2011

Growing Assets

Annual Report

TAG Immobilien AG

Group Financials (IFRS)

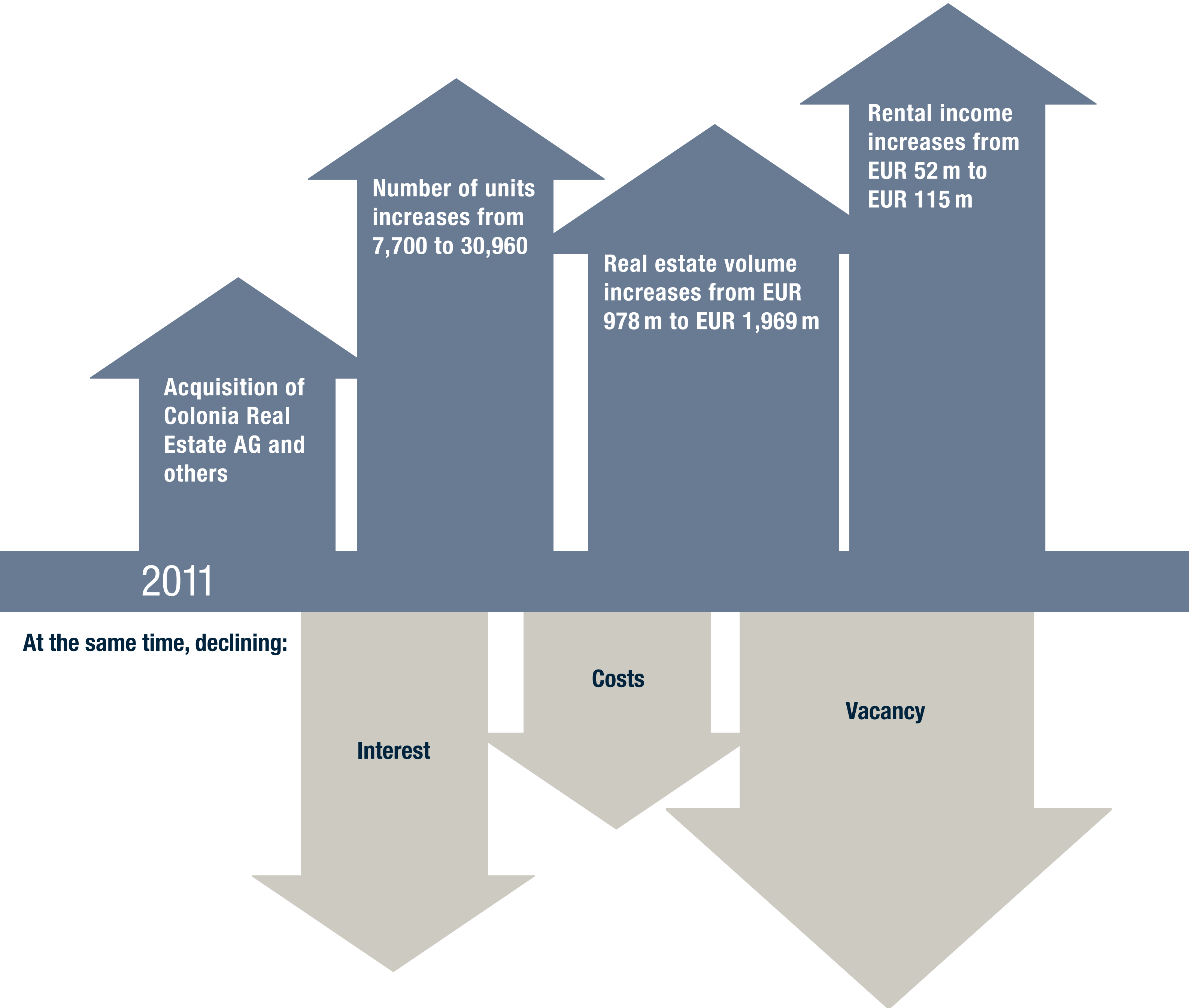
in TEUR	2011	(adjusted) 2010	(adjusted) 2009
A. Income statement key figures			
Revenues	178,303	82,941	120,848
a) Property sales	54,468	29,464	72,830
b) Rental income	115,377	51,802	46,218
c) Property management and other services	8,458	1,675	1,800
EBIT	144,606	46,865	-1,293
EBT	83,273	22,208	-24,732
Consolidated net profit/loss	66,882	18,501	-29,166
Earnings per share in EUR	1.05	0.48	-0.90
B. Balance sheet key figures			
Total assets	2,047,683	1,190,507	801,421
Equity before minorities	547,392	356,461	196,398
Equity ratio in %	27	30	25
Bank loans	1,189,393	634,002	517,243
of which current	172,568	110,490	116,304
Real estate volume	1,968,605	978,007	770,096
EPRA NAV per share in EUR	8.72	6.67	6.58
C. Employees			
Number of employees	281	168	119

