV per share in EUR	11.00

Employees – Competent and experienced

The TAG Group has a total of around 160 employees based in Hamburg, Berlin, Munich, Leipzig and Tegernsee. Highly qualified employees, most of whom have many years of experience in working in the real estate sector, ensure competent management of all projects in each phase including planning, implementation, development or portfolio management. Customers whose portfolios are managed by TAG Asset Management GmbH or for whom other services are provided also benefit from their multifaceted skills. Staff based in Hamburg perform tasks for the entire Group such as controlling and public/investor relations.

History

Utilizing contemporary opportunities with an eye on tradition

TAG is celebrating its 125th anniversary in 2007. Originally incorporated in 1882 as a railway company called Eisenbahn Actiengesellschaft -Schaftlach-Gmund-Tegernsee, it continues to this very day to operate a railway line transporting passengers from Munich to Lake Tegern. In 1999, TAG leased its rolling stock to a third party and receives regular rental income from this source. The portfolio also includes properties with a total area of around 50,000 square meters on the banks of Lake Tegern, which are undergoing active portfolio management. Following the acquisition of subsidiaries and real estate companies, the Company has undergone fundamental change to become a listed real estate group.

TAG's subsidiary Bau-Verein zu Hamburg AG can also look back on a history spanning more than 115 years. Founded in 1892 and listed since 1903, the Company has amassed enormous experience in enhancing the value of real estate over many generations. To coincide with its 100th anniversary, the Company acquired Hamburg's oldest rental apartment building, the baroque-style Paradieshof, and invested large sums of money in restoring it. Today, a stylised image of Paradieshof forms part of the Company's logo.

TAG and Bau-Verein benefit from the many years of experience and extensive real estate skills of their management and staff.

Schwägrichenstraße, Leipzig

Corporate strategy

Buy, build & hold

TAG's corporate strategy aims at generating long-term value growth. In this way, it is possible to adjust purchasing policies to make optimum use of cyclical changes in the market. The combination of portfolio maintenance and development together with the broad range of real estate services covers the entire value chain for real estate and offers numerous competitive advantages. In this way, it is possible to make optimum use of potential for value growth. In addition, the provision of services for investors generates regular income without tying up large volumes of capital. Management's proven broad-based expertise as well as the Company's many years of experience in all facets of the real estate market form an ideal basis for a strategy which not only responds to short-term market developments but seeks to create sustained value. The establishment of a long-term investment portfolio with stable cash flows and high returns is a key measure towards achieving this and one which has been made possible with the large volume of fresh equity. In addition, regional presence in key markets gives rise to further additional benefits.

Buy	Build	Hold	Service
▪ Major German cities offering favourable long-terms prospects ▪ Good residential locations ▪ Attractive rental yields with high cash flows ▪ Focus on small to mid-size real estate portfolios ▪ Detailed due diligence reviews by expert staff	▪ Modernisation and repairs ▪ Creation of extra space by extensions and additional storeys ▪ Extensions and new constructions ▪ Improvements to surroundings ▪ Active value creation by means of portfolio enhancement activities	▪ Long-term portfolio ▪ Tapping potential for raising rentals ▪ Optimising operating costs	▪ Real estate services for the Group and for third parties - Property management - Due Diligence - Project management - Construction management - Controlling - Book keeping

Bärenparksiedlung, Berlin; Photo: Bavaria Luftbild Verlag GmbH

A good example of TAG's buy, build & hold strategy is the Bärenparksiedlung project, a listed residential estate in Berlin-Tempelhof, which Bau-Verein acquired in December 2006.

The estate comprises 885 dwellings in good condition in three and four-floor storey buildings with double-pitch roofs constructed in the 1930s, offering interesting potential for creating added value. The estate has a total residential floor area of around 48,000 square metres, with additional potential of around 9,000 square metres which can be unlocked by converting the attics into living space.

Looking ahead over the next few years, the Company plans to complete extensive modernisation activities and construct modern and spacious roof-top apartments as well as balconies. There are plans to provide a range of different equipment levels and floor plans up to apartments with 100 square metres. They will be fitted with modern kitchens and bathrooms and, in some cases, guest bathrooms. The exterior facades are to be renovated in bright colours to achieve a more appealing appearance. At the same time, the heating system and hot water service as well as the electrical wiring are to be modernised to comply with contemporary technical standards in the interests of reducing energy consumption.

The planned extensive modernisation activities, the optimised floor plans and the new roof-top apartments will result in a substantial increase in rental income and thus enhance the value of the entire estate.

Business units: Residential, commercial and service

Residential real estate: Bau-Verein zu Hamburg AG

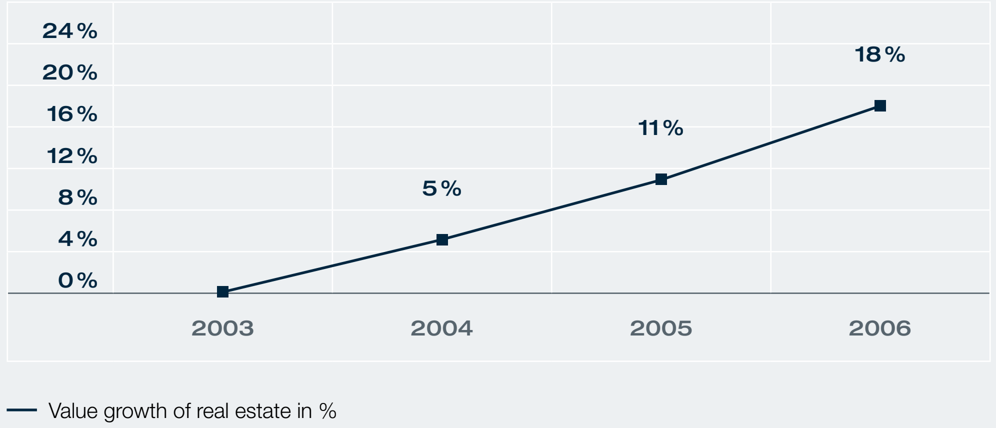
Long-term value growth from residential real estate in top locations

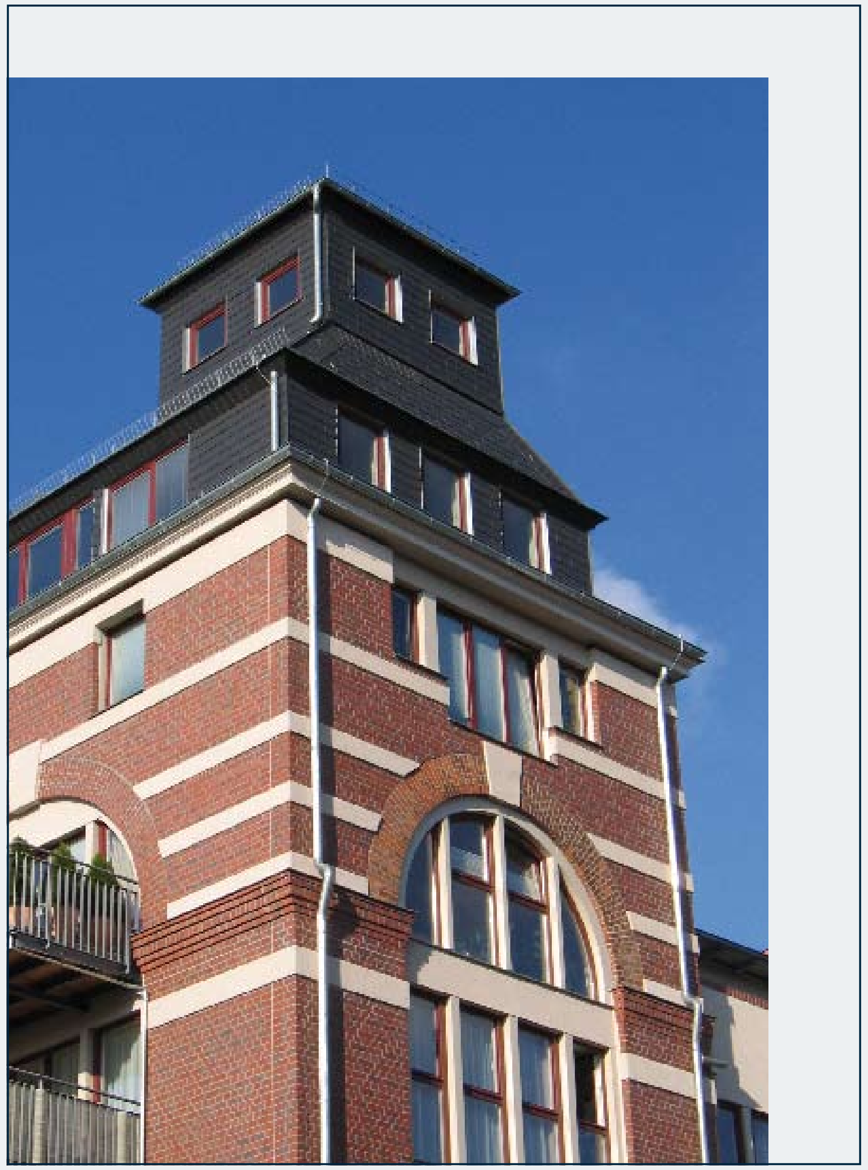
A listed company itself, Bau-Verein zu Hamburg Aktien-Gesellschaft is currently the largest member of the TAG Group. Its core business entails the development of residential portfolios as well as the construction of new dwellings in established locations in the metropolitan regions of Hamburg, Berlin, Munich and Leipzig as well as the Rhine-Main region. In this way, it is active in expanding markets characterised by rising populations. Bau-Verein is aiming to strengthen its own portfolio of residential real estate on a sustained basis by means of acquisitions and by enhancing its value through active portfolio management. At the moment, the portfolio comprises around 5,000 units, with a further 1,450 under construction or in the pipeline. Via its branch offices in Hamburg, Berlin, Leipzig and Munich, Bau-Verein maintains close contact with its own portfolios and regional markets at all times.

For decades now, Bau-Verein has been making use of its extensive portfolio management skills, enhancing income value by means of modernisation, extensions to available space by adding additional storeys and improvements to the immediate environs. In addition, Bau-Verein leases and manages its own portfolio holdings.

In connection with G-REIT preparations, TAG acquired 90 percent of the capital of Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH at the end of 2006. In this way, Bau-Verein AG will now be systematically focusing on the German residential real estate market in the future. At the same time, the proceeds from the sale will provide it with the basis for financing its future growth internally. In the final quarter of 2006, Bau-Verein AG acquired a total of 1,350 new residential units in Berlin, Leipzig and Rhine-Main, thus substantially supplementing its existing portfolio. The transaction was valued at EUR 55 million. The Company is planning investments of EUR 10 million at the three sites.

Value enhancement investment properties





Holbeinstraße, Leipzig

Commercial real estate: TAG Gewerbe AG

Making use of market opportunities

Against the backdrop of the emergence of G-REITs and the upbeat state of the commercial property market, TAG stepped up investments in commercial real estate last year. Looking forward, the previous portfolio acquired from the Bau-Verein Group as well as newly acquired commercial real estate will be pooled in the newly founded company TAG Gewerbe AG. In the commercial real estate segment, the Company is investing solely in premium locations in cities such as Munich, Hamburg and the Rhine-Main region. In 2006, the existing portfolio of commercial real estate was supplemented with acquisitions valued at a total of EUR 105 million.

Services: TAG Asset Management GmbH

Extensive range of services, many years of experience

TAG's service activities are handled by its subsidiary TAG Asset Management GmbH. The Company handles all real estate-related activities such as acquisition, due diligence exercises, project development and management, construction site supervision, controlling and asset management. With its experienced personnel, it is able to leverage its many years of comprehensive development expertise as well as its regional presence in main markets. As a result, it has been possible to extend service business substantially.

TAG Asset Management GmbH supports national and international investors' construction projects, one example of this being international investor Convert Immobilien Invest AG, Vienna. Via a joint venture, TAG Asset Management GmbH is to handle portfolio management, development of the real estate holdings and controlling in Germany.

With the extensions to its comprehensive range of services related to real estate, TAG has widened its source of non-capital-tied income with a reliable planning horizon. Together with its residential and commercial real estate activities, TAG is able to cover the entire value chain in the real estate sector.

The services offered by TAG Asset Management GmbH are also used outside the Group, particularly in connection with acquisition as well as public relations, data processing and controlling.

Photo: Pegasus Business Center, Munich

Portfolio presentation TAG for Annual Report

Investment properties

	Hamburg	Berlin	Munich	Leipzig	Other	Total
Units	1,062	93	60	433	494	**2,142**
Area in m²	59,205	10,121	4,092	24,752	40,950	**139,120**
Average size in sqm	56	109	68	57	83	**65**
Vacancy for rent in sqm	1,066	438	211	770	1,707	**4,192**
Vacancy for rent	2 %	4 %	5 %	3 %	4 %	**3 %**
Net rent in TEUR	4,615	350	465	413	2,582	**8,425**
Net rent in EUR/sqm	6.71	5.05	9.99	4.13	6.73	**5.05**
Market rent after development in TEUR	5,755	946	465	1,810	3,327	**12,302**
Market rent after development in EUR/sqm	8.10	7.79	9.47	6.09	6.77	**7.37**
Planned investment in TEUR	2,443	2,753	0	13,277	5,943	**24,416**

Current assets – Residential

	Hamburg	Berlin	Munich	Leipzig	Other	Total
Units	308	1,915	210	31	143	**2,607**
Area in sqm	19,913	115,866	10,572	1,939	3,510	**151,800**
Average size in sqm	65	61	50	63	25	**58**
Vacancy for investment in sqm	0	19,332	0	0	0	**19,332**
Vacancy for investment	0 %	17 %	0 %	0 %	0 %	**13 %**
Vacancy for rent in sqm	146	2,598	351	191	53	**3,338**
Vacancy for rent	1 %	2 %	3 %	10 %	2 %	**2 %**
Vacancy for sale in sqm	5,943	14,245	461	1,486	0	**22,135**
Vacancy for sale	30 %	12 %	4 %	77 %	0 %	**15 %**
Net rent in TEUR	986	4,149	876	16	330	**6,357**
Net rent in EUR/sqm	4.13	2.98	6.90	0.70	7.83	**3.49**
Planned investment in TEUR	1,535	30,211	0	727	0	**32,473**

Current assets – Commercial

	Hamburg[1)]	Munich	Rhine-Main	Other	Total
Units	26	56	101	28	**211**
Area in sqm	19,811	42,990	26,567	25,565	**114,933**
Vacancy for investment in sqm	457	2,692	2,327	1,618	**7,094**
Vacancy for investment	2 %	6 %	9 %	6 %	**6 %**
Vacancy for rent in sqm	0	0	3,048	777	**3,825**
Vacancy for rent	0 %	0 %	11 %	3 %	**3 %**
Net rent in TEUR	849	3,499	2,315	1,052	**7,715**
Net rent in EUR/sqm	3.57	6.78	7.26	3.43	**5.59**
Planned investment in TEUR	1,441	7,399	655	505	**10,000**

1) Planned for development as a commercial property in Hamburg; accordingly, only low rental income generated by renting for a limited period

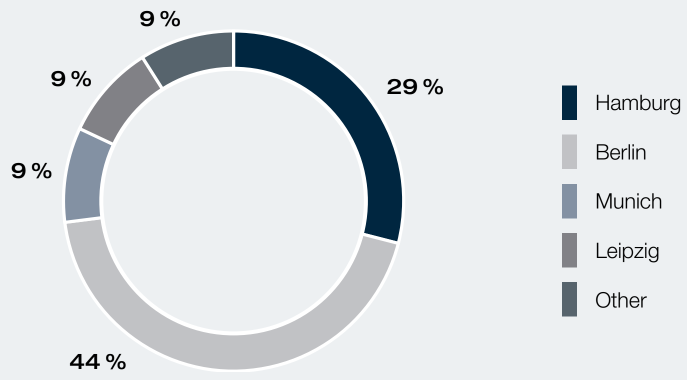
Current assets – Undeveloped real estate

	Hamburg	Berlin	Munich	Leipzig	Rhine-Main	Total
Area of land in sqm	128,725	7,940	5,187	10,455	15,000	**167,307**
Units planned	566	14	0	0	53	**633**
Area planned	70,185	1,558	12,916	0	7,179	**91,839**
Planned investment in TEUR	103,028	0	39,580	30	11,577	**154,215**

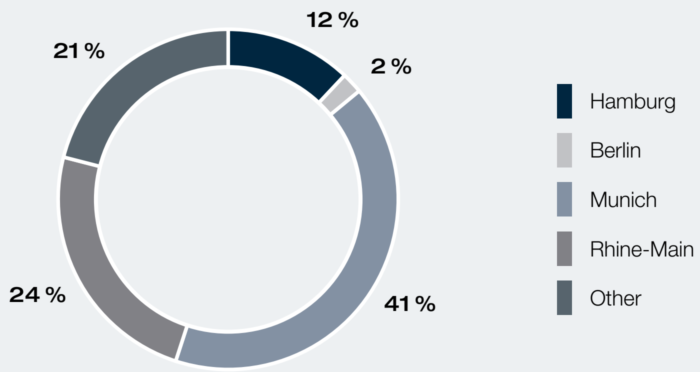
Portfolio

Wedel an der Au, Wedel near Hamburg

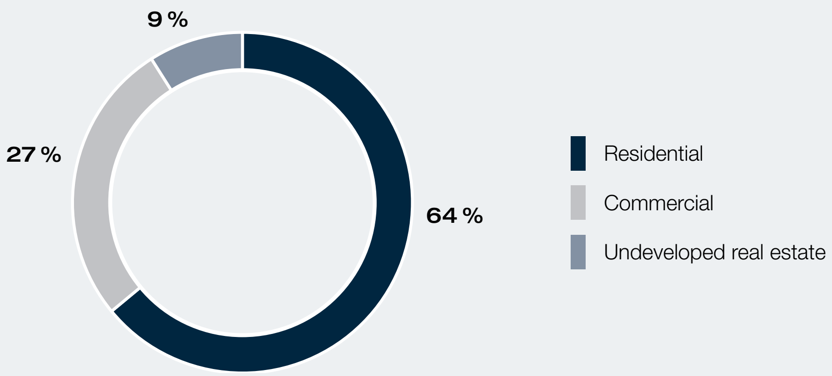
Residential - Real estate portfolio by region[1)]



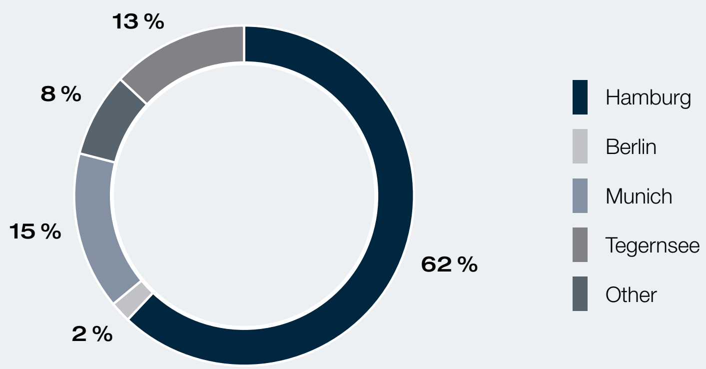
Commercial - Real estate portfolio by region[1)]



Portfolio by type of use[1)]



Undeveloped real estate by region[1)]



1) according to market value

TAG Stock

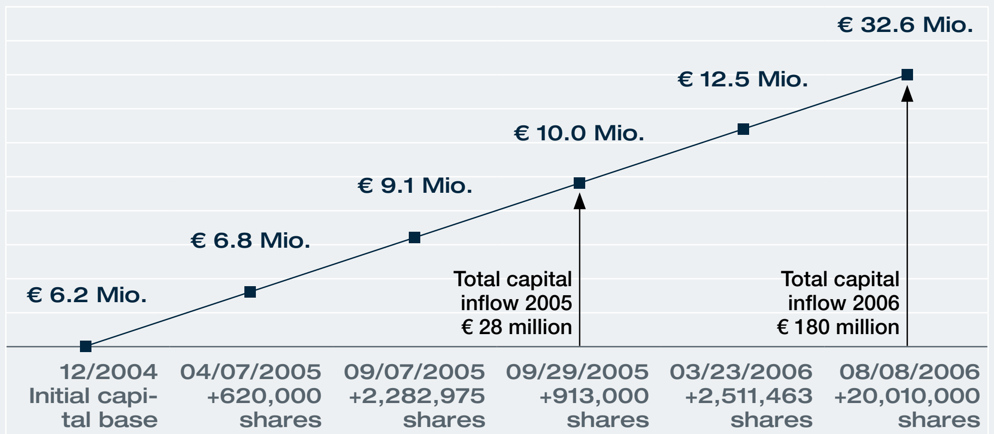
Extensive capital market activities - rising interest

2006 was a very successful year for the stock market, with the DAX peaking at just on 6,600 points and closing the year up 22 percent. The MDAX advanced by 29 percent year on year, closing 2006 with a historical high of 9,405 points. The TecDAX gained 25 percent for the year in 2006.