Further figures	
Market capitalisation in TEUR on 31 December 2011	461,416
Subscribed capital in EUR	74,905,174.00
WKN/ISIN	830350/DE0008303504
Number of shares	74,905,174
Free Float in %	96
Stock exchange	SDAX/EPRA

Table of Contents

Highlights 2011

Growth strategy successfully



realised

Acquisition of DKB Immobilien AG in March 2012

Share capital increases from EUR 54 m in 2010 to EUR 75 m in 2011 to currently EUR 96 m

Effectiveness, efficiency and sustainability are within reach at this magnitude – we are among Germany's leading housing companies

Dividend payment of 20 Cents per share for 2011

Share price rises (EUR 6.16 – 12/2011, EUR 6.99 – 03/2012)

2012




Rolf Elgeti

Hans-Ulrich Sutter

Dr. Harboe Vaagt

Preface by the Management Board

Dear Shareholders, Ladies and Gentlemen,

TAG continued its positive development in 2011.

In February we successfully completed the acquisition of Colonia Real Estate AG ('Colonia' in the following) and very quickly integrated it into TAG Immobilien AG ('TAG' in the following). The major central units were integrated into TAG within a few weeks. Contracts with various external service providers to Colonia were gradually wound up over the course of the year, so that TAG was able to take over these functions itself. This led to significant cost savings while simultaneously improving the service to tenants. Falling vacancy and costs and rising rents in the Colonia portfolio are hallmarks of this very successful and lucrative acquisition for TAG shareholders.

As mentioned in our prior reports, the expansion of our residential housing inventory is a high priority, as our costs and the costs of a property portfolio owner in general are mainly of a fixed and semi-variable nature, resulting in a significant drop in costs when the portfolio grows. This positive development is confirmed by the figures in this Annual Report. In Q3 and Q4 of the year under review, TAG was able to generate positive FFO (funds from operations) for the first time – of EUR 2.5 million and EUR 5.0 million respectively – which makes the target of EUR 27 million that we set ourselves for 2012 appear within reach.

We'd like to take these strong operating results as an opportunity, after a longish break, to once again propose the payment of a dividend to you at the Annual General Meeting in 2012. We feel a payout of 20 cents per share is appropriate.

The improvement of the operating business is based not only on the aforementioned economies of scale, but also on other factors and achievements in our business development. For example, average interest charges for our mortgage loans fell from 4.5 percent at the beginning of the year to 3.9 percent at year-end. We were also able to reduce vacancy again: in TAG's existing portfolio it fell from 5.9 percent to 3.9 percent, and in Colonia's from 16.0 percent in March 2011 to 15.8 percent at year-end, and is now at 11.6 percent overall in the residential sector. Many measures to reduce vacancy have only just begun to be implemented, especially at some Colonia locations, so that the vacancy rate is currently distorted by ongoing construction activities. Without this, our vacancy would already be 14.4 percent for Colonia and 10.2 percent for TAG. We are very optimistic about being able to report further success in vacancy reduction to you for 2012.

Seizing opportunities –
Shaping the future.

Based on this comfortable position, we decided to take a further expansionary step and submitted a bid to acquire DKB Immobilien AG from Deutsche Kreditbank AG. On 26 March 2012, TAG's bid was accepted, so on 27 March we were able to sign the contracts to take over DKB Immobilien AG and its shares. Following this, our largest acquisition to date, TAG has arrived in a new qualitative dimension. The size and regional concentration we have attained should enable us to achieve the levels of effectiveness and efficiency seen at leading German real estate companies. This will enable us to achieve a cash flow profitability in our portfolio that allows us to operate sustainably and still pay our shareholders a suitable dividend. At that point, a continuously growing portfolio will continue to be positive for our company, but the additional expansion of the housing stock will no longer be as imperative as it was in previous years.

In this emerging residential real-estate cycle, there have been three major transactions to date. In two transactions TAG has been the buyer and has successfully completed the purchases. This involved a lot of extra work for our staff. And you, our shareholders, also facilitated this development – with your confidence in us and your support for the respective capital market measures. We believe that this commitment and courage has paid off and that we will soon be able to look back on the last two years and be glad to have invested at the right time – before the cycle leads to another rise in prices.

Our company does business in an environment of rising rents, falling vacancy, falling costs and falling interest rates, so it is likely that 2012 will be another record year in TAG's history, which should open up possibilities for increasing the dividend. In November 2011 we published a detailed forecast for fiscal 2012, and announced pre-tax earnings (EBT) of EUR 75 million. We also forecast an operating profit of EUR 35 million, FFO of approximately EUR 27 million and NAV (net asset value) per share of EUR 9.75. The acquisition of DKB Immobilien AG is not included in these figures for 2012, so we will revise and possibly adjust the forecast during the course of the year.

We hope that the figures and measures outlined above, as well as the details provided in the following, will show you that we are on track to create further value for you. Thank you for your confidence in us during these unusual and exciting times.

Yours sincerely,

Rolf Elgeti
CEO

Hans-Ulrich Sutter
CFO

Dr. Harboe Vaagt
Board member

Focus on active portfolio and asset management.

Business activity

TAG is an integrated, broadly set-up real-estate group that does business in the residential and commercial property rental sector in Germany. As a publicly listed company, it pursues a long-view growth strategy. Its operating business revolves around the acquisition, management and development of residential real estate and the ongoing optimisation of its real-estate portfolio. As a property holder, TAG leverages potential for increasing value within its portfolio through active asset management and strategic acquisitions. As well as its residential real estate holdings, TAG owns a diverse inventory of commercial real estate. The geographical focus of its real estate portfolio lies in the regions of Berlin, Hamburg, Lower Saxony, Munich, Rhine/Ruhr and Leipzig. As part of its growth strategy, TAG is expanding its portfolio through acquisitions. It buys up residential holdings in selected locations where TAG already has investments, and which accordingly promise good yield and potential for value increases. In addition, TAG offers real-estate services related to residential and commercial property management and development.

At the end of 2011, the Group's real estate volume amounted to EUR 1.969 million. The TAG Group operates branches in Hamburg, Berlin, Leipzig, Dusseldorf and Munich and has 281 employees in all (as of 31 December 2011). As a public company, TAG has been listed on the SDAX since December 2006. Its market capitalisation was EUR 461 million at year-end 2011.

Group strategy

TAG's aim is to increase the company's value by expanding and increasing the value of its residential real estate portfolio, so that it constitutes a good investment based on the profitability of the holdings and their development. The focus lies on metropolitan areas in Germany that should continue to profit from demographic developments and growth markets.

TAG takes the following measures to put its strategic goals into practice:

- Increase the company's value through acquisitions
- Focus on the residential real estate business and real estate services
- Leverage economies of scale by systematically expanding the residential real estate portfolio
- Increase the cash flow from operations by leveraging potential for rent increases and optimising costs
- Exploit potential for increasing value by taking targeted measures to develop the portfolio
- Active portfolio management