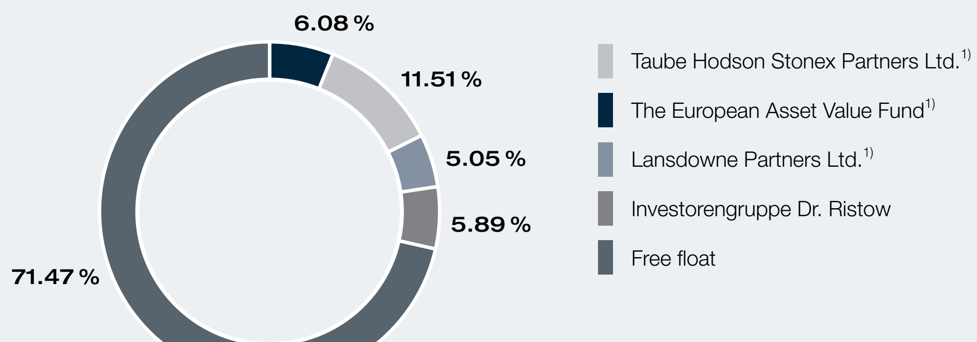
The year was even more successful for listed real estate companies. Foreign investors, in particular, focused on the German real estate market, which has an inexpensive valuation by international standards. The Dimax, which tracks listed real estate companies, rose by 46 percent over the year as a whole, i.e. twice the rate which the DAX achieved.

TAG stock also performed well. It entered 2006 at EUR 8.13 and edged upwards to hit a high for the year of EUR 10.15 on 8 May. The equities markets came under pressure in the summer months, in the wake of which TAG stock retreated to a low for the year of EUR 7.76 on 24 July. The stock met with renewed interest as of autumn following the successful completion of the equity issue and the publication of its NAV. As a result, it closed the year on 29 December 2006 at EUR 9.24.

Increase in share capital 2005/2006 Number of non-par shares



Shareholder structure 12/31/2006

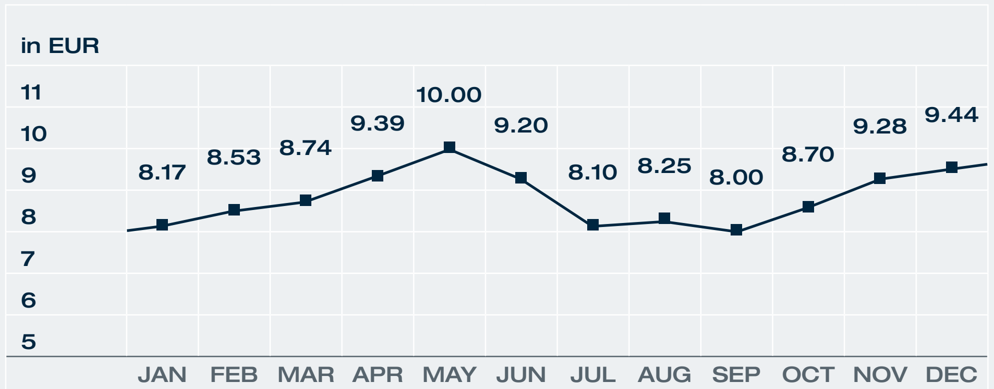


1) to be allocated to free float according to the definition of Deutsche Börse

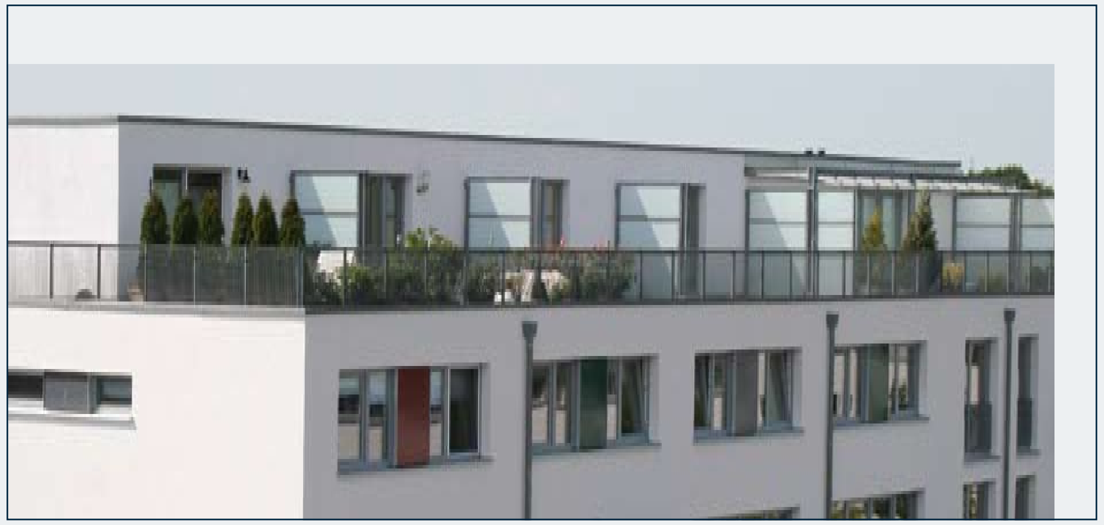
In the first quarter of 2007, it continued to benefit from rising interest, with the upward trend continuing, propelling the stock to EUR 10.24 on 30 March 2007.

Banks, analysts and shareholders generally demonstrated substantially greater interest in the stock last year. Among other things, management responded to this by organising road shows in the United Kingdom, Switzerland and the United States.

TAG Stock prices in 2006



Initial quotation	01/02/2006	8.13 EUR	Closing quotation	12/29/2006	9.24 EUR
High	05/08/2006	10.15 EUR	NAV per share	12/31/2006	11.35 EUR
Low	07/24/2006	7.76 EUR	Current price as at	03/30/2007	10.24 EUR



heidberg. villages, Hamburg

Reflecting the greater public interest in the Company, TAG's public relations activities have repeatedly been praised. For the sixth year in a row, TAG achieved a particularly good ranking in the annual survey conducted by Wissenschaftliche Vereinigung zur Förderung des Immobilienjournalisten e.V. (WVFI). Business journalists voted it one of the top 3 listed and non-listed real estate companies for the quality of its press work. Looking forward, transparent corporate communications and commitment to good corporate governance together with high product quality will continue to form key elements of the Company's strategy.

Key figures of TAG stock

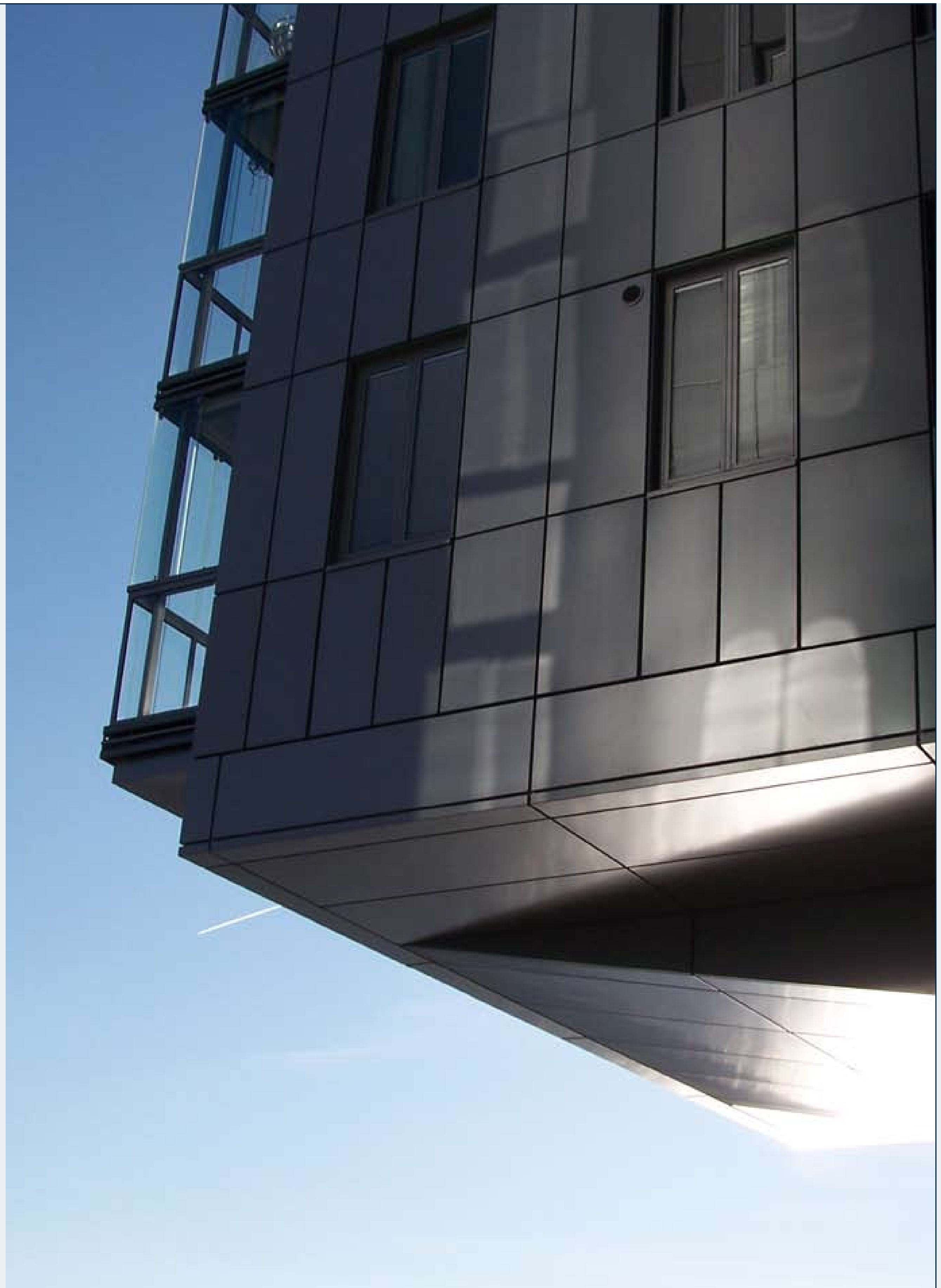
	2006	2005	2004
Number of stocks outstanding at 12/31/2006	32,566,364	10,044,901	6,228,926
Imputed shares capital value in EUR	1.00	1.00	1.00
Dividend per share	0	0	0
Market capitalization at 12/31/2006 in EUR million	300.9	82.37	46.1

Key data of TAG stock

Ticker symbol	TEG
Type of stock	Ordinary bearer shares
ISIN	DE0008303504
Market segment	SDAX
Indices	German CDAX Performance, SDAX Performance Index, Prime All Share, Prime Financial Services, Classic All Share DIMAX, HASPAX, Prime IG Real Estate
German Security Code (WKN)	830350
Designated Sponsor	Close Brothers Seydler AG, Frankfurt/Main Viscardi Securitis Wertpapierhandelsbank GmbH, Munich
Stock exchanges	Munich, Frankfurt/Main
Research	DT& Partner, HSH Nordbank, Kepler Equities, Nord LB, SES Research, Viscardi Securities

Financial calendar

5-6 February 2007	DVFA Real Estate Conference, Frankfurt
27-28 February 2007	HSBC Real Estate Conference, Frankfurt
27 March 2007	BBA REITS in Germany, Berlin
11-12 April 2007	Kepler Equities PAN European Real Estate Conference, Milan
26 April 2007	Annual Report 2006
15 May 2007	Interim Report - 1st quarter of 2007
30-31 Mai 2007	Kempen & Co. 5th European Property Seminar, Amsterdam
15 June 2007	124th shareholder meeting, Hamburg
30 August 2007	Interim Report - 2nd quarter of 2007
6-7 September 2007	EPRA Annual Conference, Athens
25-27 September 2007	HVB German Investment Conference, Munich
8-10 October 2007	EXPO REAL, Munich
25-26 October 2007	IIA Annual Conference, Frankfurt
12-14 November 2007	Deutsches Eigenkapitalforum 2007, Frankfurt
15 November 2007	Interim Report - 3rd quarter of 2007



Report of the Supervisory Board

Dear Shareholders, Ladies and Gentlemen,

In 2006, the Supervisory Board again regularly dealt with the Company's economic condition, strategic development and business performance at length.

As part of the cooperation between the Supervisory Board and the Management Board, the Management Board briefed the Supervisory Board regularly in writing and also orally on the Company's economic position including risk exposure and risk management as well as matters relating to business performance, strategies and planning. In addition to the current business performance of the Group and the subsidiaries, the meetings held in the first half of the year were particularly devoted to passing resolutions relating to TAG's equity issues as well as the strategic reorientation of TAG Asset Management GmbH (previously JUS Aktiengesellschaft für Grundbesitz), whereas the meetings in the second half of the year focused on decisions concerning acquisitions. The Supervisory Board was directly involved in all decisions of fundamental importance and was also briefed by the Management Board on special occurrences outside its meetings. Some decisions were made in written form.

As in earlier years, the Chairman of the Management Board informed the Chairman of the Supervisory Board of all main developments and upcoming decisions in regular one-on-one conversations.

In a total of five meetings, the Supervisory Board deliberated on and discussed numerous topics as well as activities requiring its approval in conjunction with the Management Board. No member of the Supervisory Board attended fewer than half of the meetings. Of the wide range of subjects dealt with by the Supervisory Board, the following merit particular mention:

At its meeting on 13 February 2006, the Supervisory Board particularly discussed the three-year forecasts for the period from 2006 through 2008 as well as the possibilities for increasing the Company's equity resources. In the light of the favourable conditions in the capital market, the Supervisory Board approved the issue of fresh equity of € 2.5 million in accordance with the authorisation granted by the shareholders at the annual general meeting. In addition, it approved the simultaneous equity issue executed by TAG subsidiary Bau-Verein zu Hamburg Aktien-Gesellschaft using authorised capital and subject to the exclusion of pre-emptive subscription rights to enable the inclusion of an additional investor.

Photo: Dock 4, HafenCity, Hamburg

At its meeting dated 7 April 2006, the Supervisory Board approved the annual financial statements for 2005 after discussing these and the Company's results of operations in detail with the auditor. Once again, several possibilities for raising fresh capital were considered. At a telephone conference held at the end of April 2006 the Supervisory Board together with the Management Board passed a resolution in anticipation of the annual general meeting taking place on 30 June 2006 to ask the shareholders to approve the issue of new equity of up to around € 25.1 million.

The meeting held on 29 June 2006 was devoted to the Company's current business performance as well as the signing of a letter of intent for the acquisition by Bau-Verein zu Hamburg Gewerbeimmobilien GmbH of a portfolio of commercial property located in South Germany.

During the meeting of 27 September 2006, the Supervisory Board considered the consequences of the equity issue successfully completed in August 2006 as well as the termination of the joint venture forged with Sachsen LB via the subsidiary Real GmbH. As the agreement governing the full termination of the joint activities with Sachsen LB affected the personal interests of one of the members of the Supervisory Board, a conflict of interests was deemed to have arisen. This problem was solved in the form of a court order appointing a replacement member to the Supervisory Board. In accordance with a ruling issued by the Local Court of Munich on 1 September 2006, Mr. Lorenz von Ehren, a businessman from Hamburg, was appointed as the replacement member for this resolution and took part in the procedure for passing the resolution to terminate the joint venture with Sachsen LB.

At the meeting dated 7 December 2006, the Supervisory Board particularly deliberated on the Management Board's proposal to transfer the shares in Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH (hereinafter referred to as BV GI) to TAG. Given that a decision had already been made at the Group level for Bau-Verein to focus on residential real estate, this proposal was considered to be reasonable. The decision was additionally motivated by the parliamentary draft issued by the German Federal Ministry of Finance on listed REITs, which, contrary to our expectations, are only permitted to hold predominantly commercial real estate portfolios. In particular, the Supervisory Board discussed the compensation payable for the transfer of 90 % of BV GI's capital. Further topics on the agenda at this meeting concerned new Group acquisitions, including the establishment of a joint venture with DESIGN Bau AG from Kiel for the acquisition of land to be developed in the Winterhude suburb of Hamburg and the purchase by Bau-Verein Gewerbeimmobiliengesellschaft mbH of the Pegasus Business Center in Munich. At this meeting in December, the Supervisory Board and the Management Board jointly issued the declaration of conformance prescribed by Section 161 of the German Stock Corporation Act regarding the recommendations set out in the German Corporate Governance Code.