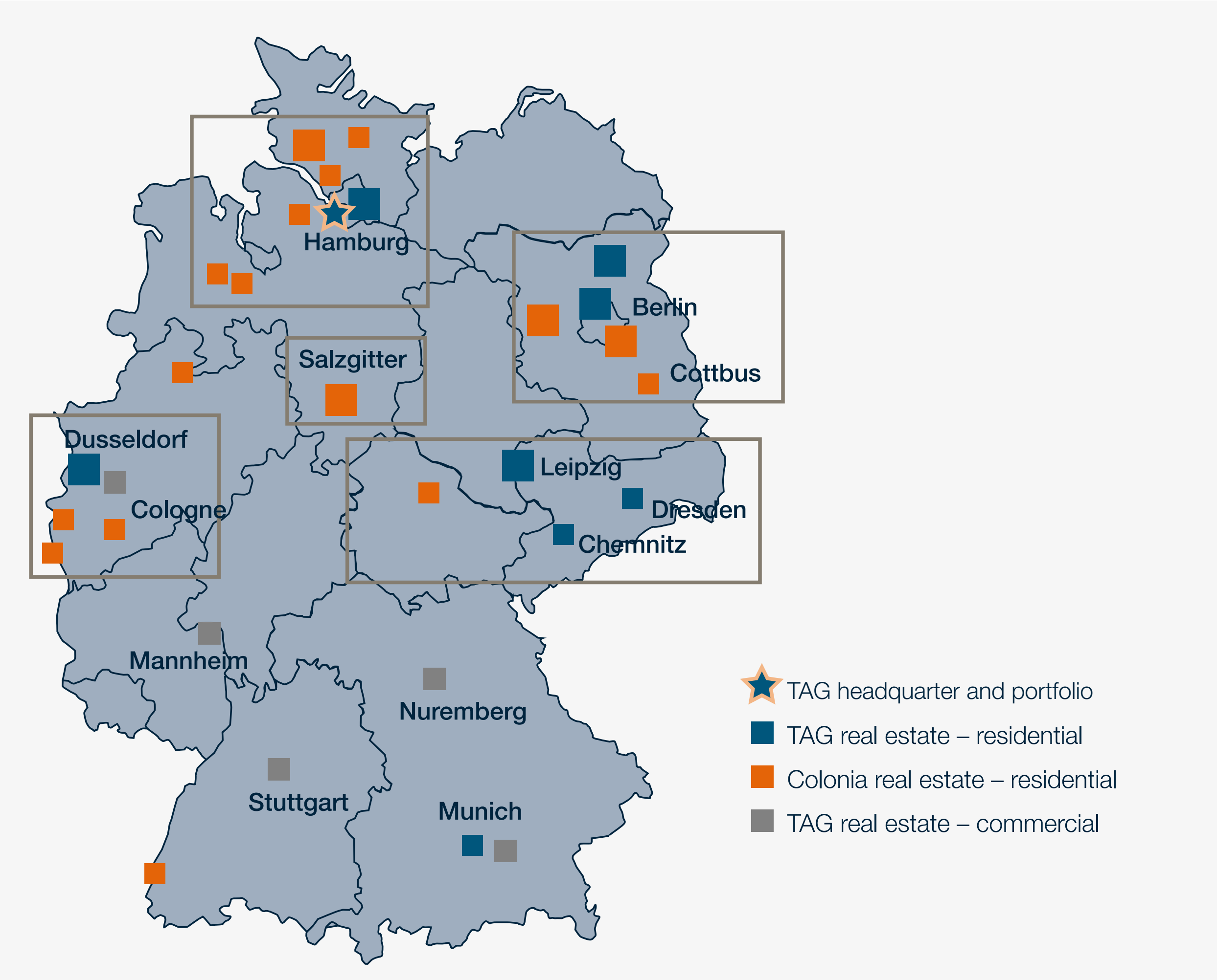
The basis for increasing the company's value long-term are: a high-quality, high-yield, actively managed real-estate portfolio; secure payment flows; secure third-party financing of the portfolio; and not least transparent, clear Corporate Governance. At the same time, we want financial investors to regard the TAG share as an attractive, safe asset class that is fungible at all times, and to develop it for the benefit of shareholders.

As ever, the strategy centres on residential properties in selected locales. They should have attractive locations with growth potential and positive long-term prospects, and should be able to be managed by the Group's existing branches without significant added expense. The portfolio is also to be culled for strategically secondary properties, so as to realise profits once the value creation is complete, or when a favourable opportunity arises. The successful realisation of the Group's strategy is based on the management and staff's long years of expertise and in-depth knowledge of the market.


Geraer Ring, Berlin

Our portfolio

Most of TAG Immobilien AG's properties are located in good, growing urban locations across Germany. Diversifying the portfolio secures stable rental income from residential real estate on the one hand, and higher cash flows from commercial properties on the other. The following pages contain an overview of the key indicators of the Group's full portfolio.



Vacancy reduction – Successful vacancy reduction leads to long-term increase in the value of the portfolio

Vacancy reduction is part of active asset and property management, a focus of TAG's business activities. In this area the following had been achieved by year-end 2011:

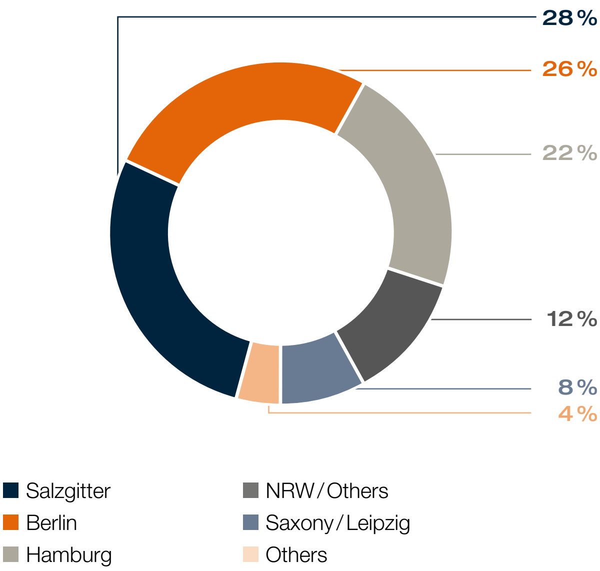
Vacancy across the Group (residential and commercial) was 11.1 percent at year-end 2011. This rate is the result of the Colonia takeover and in particular the vacancy that still exists in the Salzgitter portfolio. Here, the initial vacancy at takeover during Q1/2011 was 24.4 percent. We managed to reduce it to 23.6 percent by the end of the year. The increase in vacancy across the Group can also be attributed to a change in the commercial portfolio. In June, the vacancy rate increased from 3.8 percent to 8.2 percent at year-end 2011, as a rental contract for a property in northern Germany expired and a new rental contract could not be signed in a timely fashion.

The situation in the residential real estate portfolio is positive; vacancy across the Group dropped from 13.3 percent following the takeover of the Colonia portfolio to 11.6 percent at year-end 2011.

Vacancy at Colonia was reduced from 16.0 percent to 15.8 percent. Vacancy for the full year improved considerably in TAG's residential portfolio (without Colonia). Here, vacancy was reduced from 6.4 percent at year-end 2010 to 5.1 percent at year-end 2011. It is worth noting that vacancy in TAG's old "existing inventory" portfolio – i.e. its residential real estate portfolio without acquisitions – was reduced by 2 full percentage points to 3.9 percent (2010: 5.9 percent). At the same time, rents from TAG's old inventory increased by 2.6 percent on a like-for-like basis in 2011, thanks to active rental and asset management.

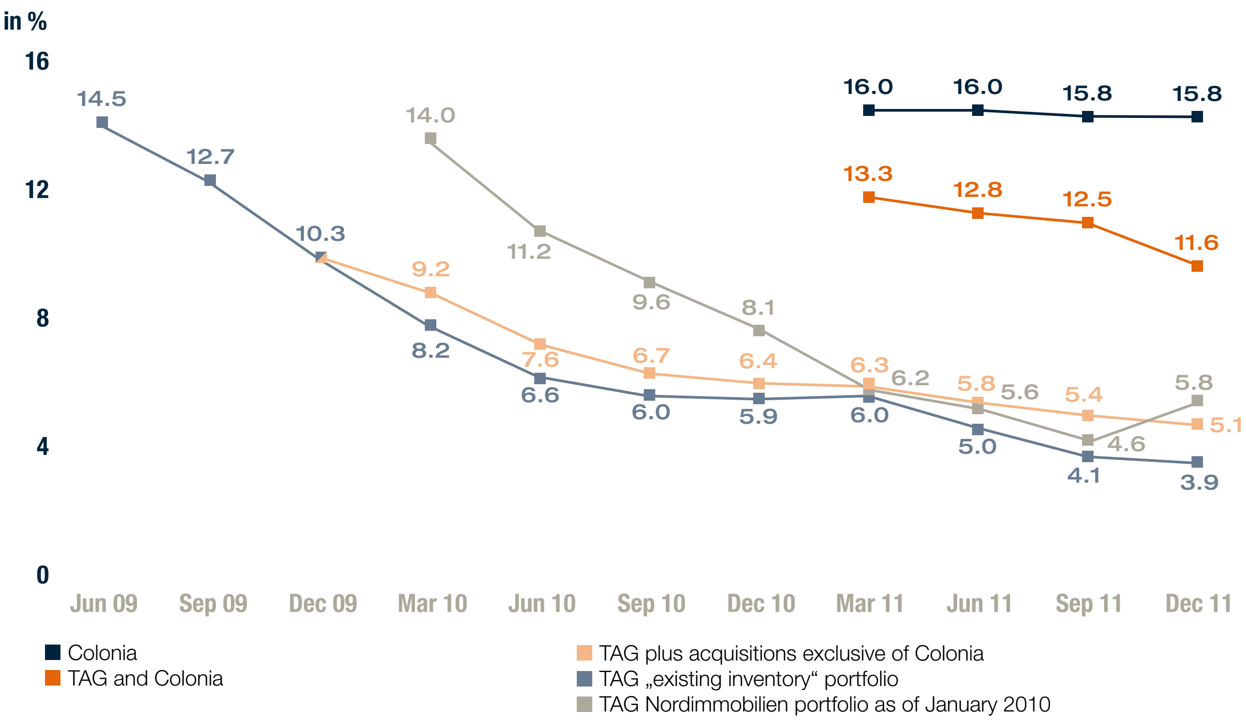
In 2011, TAG demonstrated once more that its expertise lies in vacancy reduction and active asset and property management. The resulting reduction in vacancy and associated costs, as well as the additional rental income, help to increase the value of the portfolio long term.

Real estate portfolio by region*



* as of: 12/31/2011 by book value

Vacancy rate reduction – Residential



* Including vacancy due to construction measures

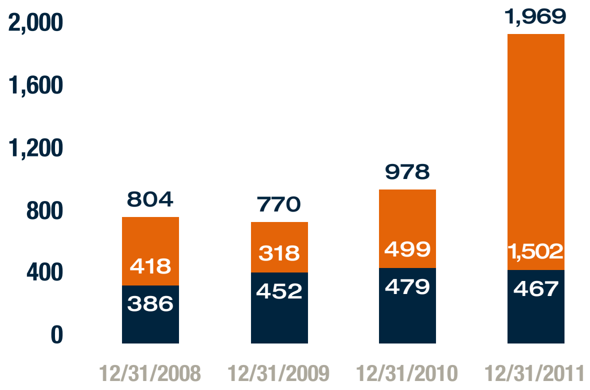
Portfolio – Residential

Increasing the portfolio value through attractive acquisitions

TAG seizes opportunities in the German real estate market and relies on external growth as well – provided the properties match our company's structure and strategy. One important criterion for acquisition is location. The properties must be in good locations with growth potential in German metropolitan regions, and mainly where parts of the TAG portfolio are already located, such as in Hamburg, Berlin, Leipzig and North Rhine-Westphalia. A positive impact on income and Net Asset Value is another condition for acquisition. The acquisitions were largely financed with capital measures, which in turn can only be successfully placed if the upcoming transactions are communicated clearly. This kind of Corporate Governance ensures investors' trust in the TAG share and in the shareholder value generated.

Real estate volume

Volume in EUR m



■ Portfolio of commercial real estate including undeveloped properties
■ Portfolio of residential real estate including undeveloped properties

Overall portfolio

Portfolio	Numbers of buildings	Units	Floor area sqm	Vacancy sqm	Vacancy %	Annualised net actual rental TEUR	Net actual EUR/sqm	Target rent TEUR p.a.	Book value TEUR	Maintenance costs EUR/sqm p.a.	Management costs EUR/sqm p.a	Return on target rent p.a. at IFRS book value %
Commercial portfolio												
2011	30	30	348,403	28,463	8.2	28,847	7.51	30,636	467,066	8.58	6.17	6.6
2010	32	32	335,688	12,625	3.8	25,974	6.70	27,012	404,973	7.26	5.07	6.7
Residential portfolio												
2011	1,075	30,697	1,898,890	220,624	11.6	101,488	5.04	113,121	1,449,428	10.41	9.15	7.8
2010	293	7,512	465,663	30,038	6.5	29,182	5.58	31,175	460,371	11.54	7.86	6.8
Subtotal portfolio												
2011	**1,105**	**30,697**	**2,247,293**	**249,087**	**11.1**	**130,335**	**5.44**	**143,757**	**1,916,494**	**10.10**	**8.64**	**7.5**
2010	325	7,512	801,351	42,663	5.3	55,157	6.05	58,187	865,344	9.71	6.66	6.7
Others*												
2011	18	261	21,157			3,665		3,623	52,859			
2010	16	199	44,852			5,781		6,883	113,294			
Overall portfolio												
2011	**1,123**	**30,958**	**2,268,450**			**134,000**		**147,380**	**1,969,353**			
2010	341	7,711	846,203			60,938		65,070	978,638			

* New construction projects, (undeveloped) properties and serviced apartments.

Acquisitions focus on residential real estate

In accordance with its expansionist strategy, in addition to the Colonia Real Estate AG takeover, TAG acquired another five portfolios totalling 5,000 residential units – mainly in Berlin – during 2011. TAG acquired two portfolios in Berlin in 2011. In late April, it purchased a residential real estate complex in Berlin-Marzahn with 612 units and total floor space of 43,600 sqm. The expected initial yield is over 9 percent. The acquisition was funded with the proceeds from a capital increase against cash. In July, this was followed by the acquisition of another portfolio in Berlin-Hellersdorf, where TAG purchased a self-contained residential complex with 454 residential and 8 commercial units. Built in the early 1990s, the complex contains 26,900 sqm of rental space and is 96 percent occupied.