The recommendations are largely adopted save for a small number of still justified exceptions. Given its current size, which permits efficient and swift decisions, the Supervisory Board still does not see any need to establish separate committees.

The audit of the consolidated financial statements of the TAG Group and parent-company financial statements of TAG for 2006 was executed by Nörenberg · Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, who issued an unqualified auditor's report. The auditing documents and auditor's report provided by Nörenberg · Schröder GmbH Wirtschaftsprüfungsgesellschaft were made available to all members of the Supervisory Board in time for the meeting of 11 April 2007, at which the financial statements were to be discussed and approved. At this meeting, the auditors were available to answer the questions of the members of the Supervisory Board and to discuss the material results of the audits.

The Supervisory Board accepted the auditor's results and, on the basis of its own review of the parent-company and consolidated financial statements together with the respective management reports, did not raise any objections. Accordingly, the parent-company and consolidated financial statements prepared by the Management Board were approved and accepted by the Supervisory Board. The consolidated financial statements were additionally adopted. At its meeting held on 11 April 2007 the Supervisory Board additionally approved the resolutions which the shareholders were asked to pass at the annual general meeting.

With respect to the management report, the Supervisory Board issued the following declaration in accordance with Section 171 of the German Stock Corporation Act in connection with Section 315 (4) of the German Commercial Code subject to express reference to the management report (page 48-67): The disclosures made by the Management Board in accor-dance with Section 315 (4) of the German Commercial Code are free of any omissions and are largely based on TAG's articles of incorporation as last amended on 7 August 2006 as well as the resolutions passed by the shareholders in accordance with the provisions of the articles of incorporation. The provisions governing the representation of the Company and the appointment and dismissal of members of the Management Board are for the most part derived from the German Stock Corporation Act. The Supervisory Board sees no reason to modify these provisions in the articles of incorporation. The agreements entered into by the TAG Group which include change-of-control provisions are customary and reasonable. A change in majority holdings or the acquisition of the Company by a third party may influence the partnerships entered into if such third party is deemed to constitute a competitor of the partner. In this case, the partner is entitled to terminate the partnership. For this reason, it is reasonable and normal for the members of the Management Board to be granted a special right of termination which may be invoked in a change-of-control situation.

The Supervisory Board paid particular attention to monitoring compliance by management with the principles of good corporate governance. In particular, there was a risk of conflicting interests in that the members of the Management Board of TAG also held offices on the Management Board of Bau-Verein zu Hamburg Aktien-Gesellschaft. However, the Supervisory Board was satisfied that no such conflicts of interests arose in 2006. On the contrary, it has become evident that the interests of the TAG Group are largely consistent with those of Bau-Verein zu Hamburg Aktien-Gesellschaft.

Paradieshof, Hamburg

Dr. Lutz R. Ristow
Chairman of the Supervisory Board

Dr. Lutz R. Ristow's tenure on the Management Board expired on 31 December 2006. Thereupon, he was transferred to TAG's Supervisory Board in accordance with a ruling issued by the Local Court of Munich on 30 January 2007. At the first meeting held in 2007, Prof. Dr. Ronald Frohne stepped down from the position of Chairman of the Supervisory Board and Mr. Rolf Hauschildt from the position of Deputy Chairman of the Supervisory Board. On the same date, Dr. Lutz R. Ristow was appointed Chairman of the Supervisory Board and Prof. Dr. Ronald Frohne Deputy Chairman of the Supervisory Board.

Mr. Andreas Ibel was appointed Chairman of the Management Board of TAG at the Supervisory Board's meeting in December.

With their great dedication, the employees of TAG and its subsidiaries made a great contribution to the Group's performance in 2006. The Supervisory Board wishes to thank the Management Board and all employees for the work performed.

Hamburg, April 2007

The Supervisory Board

Dr. Lutz R. Ristow
Chairman

TAG corporate governance report for fiscal 2006

In 2002, the Government Commission on the German Corporate Governance Code (GCGC) released a set of rules containing the main statutory provisions for the governance and supervision of German listed companies and embodying acknowledged principles of good and responsible corporate governance. This code and observance by companies of the recommendations which it contains aim to reinforce the confidence of shareholders, customers, employees and the general public in companies' management. The German Corporate Governance Code serves as an instrument to heighten the transparency and control of listed companies. Companies must issue an annual declaration stating the extent to which they conform to the recommendations contained in the GCGC and which recommendations have not been applied.

The Management Board and the Supervisory Board of TAG have issued regular declarations of conformance in accordance with Section 161 of the German Stock Corporation Act. This declaration of conformance has been made permanently available to the public via the Company's website at www.tag-ag.com.

Providing shareholders and the general public with information on an open and active basis forms part of TAG's mission statement. In line with this, TAG views corporate transparency not merely as an obligation but as a key component of responsible corporate governance and communications. For TAG, corporate governance is an ongoing development and improvement process. As before, TAG will continue to adapt to changes in underlying conditions, the statutory regulations and amendments to the German Corporate Governance Code and submit its principles to regular review and optimisation.

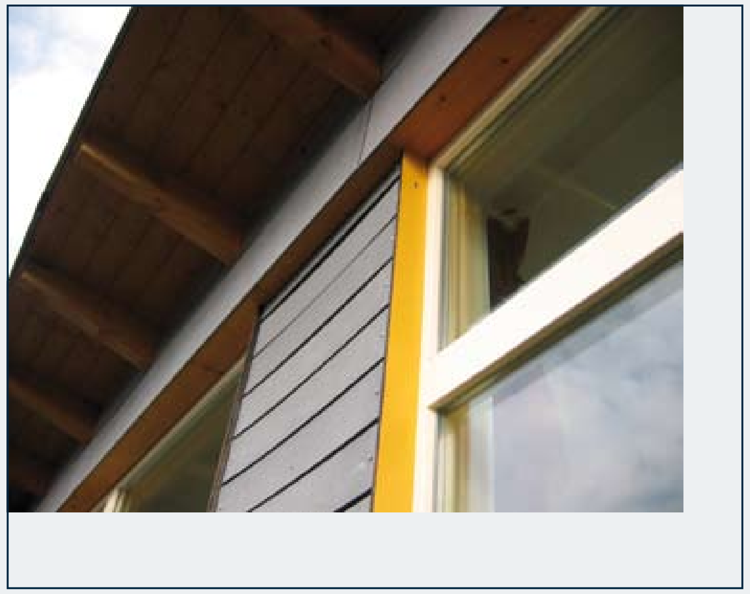
By establishing corporate governance as a key component of its corporate culture, TAG is also helping to strengthen its own enterprise value. Shareholders and investors are increasingly attaching importance to transparent corporate governance and such aspects will exert growing influence on their investment decisions in the future.

Any deviation from the GCGC recommendations primarily has technical reasons. Given the size of the Supervisory Board, which comprised three shareholder representatives in 2006, it was not expedient for committees to be established. In this constellation, it was possible for the Supervisory Board to work effectively and efficiently both internally and in collaboration with the Management Board.

Dr. Lutz R. Ristow's transfer from TAG's Management Board to its Supervisory Board in accordance with the ruling issued by the Local Court of Munich at the beginning of 2006 is not considered to constitute any breach of Article 5.4.4 of the GCGC. It is not the rule at TAG for a member of the Management Board to transfer to the Supervisory Board. In this particular case, the move is due to the fact that Dr. Ristow was previously the chairman of the Supervisory Board and accepted a seat on the Management Board in order to assist with operative management for a period of time which was limited from the outset.

The remuneration paid to members of the Supervisory Board is governed by Article 15 of the Company's articles of incorporation. The members received fixed remuneration of € 7,500.00 plus the premiums for appropriate D & O insurance cover for each full year of membership. In addition, each member receives 2 % of the amount in excess of a share in profits of 4 % distributed to the shareholders. However, this variable remuneration may not exceed a sum threefold the fixed remuneration provided for in Paragraph 1. The Chairman receives twice this amount and his deputy one-and-a-half times this amount. Accordingly, the remuneration paid to the members of the Supervisory Board comprises a fixed and a variable component. In 2006, the members of the Supervisory Board did not receive any variable remuneration. The following gross remuneration was paid:

Prof. Dr. Ronald Frohne (Chairman)	T€ 18
Rolf Hauschildt (Deputy Chairman)	T€ 14
Dr. Wolfgang Schnell	T€ 9



Gartenstadt Zehlendorf, Berlin

Prof. Dr. Ronald Frohne is a partner in the Nörr, Stiefenhofer, Lutz law firm, which provided legal advice on corporate law matters in 2006 and also assisted with the equity issue activities. A total fee of around € 420,000.00 was paid to this law firm.

In addition, Article 6.6 of the GCGC provides for the members of the Supervisory Board and the Management Board to disclose details of shares held directly or indirectly in the Company or financial instruments based on these. The following shares were held as of 31 December 2006:

Shareholders	Number of shares
LURIS Aktiengesellschaft Vermögensverwaltung (Dr. Lutz R. Ristow and Rita Ristow)	479,000
Dr. Lutz R. Ristow	396,887
Albert Asmussen GmbH (Prof. Dr. Ronald Frohne)	278,127
A&B Vermögensverwaltung GmbH (Managing director: Rolf Hauschildt)	294,531
WH Vermögensverwaltung GmbH (Waltraud Hauschildt)	232,031
RH Vermögensverwaltung GmbH (Rolf Hauschildt)	255,860
Dr. Wolfgang Schnell	51,786

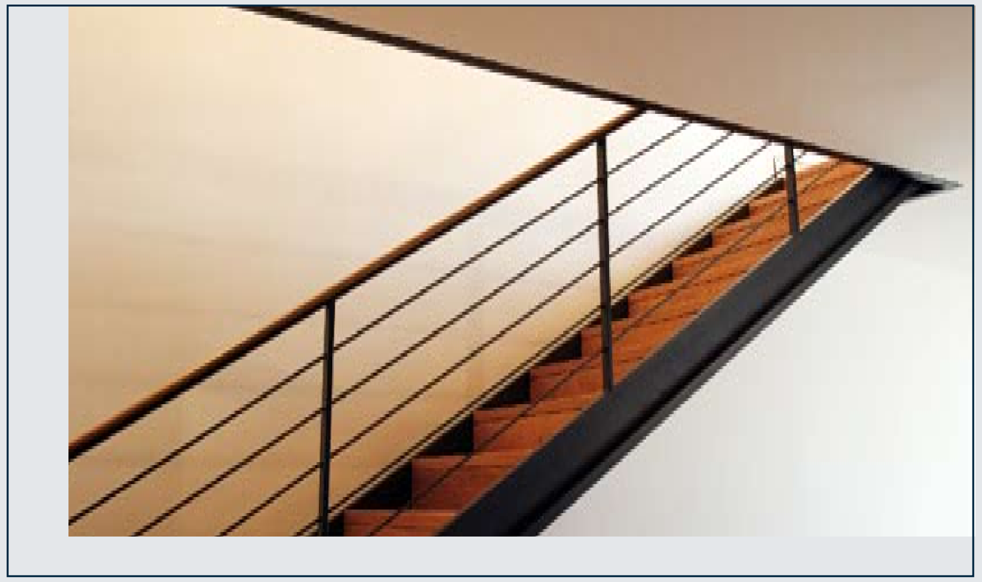
Hamburg, April 2007

Supervisory Board and Management Board of
TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft

The reorientation of TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft (TAG) led to considerable success in fiscal 2006. Following the successful completion of two cash equity issues in 2006, TAG started investing in selected acquisitions in the third quarter. With investments in diversified portfolios offering attractive rental yields, TAG is continuing to successfully implement its buy, build and hold strategy. In this connection, the main focus is on creating value by means of modernisation and portfolio development activities as well as by utilising potential for increasing rental income. This investment strategy is focusing on residential and commercial real estate in metropolitan regions in Germany, such as Hamburg, Berlin, Munich and Düsseldorf, which are characterised by their location and development potential.

General economic conditions

The German economy is characterized by upbeat sentiment, with forecasts projecting a further improvement in the situation in the course of 2007. Gross domestic product (GDP) grew by 2.5 % in 2006, reaching the highest economic growth rate since the year 2000. According to experts, this trend will continue in 2007 as well. The January 2007 Ifo business confidence index indicates that economic optimism is particularly coming from the construction industry, where confidence has risen substantially on account of a considerable improvement in expectations. The sharp decline in unemployment is the result of the upswing in Germany.



Quartier 208, Behrenstraße, Berlin

State of the real estate market

The German real estate market remains very attractive for investors, particularly international ones, who are fuelling the unabated high demand for German properties. Whereas the real estate markets in most European countries have hit or even passed their cyclical zenith, Germany has been growing at a moderate rate for many years. The growth potential of the German economy, favourable prices and still relatively low interest rates are providing a good backdrop for continued expansion in the real estate market.

With some larger transactions, a package premium is still being paid, although demand for smaller packages has also been picking up at a quickening rate. 2006 was a record year for the real estate market in Germany. According to independent brokers, investment volumes in the year under review came to € 49 billion, up over 140 % on 2005. Investors were primarily attracted to the metropolitan regions of Munich, Berlin and Hamburg. Rentals were up in all metropolitan regions, particularly in the housing sector. By contrast, the rented commercial property market is painting a mixed picture, although office rentals are also rising in Hamburg and Munich.

In addition, the new REIT legislation in Germany, which took effect on 1 January, 2007, will spur the real estate market.

Accounting principles

In accordance with Regulation (EC) No. 1606/2002, the consolidated financial statements of TAG Tegernsee Immobilien und Beteiligungs-Aktiengesellschaft as at 31 December 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as supplemented by the provisions contained in Section 315a (1) of the German Commercial Code. The financial statements of TAG Tegernsee Immobilien und Beteiligungs-Aktiengesellschaft as well as those of the Group companies were again prepared in accordance with the provisions of the German Commercial Code. In accordance with Regulation (EC) No. 1606/2002, the consolidated subgroup financial statements of Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg, (Bau-Verein) as at 31 December 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as supplemented by the provisions of Section 315a (1) of the German Commercial Code.

Group business performance

With the successful completion of a cash equity issue of € 21.3 million in March 2006, the share capital was increased from 10,004,901 to 12,556,364 shares. As a result of the very strong interest on the part of international real estate investors, this equity issue was oversubscribed multiple times.

As a result, the shareholders passed a resolution with around 90 percent of the votes cast at the annual general meeting held in June 2006 to create the basis for a major equity issue. In this way, it was possible to place a further 20,010,000 shares in the capital market in August 2006, causing the share capital to increase to € 32,566,364.00 and generating gross proceeds of € 160 million for TAG. The equity ratio was more than doubled, with equity now standing at € 289 million.

Using the proceeds from these equity issues, TAG has been able to continue its growth strategy by acquiring further real estate portfolios in German metropolitan regions exhibiting attractive cash flows. In July 2006, a purchase contract was signed for a portfolio of commercial properties worth € 105 million in Munich and other parts of South Germany. This was followed in October 2006 by the acquisition of a portfolio of 370 residential units in the Düsseldorf region for € 15 million. As part of a joint venture, Bau-Verein acquired a property for € 31 million in the Hamburg suburb of Winterhude. The growth path was continued up until the end of the year with further purchases in Munich, Berlin and Leipzig for a total of € 34 million. The acquisition of a commercial property in Munich as well as in Wuppertal for € 17 million and the sale of three portfolio properties for a total of € 28 million in the Munich region were completed in December 2006 and thus show up in the financial statements for 2006. In accordance with plans, the TAG Group completed investments worth € 250 million and stepped up its growth course.

For the first time, net asset value (NAV), i.e. the inherent value of the stock, was calculated and disclosed as of 30 September 2006 on the basis of the measurement of all real estate held in the GAG Group conducted by independent internationally renowned valuers.

Group structure

TAG continues to primarily operate as the Group holding company. It is active via mana-ge-ment companies in the core residential and commercial real estate business segments and will be extending its business activities in these areas.

In the second half of 2006, JUS Aktiengesellschaft für Grundbesitz, Berlin, was converted into a German private limited company (GmbH), renamed TAG Asset Management GmbH and its registered offices transferred to Hamburg. This reflects the company's redefinition as a real estate service company.

The commercial real estate segment was sold to TAG by Bau-Verein at the end of 2006 via the transfer of 90 percent of the shares in Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH, Hamburg. In this way, Bau-Verein was not only able to successfully implement its strategy of focusing on residential real estate but also gained the liquidity needed to continue funding continued growth in the German residential real estate market. Via Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH (to be renamed TAG Gewerbe AG), TAG for its part can benefit from the opportunities presented by the German REIT legislation, from which German residential real estate completed before 2007 is excluded.

Thus, the TAG Group's structure has been adjusted to ensure a clear focus on the part of the subsidiaries on the main segments residential, commercial and service. Accordingly, residential real estate is the reserve of Bau-Verein, while TAG Gewerbe AG will be handling commercial properties with TAG Asset Management GmbH responsible for real estate services.

The share in REAL Immobilien AG Leipzig (49 %) was sold in July 2006 at a profit of € 0.8 million.

The admission to the SDAX on 18 December 2006 testifies to the success of the Group's strategic repositioning in the capital market.

Various activities were successfully completed in 2006 in the Tegernseer Tal region, where TAG's historical real estate holdings are located. The design for the development of the railway square for residential purposes has been commenced, while one of the portfolio properties was sold.

As a holding company, however, TAG's main assets are its equity investments. The TAG Group's main subsidiaries are as follows:

Bau-Verein zu Hamburg Aktien-Gesellschaft (residential real estate segment)

In 2006, the Bau-Verein Group was able to boost its profitability on a sustained basis. Driven by the favourable trends in the German real estate markets, it was possible to extend holdings of investment properties. With conditions in the capital market upbeat, a cash equity issue created the basis for continued growth. As of 31 December 2006, TAG holds a 71.2 percent stake in Bau-Verein zu Hamburg Aktien-Gesellschaft.

Bau-Verein is successfully focusing on residential real estate in German metropolitan regions. Together with the complete sale of its commercial real estate portfolio and spending on investment properties as well as new acquisitions, it was able to post substantially higher consolidated earnings.

As expected, consolidated sales dropped from € 136.8 million to € 78.6 million as a result of the adoption of a new strategy of holding portfolios. Property sales contributed € 49.3 million to this, down from € 112.6 million in the previous year. In 2005, the high income had primarily resulted from the sale of a package of properties to an associated company, generating sales of € 63.4 million.

Facility management sales dropped from € 23.9 million in the previous year to € 22.4 million in 2006, while income from asset management activities rose from € 0.2 million to € 7 million in 2006, particularly as a result of extensions to third-party services.

Net of other operating income, gross profit from facility management came to € 12.5 million, i.e. in line with the previous year.

The consolidated gross profit of € 26.9 million was € 4.7 million higher than in the previous year. Internally generated assets were valued at € 1.4 million in 2006, down from € 2.1 million in the previous year. The share of other operating income in gross profit widened by € 6.6 million, from € 1.9 million in 2005 to € 8.5 million in 2006.

Bau-Verein sold 90 % of the shares in Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft GmbH to TAG at the end of 2006 with profit of € 6.4 million accruing at the level of Bau-Verein.

This marked the successful implementation of Bau-Verein's strategy of focusing on the residential real estate market. In addition, it generated the liquidity which it needs to fund continued growth in this segment in 2007 as well.

Personnel expenses rose from € 5.6 million in 2005 to € 6.8 million in 2006, with wages and salaries coming to € 5.7 million, up from € 4.7 million in 2005. Social security costs stood at € 0.9 million (previous year: € 0.7 million), while pension and support expenses remained unchanged at around € 0.2 million. One of the reasons for this increase is to be found in the extensions to services business both within the TAG Group and for outsiders. This was accompanied by a corresponding increase in service income generated by Bau-Verein.

The value surplus of € 12 million arising from remeasurement of investment properties at their fair values, up from € 4.6 million in the previous year, made a material contribution to earnings. This sustained growth in value was attributable to a steady reduction in vacancies together with ongoing spending on the investment properties in tandem with rising rental levels at all sites. What is more, some available-for-sale properties were reclassified as investment properties and have been leased.

The Management Board sees this as confirming its strategy of reinforcing the profitability of investment properties by means of active project management and ongoing spending.

Interest income rose to € 1.1 million, up from € 0.5 million in the previous year. Interest costs were reduced again from € 12.3 million in the previous year to € 10.1 million in 2006 thanks to the repayment of loans and the resultant lower costs of finance.

At € 25.4 million, earnings before interest and taxes (EBIT) were up on the previous year (€ 16.1 million).

Earnings before interest, taxes and impairments of financial assets came to € 25.4 million in 2006, well up on the 2005 figure of € 17 million.

Deferred tax liabilities were valued at € 1.8 million in 2006, up from € 1.4 million in the previous year. The share of deferred taxes on income from the remeasurement of investment properties at their fair values stands at € 5.3 million, compared with € 1.8 million in the previous year.

2006 saw the acquisition of major real estate portfolios again for the first time, thanks among other things to substantial support in the form of loans granted by the parent company TAG. Although Bau-Verein submitted several bids in response to invitations, it did not close any deals on account of the still high prices. All investments in 2006 were completed outside major bidding processes. In October and November 2006, over 1,350 residential units were acquired in the greater Düsseldorf and Berlin regions in transactions worth € 55 million. Both transactions entail portfolio development projects offering considerable potential. In December, a small real estate portfolio in a top location in the Leipzig central business district was acquired but not placed on the books until the first quarter of 2007.

As part of efforts to acquire properties for new construction projects, the Company bought a property for € 32 million in the Hamburg suburb of Winterhude via a joint venture for the construction of 750 residential units over the next few years. A further new construction project is located in the Finthen suburb of Mainz. Detailed negotiations are being conducted with regional partners to ensure swift completion.

On 13/16 February 2006, the Management Board of Bau-Verein zu Hamburg Aktien-Gesellschaft passed a resolution, which was approved by the Supervisory Board on 13/16 February 2006, to issue 4,000,000 new shares on a cash basis, therefore increasing the Company's share capital from € 50,819,982.00 to € 62,819,982.00. This generated proceeds of € 19 million for the Company.

In the third quarter of 2006, bonus shares were issued by converting part of the share premium account into subscribed capital. As a result, 2,326,666 new shares were issued to shareholders on a 1-for-9 basis.

As at 31 December 2006 a total of 23,266,660 shares were outstanding. Given a notional value of € 3.00 each in the Company's share capital, this translates into share capital of € 69,799,980.00.

Total consolidated assets as at the end of 2006 stood at € 329.1 million (previous year € 360.5 million). Shareholders' equity came to € 117.5 million, thus translating into an equity ratio of 35.7 % as at 31 December 2006, up from 23.5 % one year earlier. Following a cash equity issue completed in 2006, the Company was able to achieve its goal of strengthening its equity internally.

Non-current assets (including deferred tax assets) rose from € 79.3 million in the previous year to € 118.8 million in 2006. Current assets contracted from € 281.9 million to € 210.2 million as a result of the sale of the commercial real estate portfolio.

Liabilities to banks shrank from € 246.2 million to € 155.7 million.

Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft GmbH / TAG Gewerbe AG (commercial real estate segment)

The commercial real estate segment benefited from upbeat market conditions in 2006. In July 2006, a contract was signed for the purchase of a commercial real estate portfolio in the Munich region for € 105.0 million. For this purpose, Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH received substantial support from the TAG Group in the form of liquidity of € 26.0 million.

The sale of commercial properties previously held in the portfolio generated sales of € 32.1 million. At € 5.6 million, rental income was unchanged over the previous year. Gross profit widened to € 8.3 million (previous year € 2.5 million) as a result of the sales transactions. Earnings before tax came in at € 3.2 million, reversing the previous year's loss of € 0.5 million. As agreed, the earnings for 2006 accrued in full to Bau-Verein. Following the purchase of 90 % of its capital by TAG, continued growth will be achieved in 2007 with the parent company's support. With the REIT legislature passed by the German parliament in March 2007, it will be possible to convert this commercial real estate segment into a REIT before the end of 2007.

TAG Asset Management GmbH (services segment)

TAG Asset Management GmbH (previously known as JUS Aktiengesellschaft für Grundbesitz) offers a wide range of real estate services, particularly project development and management, construction and asset management, the execution of due diligence processes for real estate purchase decisions and controlling activities.

In 2006, the activities which it performed included cost-tracking and quality control and management for the operator of the football stadium in Leipzig to ensure compliance with World Cup requirements. Among other things, TAG Asset Management GmbH is handling the project management and controlling for a Leipzig portfolio with a revitalization volume of € 25 million for international investors.

In the course of 2006, TAG Asset Management GmbH continued to receive support from TAG as the parent company. With the ongoing grant of loans to the company, its liquidity and project funding capabilities were safeguarded to ensure successful completion of its activities. No new projects were acquired in 2006. Projects recognized as current and non-current assets were readied for construction, bidding and award activities initiated and construction commenced in some cases in the year under review.

The Company is continuing to provide services for REAL Immobilien GmbH, a subsidiary of Sachsen LB in business generating income of € 0.3 million from project management contracts and fees from selling activities. In the third quarter, TAG Asset Management GmbH assumed responsibility for all newly acquired properties within the TAG Group. This entails analyzing and reviewing the national real estate market and, where applicable, engaging in negotiations right up to the certification of the deed.

With total assets of € 84.7 million (previous year € 98.6 million) and sales of € 25.8 million (previous year € 15.2 million), TAG Asset Management GmbH sustained a loss at the EBT level of € 1.4 million (previous year loss of € 5.5 million).

Current and non-current liabilities contracted by € 12.4 million to € 70.5 million in 2006.

Sales proceeds rose to € 22.7 million in 2006, up from € 15.2 million in the previous year, due in particular to the sale of the Siedelmeisterweg project in Berlin as well as various projects in Leipzig.

Other operating income fell from € 15.9 million to € 3.9 million. Net interest income increased by € 1.7 million to € 3.3 million.

Since 1 January 2007, TAG Asset Management GmbH has additionally been handling controlling, IT and public relations activities for the TAG Group. As a result, it will be earning additional service income over the next few years. Looking forward, the reorientation of TAG Asset Management GmbH as a service-provider within the TAG Group and for third parties will generate steady income, allowing it to cross the break-even threshold following the sale of the development projects.

TAG continues to hold a share of 93.6 % in TAG Asset Management GmbH.

Funding

As of the end of 2006, the TAG Group had the following funding structure:

	Total T€ 2006	% of total assets 2006	Total T€ 2005	% of total assets 2005
Shareholders' equity	288,703	41.6	90,241	18.7
Bank loans	308,846	44.6	326,298	67.6
Other borrowed capital	95,440	13.8	65,919	13.7

Liabilities to banks were reduced by € 17.5 million in 2006. There are short, medium and long-term loans relating to equity, project and portfolio finance at the level of the individual companies. The average interest rate payable on borrowings stood at 5.0 % in the year under review. Some of the loans granted to Group members were secured by guarantees issued by TAG as the parent company.

Balance Sheet

Total assets in 2006 widened to € 693.3 million (previous year € 482.5 million), accompanied by an increase in the equity ratio to 41.6 %, compared with 18.7 % in the previous year.

The fair value of investment properties climbed from € 119 million in 2005 to € 172.1 million in 2006 as a result of acquisitions, spending on the properties, reclassifications and changes in market values.

Within current assets, land with finished and unfinished buildings increased to € 338.7 million, up from € 249.7 million in the previous year, primarily as a result of new acquisitions by Bau-Verein AG and Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH.

Current and non-current liabilities widened by € 12.3 million to € 404.5 million, up from € 392.2 million in the previous year. The overall increase is very largely due to the rise in trade payables from € 17 million in 2005 to € 72.4 million in 2006 as a result of the aforementioned new acquisitions. Liabilities to banks contracted by € 17.5 million to € 308.8 million.

Sales and earnings

In the year under review, the TAG Group generated sales of € 107.3 million (previous year € 153.6 million). Of this, Bau-Verein AG contributed 73.2 % or € 78.6 million (previous year € 136.8 million). TAG Asset Management GmbH posted sales of € 25.8 million (previous year € 15.2 million).

Other operating income came to € 6.3 million (previous year € 6.4 million) and primarily contains income contributed by TAG particularly from the favourable outcome of litigation.

The value surplus of € 11.6 million arising from remeasurement of investment properties at their fair values, up from € 7.5 million in the previous year, made a material contribution to earnings. The higher fair value was due to spending on investment properties together with a steady reduction in vacancies in tandem with higher rental levels as well as the reclassification of available-for-sale properties as investment properties.

Expenses

Group personnel expenses rose slightly to € 10.1 million, up from € 9.2 million in the previous year. Personnel expenses at Bau-Verein increased by € 1 million over the previous year to € 6.8 million due to the performance of additional services within the TAG Group.

Other operating expenses shrank by € 7.4 million to € 11.5 million in 2006 (previous year € 18.9 million). The previous year's figure had particularly been affected by higher project costs and defaults on receivables.

Net financial result, i.e. interest income net of interest expense, contracted by € 6.9 million to € 10.5 million (previous year € 17.4 million).

Depreciation/amortisation

Total depreciation/amortization was substantially lower in 2006 than in 2005, dropping to € 0.6 million in the year under review, down from € 20.5 million in the previous year. The heightened amortization expense in 2005 was due to the goodwill amortization for TAG Asset Management of a total of € 19.7 million.

Net profit/loss

The Company closed the year with earnings before tax (EBT) of € 6.4 million. The TAG Group achieved consolidated net income after tax and minorities of € 2.8 million in 2006, thus reversing the previous year's consolidated net loss of € 35.5 million.

General statement on the Group's net assets, financial condition and results of operations

In 2006, TAG created the basis for sustained growth. With the proceeds from the cash equity issues, it has gained considerable scope for further investments. With consolidated net income of € 2.8 million following the loss of € 35.5 million in the previous year, the Group's results of operations have been substantially reinforced.

Organization and personnel

Messrs. Erhard Flint and Andreas Ibel were appointed to TAG's Management Board effective 1 January 2006. Accordingly, the Management Board comprised three members in 2006.

On 31 December 2006, the previous chairman of the Management Board, Dr. Lutz R. Ristow, moved to the Supervisory Board and was replaced by Andreas Ibel as the chairman of the Management Board on 1 January 2007.

The TAG Group had a headcount of 160 on the balance sheet date. Operative real estate business is conducted by the individual subsidiaries within the TAG Group. Bau-Verein AG increased its headcount from 95 to 115, while TAG Asset Management GmbH continued to reduce the number of its employees from 35 to 29. Personnel at Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee, as the railway infrastructure company, remained steady at 11, with the headcount at TAG itself rising to 5.

Basic elements of the Management Board remuneration system

The remuneration system for the members of the Management Board entails a fixed component paid out on a monthly basis. This is supplemented with a variable bonus, which is paid once a year and is based on the Group's business success. The amount of the variable bonus is tied to the Group's earnings before tax (EBT) calculated on the basis of the IFRS consolidated financial statements and is determined by the chairman of the Supervisory Board after the adoption of the consolidated financial statements.

It is capped by a maximum amount. However, as Messrs. Ibel and Flint are also members of the Management Board of Bau-Verein AG, they are subject to a provision which stipulates that the bonus which they receive for their activities for Bau-Verein AG is netted against the bonus to which they are entitled as members of the Management Board of TAG. The purpose of this provision is to avoid double payment on account of their simultaneous activities as members of the Management Board of TAG and of Bau-Verein as the latter's earnings are included in TAG's consolidated financial statements. There are no stock options or similar variable remuneration arrangements in force with the members of the Management Board.

The service contracts with the members of the Management Board do not provide for any pension entitlement to accrue. With the exception of the provisions detailed below taking effect in a change-of-control situation, premature termination of the service contracts for any other reason does not give rise to any entitlement to compensation.

Disclosures in accordance with Section 315 (4) of the German Commercial Code

The amended version of Section 315 (4) of the German Commercial Code stipulates the disclosure of the following information: the breakdown of the subscribed capital, the provisions for nominating and dismissing members of the Management Board, the powers of the Management Board to issue and buy back shares as well as material contracts binding on the Company which are subject to change-of-control provisions:

The Company's share capital stands at € 32,566,364.00 as at 31 December 2006 and is divided into 32,566,364 registered shares. The same rights are attached to all shares. There is one vote per share; dividend entitlement is determined by the number of shares held.

In a resolution passed at the annual general meeting held on 30 June 2006, the shareholders authorized the Management Board subject to the Supervisory Board's approval to increase the Company's share capital by a total amount of no more than € 6,278,182.00 by issuing up to 6,278,182 no-par-value ordinary shares on a cash and/or non-cash basis once or repeated times on or before 29 June 2011. On the same day, the shareholders passed a further resolution authorizing the Management Board to buy back the Company's own shares up to a value of € 12,556,364.00 of its share capital on or before 29 December 2007 for certain purposes.

In addition, at the annual general meeting held on 5 July 2005, the shareholders authorized the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds with a total nominal amount of up to € 50 million with a term of no more than ten years on or before 30 June 2010 and to grant the bearers or creditors of such bonds conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to € 3,424,463.00 in accordance with the terms and conditions determined.

TAG is managed and represented by its Management Board. The Management Board comprises at least two persons who are appointed for a period of no more than five years in accordance with Section 84 of the German Stock Corporation Act. A repeated appointment or renewal of the period of office for a further maximum of five years is permissible.

The Supervisory Board names one of the members of the Management Board as Chairman. The Supervisory Board may dismiss the members of the Management Board and revoke the office of chairman of the Management Board for good cause, e.g. in the case of a material breach of duty, inability to engage in proper management or a resolution passed by the shareholders providing for a vote of no confidence.

The scope of the activities which the Company may perform is defined in its bylaws. These bylaws may only be modified by a resolution passed by the shareholders in accordance with Section 133 of the German Stock Corporation Act. In the absence of any mandatory statutory provisions, the shareholders pass their resolutions in accordance with the bylaws with a simple majority of the votes cast and, where applicable, a simple majority of the capital represented. A majority of 75 percent of the share capital represented is required for any amendment to the Company's purpose in accordance with Section 179 (2) Sentence 2 of the German Stock Corporation Act.

TAG itself has not entered into any material agreements which include change-of-control clauses. Only Bau-Verein zu Hamburg Aktien-Gesellschaft has entered into a contract with Conwert AG, Vienna, governing their joint subsidiary GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg, under which the other party is entitled to exercise a call option in the event of any change in the shareholder structure or if any competing company is able to exercise material influence on the jointly held subsidiary, in this case GAG Grundstücksverwaltungs-Aktiengesellschaft. Finally, the service contracts entered into between TAG and the members of the Management Board, Messrs. Ibel and Flint, include a provision granting them a right of immediate termination in the event of any change in TAG's current majority structure and entitling them to claim compensation in an amount to be determined on a case-by-case basis in the effect of such right of termination being exercised. However, the termination of their office as members of the Management Board of TAG does not result in the termination of their office as members of the Management Board of Bau-Verein zu Hamburg Aktien-Gesellschaft.

Risk report

The TAG Group continues to apply the risk management and early warning system laid down in Section 91 (2) of the German Stock Corporation Act, which had also been applied successfully in the previous year. In addition to the ongoing controlling system used in the Group, a recurrent internal reporting system has been installed, which records and evaluates all risks on a quarterly basis and simultaneously reevaluates and monitors all previously identified risks.

Despite the favourable signs of a pick-up in the real estate sector discernible last year, there are regional differences in the momentum of the recovery. The planned reduced number of sales to private investors therefore does not pose any risk to the TAG Group's earnings. The Group has responded to this by repositioning itself and extending its investment property activities.

A large number of individual burdens or risks have been successfully reduced in earlier years. The individual risks are described below in accordance with the categorization used by the existing risk management system:

Risks within the value chain – portfolio, portfolio development, new construction and commercial real estate segments

Because of the rental-based value chain, portfolio development is exposed to lower risks than new construction. However, the risks involved in sales continue to exist. The Company has responded to this by reducing the size of projects.

In the portfolio management segment, steady rental income is safeguarded and creates no risks for the Company. An increase in rental levels can be discerned in all markets, with correspondingly favourable effects on the valuation of these residential properties.

The new construction segment is inherently exposed to greater risks than the other segments. For this reason, a special controlling procedure has been installed here. The Company has responded to the risk involved in new construction by reducing the size of projects.

In the commercial real estate segment, the market situation is slightly positive. Renting of vacated space to new tenants shows a positive trend within the Group. In 2006 it was also possible to reduce vacancies and lessen rental risks.

Pegasus Business Center, Munich

Controlling/IT, accounting and human resources

Regular reporting ensures the Company's internal ability to respond, its flexibility and transparency. In this context, regular target-performance comparisons, forecast calculations during the fiscal year and the use of various analytical methods aim at ensuring early recognition and reduction of risks. Stringent reporting, controlling and the observation of regional markets ensures that it is possible to react swiftly to changes particularly in the new construction segment by means of cost control, schedule tracking and an analysis of marketing possibilities. The use of powerful software guarantees a high degree of efficiency and transparency.