Since the two Berlin acquisitions are located in the north-eastern part of the capital in the Marzahn and Hellersdorf districts, immediately adjacent to the Colonia properties acquired earlier, the new properties can be quickly and cost-effectively integrated in TAG's portfolio and property and asset management by the Berlin office. And although they greatly expand the portfolio, they cause no appreciable additional administrative costs. Together with the 2,500 residential units from Colonia and the two new acquisitions, TAG owned a total of 8,255 units in Berlin at year-end 2011.

TAG further expanded its portfolio, especially in northern Germany and Saxony, with another acquisition of 3,083 residential and 71 commercial units with total floor space of 208,393 sqm in late July. Roughly three quarters of the properties (by area) are located in various northern German cities, with the emphases in the greater Hamburg region, Wolfsburg and Cuxhaven, and the remaining quarter in Saxony – in and around Dresden and Leipzig. These properties can be very inexpensively managed by the TAG Group's Hamburg and Leipzig offices. The average actual rent of the newly acquired portfolio is EUR 5.49 per sqm and the vacancy rate is 6.0 percent. The purchase price was around EUR 150 million and was partly financed by a capital increase against contribution in kind of approx. 5.5 million new shares at EUR 8 per share.

Two smaller portfolios in Dresden and Chemnitz with 156 and 429 residential units respectively round out TAG's acquisitions in 2011, bringing the Group's residential real estate portfolio to 30,697 units on 1,898,890 sqm at year-end 2011.

Portfolio Residential*

Region	Units	Floor area sqm	Vacancy sqm	Vacancy %	Annualised net actual rental TEUR	Net actual EUR/sqm	Target rent TEUR p.a.	Book value TEUR	Maintenance costs EUR/sqm p.a.	Management costs EUR/sqm p.a	Return on target rent p.a. at IFRS book value %
Overall portfolio	**30,697**	**1,898,890**	**220,624**	**11.6**	**101,488**	**5.04**	**113,121**	**1,449,428**	**10.41**	**9.15**	**7.8**
Hamburg	6,326	389,637	35,866	9.2	21,828	5.14	23,554	312,225	10.84	8.96	7.5
Berlin	8,255	495,905	25,893	5.2	27,118	4.81	28,238	399,553	9.39	5.11	7.1
Leipzig/Dresden	2,497	158,394	15,831	10.0	7,647	4.47	8,321	108,904	12.86	5.17	7.6
Munich	133	9,183	999	10.9	909	9.25	986	20,377	26.59	9.96	4.8
NRW	3,158	202,279	13,386	6.6	12,173	5.37	13,228	179,041	7.78	6.83	7.39
Salzgitter/Wolfsburg/Magdeburg	9,603	586,277	127,364	21.7	27,983	5.08	34,879	375,030	10.37	13.22	9.3
Others	725	57,214	1,284	2.2	3,830	5.71	3,915	54,298	7.35	10.46	7.2

* as of 31/12/2011 by book value

The greater Berlin region is a focus of the portfolio, with 10,000 residential units

TAG further expands portfolio in Greater Berlin in early 2012

Alongside Berlin as a city and property location, the commuter belt in a radius of 50km is at least as interesting and attractive as the city itself. There are plenty of links to the capital. Many people work there and appreciate all the benefits of the city, but still live in the tranquil countryside around the city – and like it! So the greater Berlin region fits into TAG's acquisition strategy, and this is reflected in the acquisition of a contiguous residential complex in early January 2012 with more than 1,050 units and total rental space of 59,911 sqm in Eberswalde. The portfolio, located north of Berlin, consists of buildings that were built in the 1970s and 80s and extensively renovated and upgraded to modern energy and living standards between 1999 and 2001. The net rent of the newly acquired property is EUR 2.9 million per annum and the purchase price is approximately EUR 30 million. The actual rent is at just EUR 4.04 per sqm, so there is clear room for increasing it. Vacancy is around 7 percent. The property management can be handled by the TAG Group's Berlin branch, and therefore in a cost-effective way.

With this acquisition, TAG further expanded its portfolio in Berlin to nearly 10,000 residential units in early 2012.