In the personnel area, there is no surplus capacity. Further recruitment is necessary due to the performance of services for third parties. Efficiency gains remain a top priority. Our employees' expertise and commitment help to achieve favourable business performance and lay the foundation for growth. Further training for staff is to be continued on an ongoing basis.

Liquidity management

The Company's liquidity is safeguarded.

According to most economic forecasts, the risk of rising interest rates will continue in 2007. Interest rate derivatives are used in order to hedge interest risks. The fixed-period structure largely matches the envisaged project periods and current market conditions. There were no changes in long-term fixed periods over the previous year.

Risk management with the aid of financial instruments

TAG is dependent upon the receipt of bank loans for further acquisitions. Similarly, it must renew these loans when they expire or find alternate source of finance. In all these cases, there is a risk of not being able to renew the loans at the same or other terms.

One activity aimed at hedging the interest risk involved the transaction of a bonus interest swap by Bau-Verein at the end of 2004 with a subscription price of € 10 million and a term of 10 years. In this way, the interest rate swap serves the purpose of hedging variable interest rates on a number of short-term credits.

Corresponding instruments are in force for both existing and new business to hedge the risk of rising interest rates. This ensures that volatility in interest rates can be used to ensure an optimum funding structure in the light of project periods.

Taxes

To the extent discernible, provisions have been set aside to allow for tax risks.

Risks emanating from guarantees

TAG supports the financing of its subsidiaries with guarantees and letters of comfort. In addition, financing is made possible in the first place or granted at more favourable terms and conditions. These guarantees involve risks for TAG due to the risk of recourse being taken in the event of unforeseen project developments. On the basis of the project planning of TAG Asset Management GmbH, the Management Board anticipates a significant reduction in guarantee volumes in 2007. Guarantee risks may jeopardize the continued existence of the Group or materially affect its net assets. TAG monitors these risks in close consultation with its subsidiaries and initiates suitable measures.

Risks emanating from affiliated companies

The Group companies are exposed to the risk of their associates failing to reach return targets. Risk monitoring will be a centralized responsibility in the future. The executives of the Group subsidiaries regularly report on recent developments. In addition, the exchange of information on risk exposure at the level of associated companies is ensured as executive staff hold multiple positions at different Group companies.

Market opportunities for the Group

The opportunities for the TAG Group in the German real estate market improved again substantially in 2006. Given the considerably brighter market conditions and the reinforcement of the Group's equity resources, TAG will be able to acquire new properties for its portfolio and business development and derive additional earnings from these. Driven by the positive changes in the market, income from the sale of properties will rise in the future. Looking ahead over the next few years, real estate services will be further extended to generate income for the TAG Group and to further reduce fixed costs.

Material events occurring after the balance sheet date and outlook

In December 2006, Bau-Verein acquired a residential real estate portfolio comprising 100 units with a total floor area of 8,500 square metres in Leipzig for a total price of € 6.5 million. Originally built in the latter part of the 19th century, the eleven residential buildings have been fully refurbished and are located in good central parts of Leipzig.

TAG's competitive position has improved substantially over the past year. The Management Board expects a steady rise in income from rentals and sales in 2007. The REIT legislation passed by the German parliament at the end of March 2007 will exert a further positive influence on the Company's business performance in 2007.

Tegernsee, 31 March 2007

(Andreas Ibel) (Erhard Flint)

Consolidated balance sheet as at 31 December 2006

ASSETS in TEUR	(Notes)	12/31/2006	12/31/2005
Non-current assets			
Investment properties	(1)	172,136	119,004
Intangible assets	(2)	34	39
Property, plant and equipment	(3)	4,816	4,907
Investments in associates	(4)	3,869	4,313
Other financial assets	(4)	2,270	1,896
		183,125	**130,159**
Current assets			
Land with unfinished and finished buildings	(6)	338,667	249,680
Other inventories	(6)	5,355	6,069
Trade receivables	(7)	37,273	67,876
Income tax refund claims	(7)	1,021	166
Other current assets	(7)	10,560	12,771
Cash and cash equivalents	(8)	113,070	15,737
		505,946	**352,299**
Non-current available-for-sale assets	(9)	**4,180**	**0**
		693,251	**482,458**

EQUITY AND LIABILITIES in TEUR	(Notes)	12/31/2006	12/31/2005
Shareholders' equity			
Equity holders of parent company			
Subscribed capital	(10)	32,566	10,045
Capital reserve	(11)	219,714	76,663
Retained earnings	(12)	6,689	6,689
Unappropriated surplus/accumulated deficit	(13)	-1,994	-11,194
Minority interests	(14)	31,728	8,038
		288,703	**90,241**
Non-current liabilities			
Bank loans and overdrafts	(15)	37,727	88,147
Retirement benefit provisions	(16)	2,188	2,329
Other non-current liabilities	(17)	424	426
Deferred income taxes	(5)	1,478	1,586
		41,817	**92,488**
Current liabilities			
Other provisions	(18)	12,359	15,904
Income tax liabilities	(19)	2,727	983
Bank loans and overdrafts	(15)	271,119	238,151
Trade payables	(20)	72,411	16,951
Other current liabilities	(21)	3,853	27,740
		362,469	**299,729**
Liabilities in connection with non-current available-for-sale assets	(9)	**262**	**0**
		693,251	**482,458**

Consolidated Statement of Cash Flows

In TEUR	(Notes)	2006	2005
Consolidated net profit/loss		**2,845**	**-35,465**
Depreciation/amortisation	(26)	621	20,527
Impairment losses on financial assets	-4	28	1,300
Share of profits of associates	(30)	110	49
Impairment losses on receivables and inventories	(6), (7)	1,419	9,834
Difference arising from remeasured fair value of investment properties	(28)	-11,558	-7,512
Income from application of POC method	(7)	0	-591
Changes in deferred income taxes	(5)	-108	-670
Changes in provisions	(16), (18)	-3,686	4,055
Profit/loss on disposal of non-current assets		-804	9
Changes in receivables and other assets		-83,136	47,870
Changes in liabilities		78,548	-19,159
Cash flow from operating activities		**-15,721**	**20,247**
Payments made for investment properties	(1)	-20,011	-1,145
Payments received from the disposal of investment properties	(1)	804	0
Payments made for investments in intangible assets and property, plant and equipment	(2), (3)	-1,257	-595
Payments made for investments in consolidated companies and financial assets		-7,001	-3,357
Payments received from the sale of consolidated companies		7,325	5,050
Cash flow from investing activities		**-20,140**	**-47**
Payments received from equity issues (less transaction costs)	(10), (11)	171,927	26,829
Payments received from sale of treasury stock		0	1,400
Changes in bank loans	(15)	-13,634	-25,317
Settlement of loans and purchase price payment obligations	(21)	-21,281	-3,899
Cash flow from financing activities		**137,012**	**-987**
Net change in cash and cash equivalents		101,151	19,213
Change in cash and cash equivalents as a result of changes to consolidation group		333	0
Cash and cash equivalents at the beginning of the period		23,087	3,874
Cash and cash equivalents at the end of the period	(13)	**124,571**	**23,087**

Consolidated Income Statement

In TEUR	(Notes)	2006	2005
Revenues	(22)	107,334	153,549
a) Sale of properties		72,732	121,869
b) Rental income		25,077	27,119
c) Construction management expenses and other		9,525	4,561
Other operating income	(23)	6,303	6,441
Cost of goods and services purchased	(24)	-85,783	-132,712
Gross profit		**27,854**	**27,278**
Personnel expenses	(25)	-10,145	-9,179
Depreciation/amortisation	(26)	-621	-20,527
Other operating expenses	(27)	-11,547	-18,856
Difference arising from remeasured fair value of investment properties	(28)	11,558	7,512
EBIT		**17,099**	**-13,772**
Net investment income	(29)	-52	-1,028
Share of profit of associates	(30)	-110	-49
Net borrowing costs	(31)	-10,512	-17,413
EBT		**6,425**	**-32,262**
Income taxes	(32)	-545	-2,127
Other taxes	(33)	-967	-971
Minority interests	(14)	-2,068	-105
Consolidated net profit/loss		**2,845**	**-35,465**
Earnings per share (€), basic	(34)	0.14	-4.65

Consolidated Statement of Changes in Shareholders' Equity

In TEUR	Sub-scribed capital	Capital Res-erve	Re-tained ear-nings	Unappr. loss	Total	Minority inte-rests	Total Share-holders' equity
01/01/2005	**6,229**	**83,180**	**6,689**	**-6,659**	**89,439**	**9,588**	**99,027**
Consolidated net profit/loss	0	0	0	-35,465	-35,465	105	-35,360
Cash equity issues	3,816	23,962	0	0	27,778	0	27,778
Cost of equity issues	0	-949	0	0	-949	0	-949
Sale of treasury stock	0	1,400	0	0	1,400	0	1,400
Withdrawal from share premium	0	-30,930	0	30,930	0	0	0
Changes in minority interests	0	0	0	0	0	-1,655	-1,655
12/31/2005	**10,045**	**76,663**	**6,689**	**-11,194**	**82,203**	**8,038**	**90,241**
Consolidated net profit/loss	0	0	0	2,845	2,845	2,068	4,913
Cash equity issues	22,521	158,906	0	0	181,427	0	181,427
Cost of equity issues	0	-9,500	0	0	-9,500	0	-9,500
Withdrawal from Capital Reserve	0	-6,355	0	6,355	0	0	0
Changes in minority interests	0	0	0	0	0	21,622	21,622
12/31/2006	**32,566**	**219,714**	**6,689**	**-1,994**	**256,975**	**31,728**	**288,703**

Segment Report

In TEUR	Residenti-al proper-ty 2006	Com-mercial property 2006	Services 2006	Recon-ciliation 2006	Group 2006
Total revenues	**67,192**	**38,134**	**6,137**	**-4,129**	**107,334**
Previous year	125,964	26,989	3,802	-3,206	153,549
- of which external revenues	63,064	38,134	4,840	1,296	107,334
Previous year	123,562	26,989	3,077	-79	153,549
- of which internal revenues	4,128	0	1,297	-5,425	0
Previous year	2,402	0	725	-3,127	0
Segment earnings (EBIT)	**20,052**	**4,025**	**1,063**	**-8,041**	**17,099**
Previous year	7,282	1,392	123	-22,569	-13,772
- of which non-cash impairment losses on land and receivables	-3,463	-594	-431	1,493	-2,995
Previous year	-5,267	-638	-15	-3,914	-9,834
Segment assets	**483,116**	**177,133**	**9,534**	**23,468**	**693,251**
Previous year	455,249	78,342	9,259	-60,392	482,458
- of which shares in associates	3,869	0	0	0	3,869
Previous year	4,313	0	0	0	4,313
Segment liabilities	**326,148**	**161,711**	**1,724**	**-85,035**	**404,548**
Previous year	339,283	62,411	2,032	-11,509	392,217
Segment investments	**15,468**	**5,593**	**187**	**7,021**	**28,269**
Previous year	1,549	1	24	3,523	5,097

Shareholding as at 31 December 2006

No.	Name and domicile of company	Share in capital %	Held via (No.)	Equity T€	Net profit/loss T€
1	TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft, Tegernsee	0	0	240,399	-6,355
2	Kraftverkehr Tegernsee-Immobilien GmbH, Tegernsee	98.00	1	332	0
3	Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee	100.00	1	830	137
4	Feuerbachstraße 17/17a Leipzig Grundstücks-verwaltung AG & Co. KG, Leipzig	99.55	1, 5	-8	-257
5	TAG Asset Management GmbH, Hamburg	93.57	1	-277	-4,563
6	Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg	71.23	1	99,056	10,463
7	AGP AG Allgemeine Gewerbebau- und Projekt-entwicklungs Aktiengesellschaft, Tegernsee	94.00	1	-5,162	-2,362
8	Bau-Verein zu Hamburg Gewerbeimmobilien-gesellschaft mbH, Hamburg	93.49	1, 6, 34	15,096	-169
9	WENZELSPLATZ Grundstücks GmbH, Leipzig	93.57	5	43	0
10	Trinom Hausverwaltungs GmbH, Leipzig	93.57	5	-47	-20
11	Studio am Zoo Verwaltungsgesellschaft mbH, Leipzig	93.57	5	7	6
12	BuP Projektmanagement GmbH, Leipzig	93.57	5	688	503
13	GbR Elsterstr. 40, Leipzig	46.78	5	212	-6
14	Wasserkraftanlage Gückelsberg OHG, Leipzig	93.10	5	367	-68
15	JUS AG & Co. 1. Grundbesitz KG, Leipzig	93.57	5	-673	0
16	JUS AG & Co. Heimat KG, Leipzig	93.57	5	-69	-70
17	GbR Wohnen im Denkmal Feuerbachstr. 4, Leipzig	46.78	5	107	7
18	Neue Ufer GmbH & Co. KG, Leipzig	46.78	5, 12	-4,051	185
19	GbR Siedelmeisterweg, Seevetal	46.78	5	-1,096	-19
20	GbR Elsterlofts, Seevetal	46.78	5	2,943	0
21	GbR Wald-/Wettiner Str., Leipzig	46.78	5	317	-1

No.	Name and domicile of company	Share in capital %	Held via (No.)	Equity T€	Net profit/loss T€
22	GbR Mozartstr. 24/Schwägerichenstr. 7, Leipzig	93.57	5, 12	-139	-16
23	Wohnen im Loft JUS AG & Co. OHG, Leipzig	93.95	5, 1	133	79
24	Ingenieur-Kontaktbau Gesellschaft für Ingenieur-fertigbau mit beschränkter Haftung, Leipzig	93.57	5, 12	16	3
25	GbR Wohnen am Elbufer, Dresden	4.07	5	0	0
26	Studio am Zoo GmbH & Co. KG, Leipzig	93.57	5	-19	-3
27	JUS Stuttgart-Südtor Verwaltungs GmbH, Leipzig	93.57	5	32	4
28	JUS Stuttgart-Südtor Projektleitungs GmbH & Co. KG, Leipzig	93.57	5	-480	-480
29	Wenzelsplatz GmbH & Co. Nr. 1 KG, Leipzig	93.57	5	120	-130
30	Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg	71.23	6	973	-173
31	Bau-Verein zu Hamburg Wohnungs-gesellschaft, Hamburg	71.23	6	6,136	643
32	BV Hamburger Wohnimmobilien GmbH, Hamburg	71.23	6	-1,711	-702
33	Hamburg-Bremer Vermögensverwaltungs-gesellschaft mbH, Hamburg	71.23	6	2,558	-12
34	GAG Grundstücksverwaltungs-Aktien-gesellschaft, Hamburg	17.81	6, 33	6,517	-3,483
35	G+R City-Immobilien GmbH, Berlin	71.23	6, 30	-419	-98
36	VFHG Verwaltungs GmbH, Berlin	71.23	6	19	1
37	Wohnanlage Ottobrunn GmbH, Hamburg	71.23	6	4,815	68
38	Bau-Verein zu Hamburg-Eigenheim Immobilien GmbH, Hamburg	71.23	6	2,053	-2,537
39	Bau-Verein zu Hamburg „Junges Wohnen" GmbH, Hamburg	71.23	6	26	-748
40	URANIA Grundstücksgesellschaft mbH, Hamburg	71.23	6	-847	-400
41	Bau-Verein zu Hamburg Hausverwaltungs-gesellschaft mbH, Hamburg	42.74	6	128	43
42	Archplan Projekt Dianastraße, Dortmund	47.44	6, 38	-102	2

Shareholding

No.	Name and domicile of company	Share in capital %	Held via (No.)	Equity T€	Net profit/loss T€
43	BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	71.23	6, 40	402	15
44	Grundstücksgesellschaft Adlershof mbH, Hamburg	71.23	6, 40	-176	-2
45	Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	71.23	6, 40	40	2
46	G + R Grundstücksentwicklung Habersaathstr. 31 GmbH, Berlin	35.62	6, 30	-897	58
47	VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin	60.69	6, 38	-3,371	145
48	B.N. Bauregie Nord GmbH, Hamburg	71.23	6	54	2
49	Fürstenberg´sche Häuser GmbH, Berlin	94.00	5	-1,180	-642
50	Hamburg Bau-Verein zu Hamburg Bauregie GmbH	71.23	6, 38	-713	-759
51	Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH, Hamburg	35.62	6	28	0
52	GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, Hamburg	35.62	6	200	27
53	Zweite Immobilienbeteiligungsges. BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG	12.82	6, 43	2,514	-107
54	Vierte Immobilienbeteiligungsges. BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG	24.22	6, 45	1,146	103
55	Trinom Business Apartments GmbH, Leipzig	93.57	5	107	88
56	Patrona Saxoniae Grundbesitz GmbH, Leipzig	93.57	5	25	-1
57	Patrona Saxoniae GmbH & Co. KG, Leipzig	93.57	5	1	353
58	DESIGN Bau BV Hamburg Verwaltungs GmbH	35.62	6, 38	25	1
59	DESIGN Bau BV Hamburg GmbH & Co. KG	35.62	6, 38	20	-3
60	„An den Obstgärten" Verwaltungs GmbH	35.62	6, 38	25	-4
61	„An den Obstgärten" Bauträger GmbH & Co. KG	35.62	6, 38	10	-6
62	Lunova Hausverwaltung GmbH	93.49	8, 38	82	-71
63	JUS AG & Co. 2. Grundbesitz KG, Leipzig	93.57	5	0	0
64	Wenzelsplatz GmbH & Co. Nr. 2 KG, Leipzig	93.57	5	-3	0
65	Wenzelsplatz GmbH & Co. Nr. 3 KG, Leipzig	93.57	5	-3	0

Auguste-Viktoria-Straße, Berlin

Notes to the Consolidated Financial Statements

Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft, Tegernsee (hereinafter also referred to as "TAG" or "the Company", or, within the context of the overall group "TAG Group") for the fiscal year ending 31 December 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) subject to compulsory adoption on the balance sheet date, and their interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in accordance with the provisions contained in Regulation (EC) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002. In addition, the provisions contained in Section 315a (1) of the German Commercial Code were observed.

The requirements set forth in the standards applied have been fulfilled and result in the presentation of a true and fair view of the net assets, financial position and results of operations of the TAG Group. IFRS 7, which requires users to include disclosures making it possible to assess the role played by financial instruments in the Group as well as the type and extent of risks arising from such financial instruments, has not yet been applied. As of the date on which the consolidated financial statements had been authorised for issue, the Group had not yet fully considered the impact of application of this standard. In addition, IAS 1 (revised) Presentation of Financial Statements, which has been issued but is not yet required to be adopted, was not applied. This revised standard calls for new disclosures allowing the users of the financial statements to assess the goals, methods and purposes of the Group's capital management.

The fiscal year of the parent company and the consolidated subsidiaries is the calendar year. Uniform recognition and measurement methods have been applied to the financial statements prepared by the consolidated companies. The consolidated financial statements are prepared in euros. Amounts are mostly cited in thousands of euros (T€).

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

Compared with the consolidated financial statements for the previous year, the presentation of the consolidated balance sheet, the consolidated income statement and the consolidated segment report has been modified to match the presentation of the financial statements prepared by subsidiary Bau-Verein zu Hamburg Aktien-Gesellschaft. For this purpose, individual items have in some cases received new designations or have been combined or shown separately. No items have been netted. The changed presentation has not had any impact on consolidated net profit or consolidated equity.

TAG, which is filed with the Commercial Register of the Munich Local Court under HRB 41651, has its registered office in Tegernsee, Bahnhofsplatz 5. The material part of its business is performed at the offices located at Steckelhörn 5, 20457 Hamburg. The Company's object is to acquire and manage domestic and foreign real estate, to acquire and market equity interests including in real estate funds and to engage in all other related business as well as to build and operate railways and to construct, acquire, lease and operate transport companies of all kinds, particularly motorised transport companies, and to engage in all kinds of transportation including forwarding.

The consolidated financial statements and Group management report of TAG were prepared by its Management Board on 31 March 2007 and presented to the Supervisory Board for approval on 11 April 2007.

Poetenweg, Leipzig

Consolidation

The consolidated financial statements include all companies in which TAG is entitled directly or indirectly to exercise a majority of the voting rights. These enterprises are included in the consolidated financial statements from the date on which the TAG Group obtains control. If shares in subsidiaries are considered to be of subordinate significance from the Group's perspective, they are recognised as financial instruments in accordance with IAS 39.

As of 31 December 2006, TAG itself held the following direct shares:

- 100.00 % of Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee (TBG)
- 99.55 % of Feuerbachstr. 17/17a AG & Co. KG, Leipzig (Feuerbach KG)
- 98.00 % of Kraftverkehr Tegernsee-Immobiliengesellschaft mbH, Tegernsee (KVT)
- 90.00 % of Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH, Hamburg (BV GI)
- 94.00 % of AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Tegernsee (AGP)
- 93.57 % of TAG Asset Management GmbH, Hamburg (TAG AM, formerly JUS Aktiengesellschaft für Grundbesitz, Leipzig)
- 93.95 % of Wohnen im Loft JUS AG & Co. oHG, Leipzig
- 71.23 % of Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (Bau-Verein)

TAG directly or indirectly holds at least 5 % of the voting rights in the following companies, which constitute shares considered to be of subordinate significance from the Group's perspective and are thus not included in the consolidated financial statements (disclosures in accordance with Sections 315a (1) and 313 (2) Nr. 4 of the German Commercial Code):

Company	Equity interest %	Shareholders' equity German GAAP 12/31/2006 T€	Net profit/ loss German GAAP 2006 T€
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	71.23	402	15
BVF Grundstücksgesellschaft „Adlershof" mbH, Hamburg	71.23	-176	-2
B.N. Bauregie Nord GmbH, Hamburg	71.23	54	2
Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	71.23	40	2
Vierte Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg	24.22	1,146	103
Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg	12.82	2,514	-107
Lunova Hausverwaltung GmbH	93.49	82	-71
DESIGN BAU BV Hamburg Verwaltungs GmbH	35.62	25	1
DESIGN BAU BV Hamburg GmbH & Co KG	35.62	20	-3

The purchase method of accounting is used to account for the acquisition of subsidiaries. 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 over the fair value is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Joint ventures are recognised in the consolidated financial statements on a prorated basis. The assets and liabilities as well as revenues and expenses of jointly controlled entities are recognised in the consolidated financial statements in accordance with the size of the share held in these companies.

Enterprises over which the Group may exercise significant influence (associates) are accounted for using the equity method of accounting (IAS 28).

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

Minority interests in consolidated equity capital and consolidated net profit are recorded under "Minorities" 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 calculating the share in consolidated net profit attributable to minorities.

Changes in consolidation

Acquisitions

The consolidation group changed compared with the previous year following the purchase of a further 44.51 % of the capital of AGP. The share in AGP rose from 49.49 % to 94 % effective 1 January 2006. This company had previously been recognised as an associate and accounted for using the equity method of accounting. Assets of T€ 7,978 and liabilities of T€ 7,510 were received. The acquisition costs came to T€ 84. As the cost of acquisition was less than the fair value of the net assets acquired, the difference of T€ 335 was recognised directly in the income statement as other operating income as a result of initial consolidation.

The consolidation group also widened compared with 31 December 2005 as a result of the acquisition of a further 74 % of the capital of Fürstenberg´sche Häuser GmbH, Berlin. TAG Asset Management GmbH had previously already held a share of 20 % in this company as at 31 December 2005, which it increased to 94 % effective 1 January 2006. Initial consolidation did not have any effect on the income statement. Assets of T€ 6,019 and liabilities of T€ 6,583 were received. The difference arising from initial consolidation increased the carrying values of the properties acquired. No purchase price was payable.

The consolidation group also changed as at 31 December 2006 compared with the previous year as a result of the purchase in 2006 of 90 % of the capital of Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH (BV GI). Prior to this, TAG had indirectly held 71.23 % of the voting rights in BV GI via its share in Bau-Verein AG. As a result of the initial consolidation of the newly acquired shares effective 31 December 2006, unrealised reserves of T€ 462 in connection with BV GI's real estate holdings were recognised under equity.

The purchase price for the 90 % share came to T€ 20,020 and was determined on the basis of the enterprise value determined for BV GI calculated using the capitalised income value method in the light of the company's future opportunities. The appropriateness of the purchase price will be reviewed by the company's auditors in an independent statement. If this statement arrives at an enterprise value which differs by more than 3 % from the agreed purchase price, it will be adjusted accordingly to match the recalculated enterprise value.

The transfer took economic effect on 1 October 2006. BV GI's profit for 2006 continued to accrue to Bau-Verein AG. The control and profit transfer agreement in force between Bau-Verein AG and BV GI was terminated effective 31 December 2006.

In the course of 2006, the share in Bau-Verein AG was reduced from 89.88 % to 71.23 % following the sale of 1,500,000 shares and the ensuing acquisition of 1,145,804 shares at a cost of T€ 6,399. Of this, 500,000 shares were acquired as part of an equity issue for a subscription price of € 4.75 per share. The sale of the shares resulted in a loss of T€ 599. As a result of the initial consolidation of the newly acquired shares effective 31 December 2006, unrealised reserves of T€ 1,124 in the real estate acquired were recognised under equity.

Sales

In a contract dated 30 May 2006, 40 % of the shares in Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg, (BV HV), which had previously been a wholly owned subsidiary of Bau-Verein AG, were sold for a price of T€ 200. The transfer took economic effect on 1 July 2006. BF HV's profit for 2006 continued to accrue to Bau-Verein AG. The sale of this 40 % share resulted in a profit of T€ 149, which is recorded as other operating income. BV HV was fully consolidated as of 31 December 2006 as TAG continues to exercise the majority of voting rights via Bau-Verein AG, which still holds a 60 % share in this company.

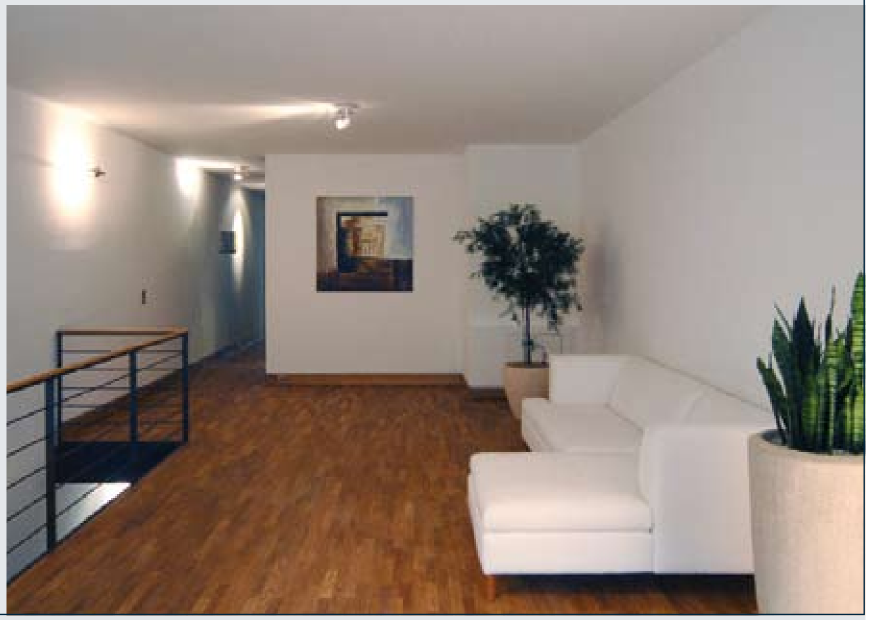
Recognition and measurement principles

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 as current assets. 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 ancillary costs. They are subsequently measured at their fair value, which reflects market conditions as of the balance sheet date. Any gains or losses from changes in fair value are recognised in the income statement.

If investment properties are reclassified as current assets, subsequent measurement is based on the fair value as of the date of the change of use. If current assets are reclassified as investment properties, any difference between the fair value and the carrying value as of that date is recognised in the income statement. When the Group completes the production of an internally generated investment property, any difference between the fair value and the carrying value as of that date is also recognised in the income statement.



Quartier 208, Behrenstraße, Berlin

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 all impairment losses accruing.

Intangible assets with a limited life are written down over their expected useful lives (generally three years) and tested for impairment in the event of any evidence 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.

Intangible assets with an unlimited life undergo impairment testing at least once a year at the level of the individual asset or at the level of the cash-generating unit. These intangible assets are not systematically written down. The unlimited life assumption is reviewed for its continued justification at least once a year. If the assumption no longer applies, the prospective limited useful life is applied.

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 (generally 3 - 10 years). The depreciation methods and useful lives are reviewed at the end of each fiscal year and adjusted if necessary. The carrying values of property, plant and equipment are reviewed for any impairment upon any evidence arising indicating that the carrying values exceed the recoverable values.

Investments in associates

Investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant control but which is not a subsidiary or joint venture. In contrast to full consolidation, the assets, liabilities, income and expenses of the associate are not included in the consolidated financial statements when the equity method of accounting is applied. The cumulative post-acquisition movements in the associate's equity are adjusted against the carrying amount of the investment on an annual basis. The Group's share of the associate's post-acquisition profits or losses is recognised in the income statement.

Other financial assets

This item includes investments and other financial assets which are initially recognised at their fair value. If it is not possible to reliably determine their fair value (e.g. in the case of non-listed shares in incorporated or non-incorporated entities), they are recognised at cost. The Group determines the classification of its financial assets upon initial recognition and reviews this allocation at the end of each fiscal year to the extent that this is permissible and appropriate.

Financial assets at fair value through profit or loss are held for short-term trading purposes. Derivative financial instruments are also assigned to this category unless they are designated as derivatives and are effective as such. Profit and loss from financial assets held for trading purposes is recognised in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed payment dates are classified as held-to-maturity investments and measured at cost less repayments and an amount representing the difference between the original and repayable amount using the effective interest method. Impairments are recognised in the income statement.

Available-for-sale financial assets are assets which are not held for trading purposes or are designated as held-to-maturity investments and do not constitute loans and receivables. After initial recognition, they are measured at their fair value provided that this can be reliably determined, with any gains or losses recorded in a separate item under equity. 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.

Land with finished and unfinished buildings and other inventories

Land with finished and unfinished buildings and other inventories are reported at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Borrowing costs in connection with the acquisition or construction of land are capitalised provided that the applicable conditions for this are satisfied.

Trade receivables and other current assets

Trade receivables primarily result from the sale of real estate, rentals and facility management and are recorded at the original invoice amount less an adjustment for non-recoverable receivables. Receivables are adjusted if there is substantial objective evidence that the Group will not be able to recover the receivables. They are derecognised as soon as they are unrecoverable.

Current and deferred income tax assets and liabilities

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 or substantively enacted by 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, unused tax losses and unused tax credits to the extent that realisation of the related income tax benefit through future taxable profits is probable. The carrying value of deferred income tax assets is reviewed on each balance sheet date and reduced to the extent that sufficient taxable profits will not be available. Deferred income tax assets and liabilities are measured on the basis of tax rates expected to apply in the period in which an asset is realized or a liability settled. For this purpose, the tax laws in force or announced as at the balance sheet date were taken into account.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank and short-term deposits with an original maturity period of less than three months.

Non-current available-for-sale assets and related obligations

A non-current asset or group of available-for-sale assets are designated as available for sale if the carrying value is predominantly realised via a sales transaction rather than through continued use. They are recognised at the lower of the carrying value and fair value net of the cost of disposal. These assets or groups of assets and the related liabilities are shown separately on the face of the balance sheet.

Equity transaction costs

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.

Liabilities

When liabilities, these predominantly being bank borrowings to finance real estate, are initially recognised, they are measured at cost, i.e. the fair value of the consideration given net of transaction costs. After initial recognition, loans are measured at amortised cost using the effective interest rate method.

Retirement benefit provisions

In the past, the Group had a defined-benefit retirement benefit plan for former members of the Management Board and 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 and the unrecognised actuarial gains and losses less unrecognised past service costs and the fair value of the plan assets used to directly settle the liability.

Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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 probable.

Trade payables and other current liabilities

Trade payables and other current liabilities are recognised at cost.

Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue from the sale of real estate is recognised when the risks and opportunities arising from ownership of the real estate have passed to the buyer (transfer of ownership rights, benefits and obligations arising from the real estate). Rental income from investment properties as well as available-for-sale properties which are regularly leased when acquired or sold is recorded on a straight-line basis over the term of the lease. Revenue from facility management activities is recognised as soon as legal entitlement to the fee in consideration of performance of the agreed services arises.

Profit expected to be derived from long-term construction contracts is recognized in accordance with the percentage-of-completion methods based on the progress achieved in the construction project in question. The percentage of completion is the ratio of costs so far incurred to expected total costs. A surplus of realised profit over advance payments received for the construction contract in question is recognized as a receivable and a shortfall as a liability.

Currency translation

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

Critical accounting estimates and assumptions

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

- In connection with the recognition of deferred income tax assets on tax losses, it is necessary to forecast the Group's future taxable earnings. For this purpose, it is assumed that in the absence of any evidence of specific legal risks jeopardising the continued availability of the tax losses the tax losses are available in full in the future. Deferred income tax assets on tax losses are valued at T€ 21,809 as of the balance sheet date (previous year T€ 13,325).
- With respect to other provisions, various assumptions have been made, e.g. with respect to the probability and amount of utilisation of provisions for rental guarantees. For this purpose, the Management Board has taken into account all information available as of the balance sheet date. Other provisions are valued at T€ 12,359 as of the balance sheet date (previous year T€ 15,904).

Notes on the balance sheet

1. Investment properties

On account of a change in utilisation, various properties previously designated as inventories were reclassified as investment properties. These properties were measured at their fair value upon the change in utilisation. In fiscal 2006, fair values were adjusted for depreciation of T€ 2,417 (previous year T€ 940) and appreciation of T€ 13,975 (previous year T€ 8,452). The net changes in fair value thus came to T€ 11,558 (previous year T€ 7,512).

The table below sets out the movements in the real estate portfolio:

Investment properties	T€
Balance on 1 January 2005	112,629
Additions in 2005	1,145
Disposals in 2005	-7,442
Reclassifications in 2005	5,160
Changes in fair value as at 31 December 2005	7,512
Balance on 31 December 2005	119,004
Additions in 2006	20,011
Disposals in 2006	-848
Reclassifications in 2006	19,391
Additions from initial consolidation	7,200
Investment properties recorded as non-current available-for-sale assets	-4,180
Changes in fair value as at 31 December 2006	11,558
Balance on 31 December 2006	172,136

In the year under review, investment properties valued at T€ 138,127 (previous year T€ 115,145) were secured by real-property liens. Significant contractual obligations to produce or develop the properties or to carry out maintenance work did not exist as at 31 December 2006.

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

Investment properties In TEUR	2006	2005
Rental income	9,706	9,644
Operating expenses (maintenance, facility management, land taxes etc.)	-4,463	-4,641
Total	5,243	5,003

2. Intangible assets

The table below sets out the movements in intangible assets. As in the previous year, intangible assets were not subject to any significant ownership or disposal restrictions as at the balance-sheet date.

Intangible assets Cost In TEUR	Concessions and licences	Advance payments made	Total
Balance on 1 January 2005	203	70	273
Disposals from consolidation group	-8	0	-8
Additions in 2005	40	0	40
Disposals in 2005	-38	0	-38
Balance on 31 December 2005	197	70	267
Additions in 2006	12	0	12
Disposals in 2006	0	-70	-70
Balance on 31 December 2006	209	0	209

Intangible assets Depreciation/amortisation In TEUR	Concessions and licences	Advance payments made	Total
Balance on 1 January 2005	163	0	163
Disposals from consolidation group	-1	0	-1
Additions in 2005	21	70	91
Disposals in 2005	-25	0	-25
Balance on 31 December 2005	158	70	228
Additions in 2006	17	0	17
Disposals in 2006	0	-70	-70
Balance on 31 December 2006	175	0	175
Carrying value on 31 December 2006	34	0	34
Carrying value on 31 December 2005	39	0	39

3. Property, plant and equipment

The table below sets out the movements in property, plant and equipment. The properties with commercial buildings are secured in full with real-property liens.

Property, plant and equipment Cost In TEUR	Land with residential buildings	Land with commercial buildings	Buildings on leasehold land	Machinery	Operating and business equipment	Total
Balance on 1 January 2005	0	2,941	81	2,787	2,471	8,280
Disposals from consolidation group	0	0	0	-8	-14	-22
Additions in 2005	175	0	0	2	378	555
Disposals in 2005	0	0	0	-12	-264	-276
Balance on 31 December 2005	175	2,941	81	2,769	2,571	8,537
Additions in 2006	0	0	0	0	533	533
Disposals in 2006	0	0	-62	-9	-254	-325
Reclassifications	0	0	0	172	-172	0
Balance on 31 December 2006	175	2,941	19	2,932	2,678	8,745

Property, plant and equipment Depreciation/amortisation In TEUR	Land with residential buildings	Land with commercial buildings	Buildings on leasehold land	Machinery	Operating and business equipment	Total
Balance on 1 January 2005	0	678	61	868	1,578	3,185
Disposals from consolidation group	0	0	0	-4	-13	-17
Additions in 2005	0	91	19	348	256	714
Disposals in 2005	0	0	0	-10	-242	-252
Balance on 31 December 2005	0	769	80	1,202	1,579	3,630
Additions in 2006	0	88	1	265	250	604
Disposals in 2006	0	0	-62	-9	-234	-305
Balance on 31 December 2006	0	857	19	1,458	1,595	3,929
Carrying value on 31 December 2006	175	2,084	0	1,474	1,083	4,816
Carrying value on 31 December 2005	175	2,172	1	1,567	992	4,907

4. Investments in associates and other financial assets

The table below sets out the movements in fiscal 2006, using the opening balances for the previous year as a starting point:

Financial assets Cost In TEUR	Investments in affiliated companies	Investments and coopera-tive shares	Investments in associates	Total
Balance on 1 January 2005	3,161	750	2,519	6,430
Additions in 2005	0	0	3,619	3,619
Disposals in 2005	-55	0	0	-55
Reclassifications	0	-96	114	18
Balance on 31 December 2005	3,106	654	6,252	10,012
Additions in 2006	391	15	260	666
Disposals in 2006	0	-5	-1,643	-1,648
Reclassifications	0	0	-1,000	-1,000
Balance on 31 December 2006	3,497	664	3,869	8,030

Financial assets Depre-ciation/amortisation In TEUR	Investments in affiliated companies	Investments and coopera-tive shares	Investments in associates	Total
Balance on 1 January 2005	391	628	1,539	2,558
Additions in 2005	900	0	400	1,300
Disposals in 2005	-55	0	0	-55
Balance on 31 December 2005	1,236	628	1,939	3,803
Additions in 2006	28	0	0	28
Disposals in 2006	0	0	-939	-939
Reclassifications	0	0	-1,000	-1,000
Balance on 31 December 2006	1,264	628	0	1,892
Carrying value on 31 December 2006	2,233	36	3,869	6,138
Carrying value on 31 December 2005	1,870	26	4,313	6,209

The following combined financial information on investments in associates held as non-current assets applied as of 31 December 2006:

Associates In TEUR	Total assets	Liabilities	Income	Net profit/loss
GAG Grundstücksverwaltungs-Aktiengesellschaft	78,877	72,247	2,911	-3,482
GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG	5,650	5,441	436	27
Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH	30	0	1	0

With respect to the joint ventures, only the 50 % share in Neue Ufer GmbH & Co. KG, Leipzig, which is held via TAG Asset Management GmbH, is of material significance. The Group's share in this company's assets stands at T€ 1,820 (previous year T€ 3,319), current liabilities – excluding those due to Group members – T€ 115 (previous year T€ 3,193), non-current liabilities T€ 0 (previous year T€ 0), income T€ 3,540 (previous year T€ 1,802) and expenses T€ 3,429 (previous year T€ 3,689).

The other financial assets comprise investments in affiliated companies worth T€ 2,233 and investments and cooperative shares of T€ 36 not included in the consolidated financial statement on account of their subordinate importance.

5. Deferred income tax assets and liabilities

The deferred income tax liabilities recognised as of the balance sheet date break down as follows:

Deferred income taxes charged/credited to the balance sheet In TEUR	2006	2005
Tax losses	21,809	13,325
Recognition and measurement of provisions	347	602
Valuation of properties	-23,266	-11,283
Restatement of previous year's figure in accordance with IAS 8	0	-1,797
Other	-368	-2,433
Total	-1,478	-1,586

6. Land with unfinished and finished buildings and other inventories

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

Land with unfinished and finished buildings In TEUR	2006	2005
Balance as at 1 January	249,680	349,076
Additions	133,316	44,249
Disposals	-45,189	-138,927
Consolidation	1,586	0
Impairments and reversals of impairments	-726	-4,718
Balance as at 31 December	338,667	249,680
Of which secured with real-property liens	212,683	245,216

Impairments of T€ 1,530 (previous year T€ 4,718) and reversals of impairments of T€ 804 (previous year T€ 0) on the value of available-for-sale properties were recognized in the income statement in the year under review. The carrying value of these properties as at 31 December 2006 stood at T€ 27,530 (previous year: T€ 23,836).

As in earlier years, the option providing for the alternative method of capitalizing borrowing costs was applied to available-for-sale properties in the year under review. Accordingly, all interest and borrowing costs incurred during the acquisition or production phase were capitalised unless it was possible to directly allocate them to the acquisition or production of land. Capitalised borrowing costs came to T€ 144 in the year under review (previous year T€ 117).

The percentage of completion method described in IAS 11 was applied to long-term construction contracts provided that the necessary conditions for doing so were satisfied. The table below sets out the significant factors resulting from long-term construction contracts and affecting the Company's financial position, net assets and results of operations:

Construction contracts In TEUR	2006	2005
Revenues	866	12,789
Expenses	- 737	-12,198
Realised profits (net of deferred income taxes)	129	591
Advance payments received	832	3,690

Other inventories break down as follows:

Other inventories In TEUR	12/31/2006	12/31/2005
Heating and operating costs not yet billed	4,703	5,397
Advance payments made towards sales commission	532	577
Heating oil inventories	120	95
Total	5,355	6,069

7. Trade receivables, income tax refund claims and other current assets

Trade receivables primarily include purchase price claims from property sales.

The income tax refund claims are set out in the following table:

Income tax refund claims In TEUR	12/31/2006	12/31/2005
Bau-Verein	455	142
TAG	402	24
BV GI	150	0
Other	14	0
Total	1,021	166

Other current assets primarily break down as follows:

Other current assets In TEUR	12/31/2006	12/31/2005
Receivables from joint ventures and associates	7,170	8,372
Prepaid expenses	69	133
Other	3,321	4,266
Total	10,560	12,771

8. Cash and cash equivalents

Cash and cash equivalents, which came to T€ 113,070 (previous year T€ 15,737), include checks, cash on hand, cash at banks, and short-term securities.

The cash flow statement as at 31 December 2006 includes the cash and cash equivalents freely available within the TAG Group (cash on hand and cash at banks net of current bank borrowings). In this respect, cash and cash equivalents in the cash flow statement differ from the corresponding item reported in the balance sheet. The latter also includes payments made by real estate purchasers that are not yet available.

9. Non-current available-for-sale assets

This item primarily comprises the assets held by subsidiary TBG, which are to be sold in 2007. The related liabilities are also recorded separately under liabilities.

10. Subscribed capital

TAG's share capital amounted to T€ 32,566 as at 31 December 2006 (previous year T€ 10,045) and is divided into 32,566,364 (previous year 10,044,901) no par value shares with equal voting rights.

In accordance with resolutions passed by the Management Board and the Supervisory Board on 13 February 2006, the share capital was increased by T€ 2,511 from T€ 10,045 to T€ 12,556 using the Company's authorised capital by issuing 2,511,463 new no par value shares on a cash basis. The issue price was € 8.50, with the equity issue taking effect on 23 March 2006 upon being entered in the companies register. In addition, the shareholders passed a resolution on 30 June 2006 to raise the Company's share capital by T€ 20,010 from T€ 12,556 to T€ 32,556 by issuing 20,010,000 new no par value shares on a cash basis. The issue price stood at € 8.00 per share. The Company's shareholders were granted an indirect subscription right for the new shares. The equity issue became effective upon its entry in the Commercial Register on 8 August 2006.

The Management Board has been authorised subject to the Supervisory Board's approval to increase the share capital once or repeatedly on or before 29 June 2011 by a maximum amount of T€ 6,278 by issuing up to 6,278,182 shares. The Management Board has been authorised to exclude the shareholders' statutory subscription rights subject to the Supervisory Board's approval,

a. to the extent to which this is necessary to eliminate fractional amounts,
b. to acquire enterprises, parts of enterprises or investments in enterprises through the provisions of shares in suitable individual cases,
c. to the extent to which the new shares for which subscription rights are excluded do not exceed a total of 10 percent of the Company's share capital, even in the event of several increases, and the issue price of the new shares is not significantly lower than the Company's share price within the meaning of Sections 203 (1) and (2), 186 (3) No. 4 of the German Stock Corporation Act.

The Management Board decides on the issue of the new shares, the content of the share rights and the terms and conditions of the stock issue, subject to the approval of the Supervisory Board, taking account of the Company's capital requirements and the capital market situation prevailing when the relevant decision is taken.

The Company's share capital was increased on a contingent basis by up to € 3,424,463.00 divided into up to 3,424,463 new bearer shares to ensure that the convertible and option bonds issued in accordance with the resolution passed by the shareholders on 5 July 2006 can be honoured. The contingent capital increase is executed only to the extent that convertible and option bonds are actually issued and the bearers or creditors of such convertible and option bonds make use of their options or the bearers or creditors of convertible and option bonds with an obligation of conversion satisfy such obligation.

11. Capital reserve

The Capital reserve stood at T€ 219,714 (previous year T€ 76,663) as of the balance sheet date and was increased by T€ 158,906 as a result of the equity issues completed, less an amount of T€ 9,500, this constituting the costs of the cash equity issues. A withdrawal to reduce the net loss posted in the commercial balance sheet reduced the Capital reserve by T€ 6,355.

12. Retained earnings

The retained earnings of T€ 6,689 were unchanged over the previous year.

13. Unappropriated surplus/accumulated deficit

The consolidated statement of changes in equity sets out the movements in the accumulated deficit in the year under review.

Consolidated equity includes an adjustment item for the previous year's figure as of 1 January 2005, which is recognised under unappropriated surplus/accumulated deficit, in connection with the correction of an error of T€ 1,797 (previous year T€ 0) in accordance with IAS 8. This amount entails deferred tax liabilities which are required to be recognized in 2005 and 2006 but which were not included in the previous consolidated financial statements. This amount has been added to deferred tax liabilities with retroactive effect as of 1 January 2005. The correction does not have any effect on consolidated net profit/loss for 2005 or 2006.

14. Minority interests

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

15. Bank borrowings

Bank loans and overdrafts consist almost exclusively of liabilities arising in connection with the acquisition of investment properties or the acquisition and development of available-for-sale properties. Investment properties are normally financed on a long-term basis and available-for-sale properties on a short-term basis. Lending terms and conditions (interest rates, repayments) are adjusted at regular intervals. The fair values of the bank loans thus match the carrying values as shown in the balance sheet.

The interest rates for property finance generally stand at between 4.9 % and 5.2 % p.a. in the case of long-term finance and between 3.8 % and 4.7 % p.a. in the case of short-term finance. Short-term loans are repaid upon the sale of the property. In the case of long-term finance, repayments are generally between 1 % and 2 % p.a. There were no premiums, discounts or interest-free liabilities as at 31 December 2006.

The residual terms of the non-current loans and overdrafts break down as follows:

Maturity structure of loans and overdrafts In TEUR	12/31/2006	12/31/2005
One to five years	9,859	24,899
Over five years	27,868	63,248
Total	37,727	88,147

In addition, there are current loans and overdrafts of T€ 271,119 (previous year T€ 238,151). Of these total loans and overdrafts current and non-current T€ 308,846; previous year T€ 326,298, T€ 253,731 (previous year T€ 295,769) are secured by real estate liens and T€ 50,000 (previous year T€ 0) by pledges on bank balances.

16. Retirement benefit provisions

The table below sets out the movements in retirement benefit provisions in fiscal 2006, using the opening balances in fiscal 2005 as a starting point:

Retirement benefit provisions	T€
Opening balance as at 1 January 2005	2,467
Consumption	-250
Reversal	-105
Addition	217
Balance on 31 December 2005	2,329
Consumption	-211
Reversal	-135
Addition	205
Balance on 31 December 2006	2,188

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

	12/31/2006	12/31/2005
Interest rate	4.25 %	4.25 %
Future salary increases	1.75 %	1.75 %
Retirement age	In accordance with Social Code VI	

Of the retirement benefit provisions, an amount of T€ 205 (previous year T€ 226) is due for payment within one year. To simplify the presentation, however, all retirement benefit provisions are recorded as non-current liabilities on the face of the balance sheet.
The following retirement benefit expenses were incurred in the year under review as well as in the previous year:

In TEUR	2006	2005
Retirement benefit expense	3	3
Interest expense	202	214
Retirement benefit expense in the period under review	215	217

Expenses resulting from interest accruing on vested pension rights in previous years are recognised in the income statement under personnel expenses together with the other expenses resulting from retirement benefit obligations.

The table below sets out movements in the net liabilities shown in the balance sheet for the fiscal year under review in comparison with the previous year:

In TEUR	2006	2005
Obligations charged to the balance sheet as at 1 January	2,329	2,467
Retirement benefit expense	70	112
Retirement benefit payments	-211	-250
Balance sheet obligations as at 31 December	2,188	2,329

As in the previous year, the present value of the defined-benefit obligation corresponds to the liability shown in the consolidated balance sheet. Reconciliation in accordance IAS 19.120(c) can thus be dispensed with.

17. Other non-current liabilities

The movements in other non-current liabilities with a residual term of more than one year but less than five years were as follows:

Movements in other non-current liabilities	T€
Balance on 1 January 2005	4,238
Consumption	-129
Reclassification	-3,683
Balance on 31 December 2005	426
Consumption	- 2
Balance on 31 December 2006	424

18. Other provisions

Other provisions break down as follows:

Other provisions In TEUR	Balance 01/01/ 2006	Reversal	Consum-ption	Addition	Balance 12/31/ 2006
Outstanding construction costs	2,893	313	2,196	3,751	4,135
Repairs	1,350	125	524	706	1,407
Outstanding services in connection with sold properties	1,991	39	1,889	986	1,049
Outstanding invoices	529	23	385	777	898
Legal and consulting costs	650	54	544	577	629
Income guarantees	143	0	34	305	414
Other	8,348	432	6,358	2,269	3,827
Total	15,904	986	11,930	9,371	12,359

19. Income tax liabilities

Income tax liabilities include provisions for current income tax liabilities. The table below sets out the movements in fiscal 2006, using the changes in fiscal 2005 as a starting point.

Income tax liabilities	T€
Opening balance as at 1 January 2005	1,042
Consumption	-270
Reversal	-60
Addition	271
Balance on 31 December 2005	983
Consumption	-159
Addition	1,903
Balance on 31 December 2006	2,727

20. Trade payables

As in the previous year, the trade payables recognised as at 31 December 2006 are due within one year without exception.

21. Other current liabilities

Other current liabilities as at the balance sheet date primarily comprise VAT and payroll tax liabilities, social security contributions and other current liabilities not categorized as bank loans and overdrafts or trade payables. The main item in figure for the previous year entailed loans from related parties of T€ 17,887 and the liability to pay the residual purchase price for the acquisition of shares in Bau-Verein AG of T€ 3,394.

Notes on income statement

22. Revenues

Revenues break down as follows:

Revenues In TEUR	2006	2005
Revenues from sale of real estate	72,732	121,869
Rental income	25,077	27,119
Other	9,525	4,561
Total	107,334	153,549

Rental income breaks down into income from investment properties in accordance with IAS 40 and other rented properties held as current assets.

Rental income In TEUR	2006	2005
Rental income on investment properties	10,218	9,644
Rental income on available-for-sale properties	14,859	17,475
Total	25,077	27,119

23. Other operating income

The table below breaks down the main items of other operating income:

Other operating income In TEUR	2006	2005
Waiver of loans by banks	1,565	0
Income from the reversal of provisions	986	660
Income from earlier years	935	1,023
Increase in fair value of available-for-sale properties	804	0
Gains from deconsolidation	474	1,334
Negative goodwill from consolidation	335	279
Contingent waiver of loans by related parties	0	1,500
Other	1,204	1,645
Total	6,303	6,441

24. Cost of goods and services purchased

Expenditure on goods and services purchased in the year under review as well as in the previous year breaks down as follows:

Cost of goods and services purchased In TEUR	2006	2005
Expenditure on available-for-sale properties	67,223	119,273
Facility management expenses	12,323	12,973
Construction management expenses and other	6,237	466
Total	85,783	132,712

Expenditure on available-for-sale properties primarily comprises portfolio costs for properties sold in the year under review. In addition, this item includes own work capitalised (primarily personnel costs) in connection with construction management within the Group of T€ 1,682 (previous year T€ 2,145). This amount is calculated on the basis of internal production costs.

Rental expenses, which are included under other expenses, also includes 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 (change in inventories) of T€ -471 (previous year T€ 52).

25. Personnel expenses

Personnel expenses break down as follows:

Personnel expenses In TEUR	2006	2005
Wages and salaries	8,584	7,650
Social security	1,142	1,100
Retirement benefit expenses	419	429
Total	10,145	9,179

Roughly half of the social security expense includes payments to the statutory pension fund.

26. Depreciation/amortisation

Systematic depreciation and amortisation are based on the useful lives mentioned above and break down as follows:

Depreciation/amortisation In TEUR	2006	2005
Amortisation on intangible assets	17	91
Depreciation		
- buildings	89	110
- machinery	265	348
- operating and business equipment	250	257
Goodwill amortisation	0	19,721
Total	621	20,527

Following an impairment test performed in accordance with IAS 36, the goodwill attributable to TAG Asset Management GmbH was adjusted. As a result, the entire goodwill of T€ 17,911 was written off in full. Further goodwill impairments of T€ 1,810 were recognised within the TAG Asset Management GmbH subgroup, as a result of which goodwill was written down by a total of T€ 19,721 in the previous year.

27. Other operating expenses

The table below breaks down the major items under other operating expenses:

Other operating expenses In TEUR	2006	2005
Legal, consulting and auditing fees	3,017	2,679
Adjustments of receivables	1,419	5,116
Cost of premises (previous year including boarding house management costs)	1,034	2,989
Loan arrangement fees	654	870
Sales costs	504	1,837
Vehicle expenses	291	293
Investor relations	184	293
Other	4,444	4,779
Total	11,547	18,856

The boarding house management costs were recognised under cost of services purchased for the first time in the year under review.

28. Difference arising from remeasured fair value of investment properties

The material changes in fair value in the fiscal year under review and the previous year break down by Group company as follows:

Difference arising from remeasured fair value of investment properties In TEUR	2006	2005
Bau-Verein AG	11,970	4,611
TAG AM	2,005	1,201
Feuerbach KG	-213	0
TBG	-290	1,700
AGP	-1,914	0
Total	11,558	7,512

29. Net investment income

Net investment income in the year under review and the previous year breaks down as follows:

Net investment income In TEUR	2006	2005
Dividends	73	72
Absorption of loss from non-incorporated entities	-97	-200
Impairment losses sustained by incorporated and non-incorporated entities	-28	-900
Total	-52	-1.028

30. Share of profit of associates

This item comprises the share of profit of associates accounted for using the equity method of accounting:

Share of profit of associates In TEUR	2006	2005
Income from associated companies	14	351
Loss from associates	-124	-400
Total	-110	-49

31. Net borrowing costs

Net borrowing costs consist of the following items:

Net borrowing costs In TEUR	2006	2005
Interest and similar expenses	-13,128	-18,422
Interest and similar income	2,616	1,009
Total	-10,512	17,413

32. Income taxes

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

Income taxes In TEUR	2006	2005
Current income taxes	273	-714
Deferred income taxes	-818	-1.413
Total	-545	-2.127

The table below sets out the material items under deferred income tax liabilities:

Deferred income taxes charged/credited to the income statement In TEUR	2006	2005
Difference from remeasured fair value of investment properties	-6,275	-3,005
Recognition and measurement of provisions	-662	-140
Capitalisation of tax losses	7,148	2,327
Other	-1,029	-595
Total	-818	-1,413

Theoretical and current net tax expense is reconciled as follows. Theoretical net tax expense is the product of earnings before tax (EBT net of other taxes) of T€ 5,458 (previous year T€ -33,233) and the theoretical tax rate of 40.14 %.

Current net tax expense In TEUR	2006	2005
Expected net tax expense	-2,190	13,340
Reconciled with tax effects from:		
Non-deductible goodwill amortisation	0	-7,888
Income and expenses from earlier years	457	-549
Subsequent capitalisation or non-capitalisation of tax losses	2,806	-941
Tax-free income and non-deductible expenses	-936	2,361
Netting of equity issue costs	-641	0
Other	393	-9,227
Current net tax expense	-545	-2,127

The theoretical tax rate is calculated as follows:

Theoretical tax rate	2006 in %	2005 in %
Corporate tax	20.30	20.30
Solidarity surcharge	1.14	1.14
Trade tax	18.70	18.70
Total	40.14	40.14

As in the previous year, there were corporate tax assets of T€ 180 and potential for increases in corporate tax of T€ 5,013 as at 31 December 2006.

Deferred income tax assets do not include corporate tax losses of around € 30 million (previous year approx. € 49 million) and trade tax losses of around € 44.3 million (previous year approx. € 21.1 million).

33. Other taxes
Other taxes are mainly comprised of property tax and motor vehicle tax.

34. Earnings per share
This ratio, which must be disclosed in accordance with IAS 33, shows the part of consolidated net income generated in a specific period that is 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” (convertible bonds and stock options). The TAG Group has not concluded any diluting stock purchase agreements. Consequently, the basic and diluted earnings per share are identical.

	2006	2005
Consolidated net profit/loss	€ 2,845,002.13	€ -35,465,870.92
Number of shares outstanding (weighted)	20,003,026	7,622,915
Basic earnings per share	€ 0.14	€ - 4.65

The weighted number of shares outstanding in the year under review was calculated as follows and takes account of the cash equity issues completed in 2006:

	Shares outstanding	Days
Balance at the beginning of the year	10,044,901	81
Cash equity issue (registered on 23 March 2006)	12,556,364	138
Cash equity issue (registered on 8 August 2006)	32,566,364	146
Weighted number of shares	20,003,026	-

Notes on cash flow statement
The cash flow statement was prepared using the indirect method and distinguishes between operating, investing and financing activity. The cash and cash equivalents reported as at the balance sheet date break down as follows:

Cash and cash equivalents In TEUR	12/31/2006	12/31/2005
Cash and cash equivalents	113,070	15,737
Current account Credit balances in liabilities to banks	11,501	7,350
Total	124,571	23,087

Of the cash and cash equivalents shown in the above table, a sum of T€ 50,000 (previous year T€ 0) has been pledged to secure bank loans and overdrafts. Further cash flows included in the cash flow statement contain the following components:

Cash flows In TEUR	2006	2005
Interest paid/received (net)	-10,512	-17,413
Taxes paid/refunded (net)	692	-842
Dividends received	73	72

Notes on segment report

Segment reporting is based on the existing segments within the Group. The segments used are those which management applies to distinguish the individual activities within the Group. The individual segments were reorganised effective 31 December 2006 and are described below. The comparative figures for the previous year have been restated in the light of the new segmentation:

- Residential real estate: Rental of own residential real estate portfolio in German metropolitan regions (portfolio), acquisition of real estate portfolios offering high development potential in established locations in German metropolitan regions; following completion of development activities such as maintenance, modernisation, addition of further storeys, construction extensions and infrastructure improvements sale or long-term retention in portfolio (portfolio development) as well as construction and sale of inexpensive terraced houses, maisonette apartments and owner-occupied apartments (construction).
- Commercial real estate: Development and execution of commercial real estate projects in selected locations in major German cities.
- Services: Broad range of real-estate-related services, particularly project development and management, construction and asset management, the execution of due diligence processes for real estate purchase decisions and controlling activities. In addition, the historical railway infrastructure services are assigned to this segment.

External revenues represent revenues generated by the individual segments through transactions with enterprises outside the Group. Internal group revenues represent revenues generated with other business segments in the Group on arm's length terms.

Segment earnings are reported as earnings before tax, interest and other net financial result (EBIT). For this reason, segment earnings do not include the share of profits of associates. On this basis, the Residential/Portfolio segment sustained a loss of T€ -110 (previous year loss of T€ 49) in the year under review. Depreciation/amortisation attributable to the individual segments is not disclosed in accordance with the principles of materiality. Total depreciation/amortisation in the year under review came to T€ 621 (previous year T€ 806).

Segment assets and liabilities do not include any current or deferred income tax receivables or liabilities.

The "reconciliation" column eliminates income and expenses as well as receivables and liabilities between the individual segments and includes other consolidation items.

Other details

Contingent liabilities and other financial obligations

Contingent liabilities within the TAG Group towards non-consolidated companies comprise guarantee obligations valued at T€ 3,225 (previous year T€ 25,836).

In addition, the following other financial obligations with a remaining maturity of up to five years of the following items are in existence:

Other financial obligations In TEUR	12/31/2006	12/31/2005
Rental guarantees	3,388	4,589
Rentals for business premises	5,024	0
Leases	195	239
Total	8,607	4,828

Part of the other financial obligations of T€ 2,847 (previous year T€ 3,701) has a residual term of less than one year.

Minimum lease payments under operating leases

As at 31 December 2006, there are fixed future claims to minimum lease payments of T€ 9,331 (previous year T€ 9,999) under operating leases entailing commercial real estate.

Material principles of financial risk management and financial instruments

The Group's financial instruments primarily comprise cash and cash equivalents as well as receivables arising from operating business. As the cash and cash equivalents as well as receivables are denominated in euro, there is no exposure to any exchange-rate risks.

The Group is primarily funded by means of bank borrowings used to acquire real estate. Part of the bank borrowings for financing real estate are denominated in Swiss francs, resulting in exposure to exchange-rate risks.

Bau-Verein AG has entered into a bonus interest swap for € 10 million over a period of 10 years with a starting date on 27 December 2004. The company is obliged to pay the retroactively computed 10-year interest rate swap on a quarterly basis, with this rate being reduced by the 3-month Euribor rate, also calculated retroactively, provided that the latter rate falls within a range of between 3.90 % and 2.05 % per annum.

A maximum interest rate of 5.35 % per annum has been hedged for this payment obligation. At the same time, interest corresponding to the 3-month Euribor determined at the beginning of the respective quarterly maturity period is credited to the company on the settlement date. The two amounts are then netted against each other at the end of the respective quarterly maturity period and credited to or debited against Bau-Verein's account.

The following amounts were recognised in the income statement in connection with this bonus interest swap transaction:

Items recorded in the income statement In TEUR	2006	2005
Other operating income	0	57
Other operating expenses	-23	0
Interest income	296	220
Interest expenses	-360	-201
Total	-87	76

Related party disclosures

In its ordinary business activities, TAG maintains direct or indirect relations not only with the subsidiaries included in the consolidated financial statements but also with associates and related parties. Ordinary business activities include all delivery and service relations maintained with the companies and persons mentioned below, which were carried out on arm's length terms.

Services were performed by TAG Asset Management GmbH for the associate REAL Immobilien GmbH, the shares in which were sold in full in 2006, and the latter's subsidiaries in the form of project development and intermediary services. Fees of T€ 219 (previous year T€ 1,115) were received in consideration of the performance of these services in the year under review. In addition, receivables from REAL Immobilien GmbH of T€ 88 recorded as of 31 December 2005 were written off.

In 2004, Bau-Verein AG issued a guarantee towards a bank for T€ 2,970 in favour of GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, in which it holds 50 % of the voting rights and consolidates as an associate. No remuneration has so far been agreed. However the Group charged fees of T€ 24 (previous year T€ 22) plus VAT for facility management and accounting/controlling services performed for this company.

Fees for the provision of construction management, facility management and accounting/controlling services of T€ 6,643 (previous year T€ 44) were charged to the associate GAG Grundstücksverwaltungs-Aktiengesellschaft, in which the Group holds 25 % of the voting rights, in the year under review.

In a purchase contract dated 18 December 2006, Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH acquired a commercial property in Unterschleißheim near Munich from Supervisory Board member Dr. Wolfgang Schnell. The purchase price for this property amounted to T€ 27,017. Under the terms of the transaction, the seller granted rental guarantees to the buyer.

Sozietät Nörr Stiefenhofer Lutz, Rechtsanwälte Wirtschaftsprüfer Steuerberater, in which Prof. Dr. R. Frohne, a member of the Supervisory Board, is a partner, received payments of T€ 410 (previous year T€ 182) for legal counselling.

Mr. Rolf Hauschildt and Dr. Lutz R. Ristow's wife waived loans granted with a total volume of T€ 1,500 effective 30 June 2005. This waiver is subject to a condition precedent and may be revoked on or by 31 December 2007. The original waiver period expiring 31 December 2006 was extended by a further year in 2006.

Various members of the Supervisory Board and the Management Board or persons related to them provided the TAG Group with loans in the year under review subject to interest rates of between 7.5 % and 12 % p.a. The loans, which were valued at a total of T€ 17,884 as at 31 December 2005, were repaid in full in 2006.

Total remuneration received by the Supervisory Board and the Management Board

Dr. Lutz R. Ristow received fixed remuneration - including taxable fringe benefits - of T€ 539 (previous year T€ 377) as well as variable remuneration of T€ 875 (previous year T€ 0).

Mr. Andreas Ibel and Mr. Erhard Flint received fixed remuneration - including taxable fringe benefits - of T€ 282 (previous year T€ 252) each and provisional variable remuneration of T€ 300 (previous year T€ 117) each. The final amount of this variable remuneration is still subject to confirmation by the Supervisory Board. The remuneration for Messrs Ibel and Flint was primarily paid via the subsidiary Bau-Verein AG. Bau-Verein AG invoiced TAG for a total of T€ 256 (previous year T€ 0) for the services of the Management Board members. Part of the remuneration of T€ 30 each was paid directly by TAG.

As in the previous year, the remuneration received by the members of the Supervisory Board amounted to T€ 41.

Independent auditor's fee

The fee for the independent auditor recognised as an expense in fiscal 2006 included fees for the audit of the annual financial statements of T€ 358 (previous year: T€ 352), fees for other certification services, mainly in connection with the equity issues, of T€ 180 (previous year: T€ 88) and fees for other consulting services of T€ 10 (previous year: T€ 14).

Headcount

The Group had a total headcount of 160 as at 31 December 2006 (previous year 140). The annual average stood at 150 (previous year 146).

Supervisory Board

Members of the Supervisory Board and offices held in 2006:

Prof. Dr. Ronald Frohne, New York, Attorney and Public Accountant (Chairman)

Supervisory board offices held pursuant to Section 285 (10) of the German Commercial Code:

- Eckert & Ziegler Medizintechnik AG, Berlin
- Würzburger Versicherungs-AG, Würzburg
- Medienboard Berlin-Brandenburg GmbH, Potsdam
- TELLUX-Beteiligungsgesellschaft mbH, Munich
- Scholz & Friends AG, Berlin
- Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee (until 31 August 2006)
- JUS Aktiengesellschaft für Grundbesitz, Berlin (until 28 December 2006)

Offices held in comparable German and international executive bodies:

- AGICOA, Geneva
- CAB, Copenhagen
- Engefield Capital LLP, London

Rolf Hauschildt, Düsseldorf, Banking Officer (Deputy Chairman)
Supervisory board offices held pursuant to Section 285 (10) of the German Commercial Code:
- Germania Epe AG, Gronau-Epe
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg
- ProAktiva Vermögensverwaltung, Hamburg
- JUS Aktiengesellschaft für Grundbesitz, Berlin (until 28 December 2006)
- Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee (until 31 August 2006)
- Allerthal Werke AG, Grasleben
- Solventis AG, Frankfurt/Main
- Scherzer & Co. AG, Cologne

Dr. Wolfgang Schnell, Chemical Engineer, Munich
Supervisory board offices held pursuant to Section 285 (10) of the German Commercial Code:
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg

Management Board

Members of the Management Board and offices held in 2006:

Dr. Lutz R. Ristow, Hamburg, Business Management Graduate
(Chairman until 31 December 2006; thereafter Chairman of the Supervisory Board)
Supervisory board offices held pursuant to Section 285 (10) of the German Commercial Code:
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg
- JUS Aktiengesellschaft für Grundbesitz, Berlin (until 28 December 2006)
- Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee (until 31 August 2006)

Offices held in comparable German and international executive bodies:
- Real Immobilien GmbH, Leipzig (until 17 August 2006)
- EPRA European Public Real Estate Association, Amsterdam

Andreas Ibel, Hamburg, Attorney
Supervisory board offices held pursuant to Section 285 (10) of the German Commercial Code:
- GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg (Chairman)
- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Tegernsee (Chairman, since 10 May 2006)

Erhard Flint, Hamburg, Engineer
Supervisory board offices held pursuant to Section 285 (10) of the German Commercial Code:
- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Tegernsee (since 10 May 2006)

Notification of share transactions in accordance with Section 21 of the German Securities Trading Act

The Company received the following notifications in accordance with Section 21 of the German Securities Trading Act in 2006:

- In accordance with Section 21 of the German Securities Trading Act, Cantor Fitzgerald Europe, London, Great Britain informed us that it had dropped below the thresholds of 10 % and 5 % and that it held no shares as of 18 January 2006. TAG was additionally notified effective 10 March 2006 that the threshold of 5 % had been exceeded and that Cantor Fitzgerald Europe held a share of 6.78 %. Following the equity issue, this is equivalent to a share of 5.40 % after registration on 23 March 2006. Canton Fitzgerald Europe additionally notified TAG that it had dropped below the threshold of 5 % again and held a share of 2.05 % after registration of the equity issue as of 8 August 2006.

- Cliquot Investment Ltd., Tortola, Great Britain, and Rowland Family Trust 2001, Guernsey, Great Britain, notified TAG on 3 April 2006 that the threshold of 5 % had been exceeded and that a share of 9.73 % was held. On 5 April 2006 Cliquot Investment Ltd. and Rowland Family Trust 2001 stated that the threshold of 5 % had been dropped below and that a share of 2.17 % was now held.

- Southerland Ltd., Aviva Holding Ltd. and Aviva Settlement Trust, New Providence, Bahamas, notified TAG effective 24 April 2006 that the threshold of 5 % had been exceeded and that a share of 7.75 % was now held. In a further notification dated 8 August 2006, Southerland Ltd., Aviva Holding Ltd. and Aviva Settlement Trust stated that the threshold of 5 % had been dropped below again and that a share of 2.92 % was now held.

- TAG was additionally informed that Amora Investments Limited, Elsina Limited, Investec Trust Limited, Guernsey, Channel Islands, and Kaupthing Bank, Luxembourg S.A, had exceeded the thresholds of 5 % and 10 % on 20 January 2006 and held a share of 10.88 %. In a notification date 8 March 2006, Amora Investments Limited, Elsina Limited, Investec Trust Limited and Kaupthing Bank stated that the share had been reduced to 0 %.

- In a notification dated 8 August 2006, Augendum Vermögensverwaltung GmbH, Hannover stated that its share in TAG had dropped below the threshold of 5 % following the equity issue and now stood at 1.98 %.

- Die Taube, Hodson, Stonex Partners Ltd. and St. James's Place Greater European Progressive Unit Trust, London, notified TAG that their share had exceeded the thresholds of 5 % and 10 % and stood at 11.25 % as of 8 August 2006.

- Finally, Lansdowne Partners Limited, London, reported that the threshold of 5 % had been exceeded and that a share of 5.05 % was held as of 22 November 2006.

Declaration of conformity with The German Governance Code – pursuant to Section 161 of the German Stock Corporation Act.
The joint declaration of the Management and Supervisory Board concerning the recommendations of the Government Commission on the German Corporate Governance Code required pursuant to Section 161 of the German Stock Corporation Act has been prepared and made available to shareholders on the TAG website. TAG's listed subsidiary, Bau-Verein AG, has also drawn up the declaration required pursuant to Section 161 of the German Stock Corporation Act and made it available on its website.

Material events after the balance sheet date
There were no events occurring after the balance sheet date materially affecting the Group's net assets, financial condition and results of operations.

Tegernsee, 31 March 2007

Andreas Ibel — Erhard Flint

Auditor's Report

We have audited the consolidated financial statements prepared by TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft, Tegernsee, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the consolidated financial statements and the management report for the financial year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, the additional accounting provisions in accordance with Section 315a (1) of the German Commercial Code and the supplementary provisions of the Company's articles of incorporation is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements pursuant to Section 317 of the German Commercial Code in accordance with the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) in the light of the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable accounting principles and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit includes an assessment of the financial statements of the companies included in the Group, the definition of the consolidation group, the accounting and consolidation principles applied and the significant estimates made by management as well as an appraisal of the overall situation presented by the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for the opinion expressed above.

Our audit has not led to any reservations.

In our opinion based on the results of our audit, the consolidated financial statements comply with IFRS as adopted in the European Union, the supplementary provisions of German commercial law in accordance with Section 315a (1) of the German Commercial Code and the supplementary provisions in the Company's articles of incorporation and in the light of these provisions give a true and fair view of the net assets, financial position and results of operations of the Group. The Group management report is consistent with the consolidated financial statements and on the whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks to future development.

Hamburg, April 2007

Nörenberg · Schröder GmbH
Wirtschaftsprüfungsgesellschaft

Schröder German Public Auditor	Thiel German Public Auditor

Steckelhörn

Contact

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