The integration of Colonia Real Estate AG into the TAG Group

Following the acquisition of Colonia in mid-February 2011, an extensive restructuring program was initiated in the first quarter. Structures were streamlined and processes optimised, with a focus on the core business. The initial success of this restructuring process for Colonia was shown at the end of the second quarter through the merger of the administrative departments and central tasks. These measures have already led to administrative savings to the tune of EUR 11 million. In addition, since the 2nd half of 2011 the Colonia portfolio has largely been managed in-house, and several outsourcing contracts have been terminated. For example, the external property management contract for Colonia's largest single portfolio in Salzgitter was terminated on 1 July 2011. TAG expects millions of euros in savings from this strategic 'insourcing' of property management, among other things due to the increase in operating profitability, the realisation of synergies, and the reduction of vacancy costs.

Also in the second quarter, the two asset management companies Colonia Real Estate Solutions GmbH and LARUS Asset Management GmbH were merged under the Colonia umbrella. The newly created asset and property management company operates under the name POLARES Real Estate Asset Management GmbH (POLARES REAM) and is a major asset and property management service provider in Germany's commercial real estate sector. POLARES REAM handles all property-related services. In addition to office buildings, the company also manages retail and logistics properties.

These results, which TAG was able to achieve in just a few months as part of the process of restructuring Colonia and integrating it into the TAG Group, show that the various process steps can be implemented much faster and easier than expected. TAG is expecting total savings from synergy effects of EUR 30-35 million.

Other operations-side activities and measures to concentrate services on Group companies, and especially to reduce vacancy, were simultaneously initiated in the second quarter – however, the resulting positive synergy effects and measurable results are not expected until the end of 2012.

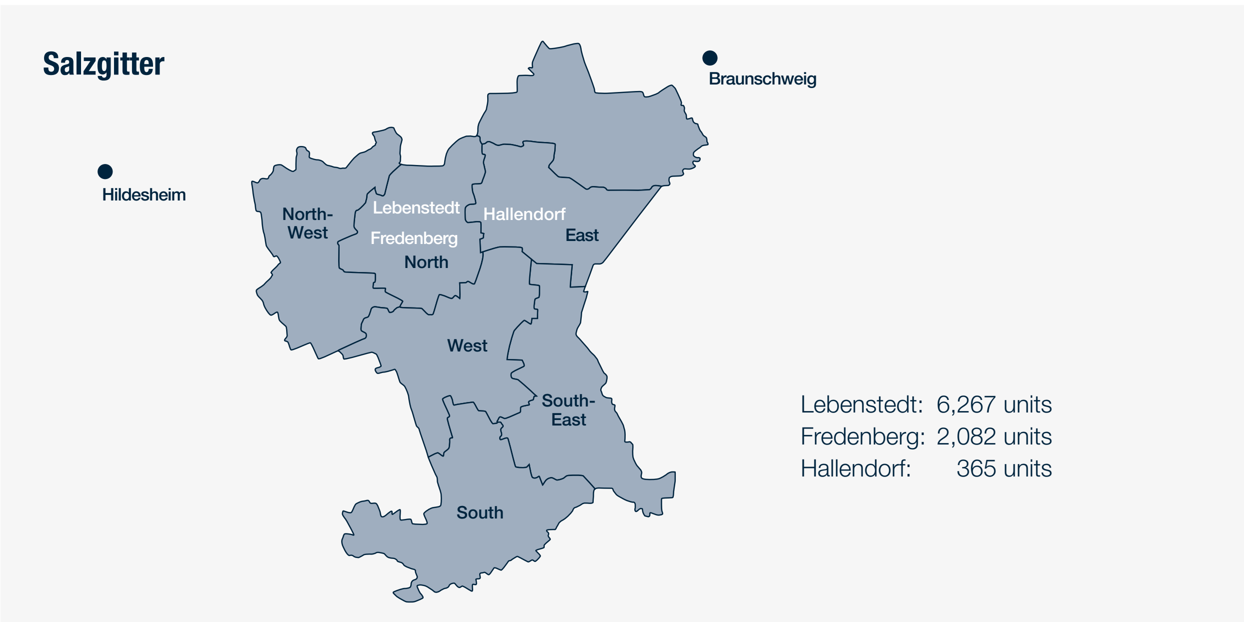
Salzgitter, TAG's 'profit pearl'

The Salzgitter portfolio – The 'pearl' of the Group and at the same time its biggest challenge.

On the operations side the Salzgitter portfolio, with over 8,700 residential units and a vacancy rate of over 24 percent at the time of the Colonia acquisition, faced the biggest changes. The units are located in northern Salzgitter in the districts of Lebenstedt, Fredenberg and Hallendorf. Besides the 'insourcing' of property management from 1 July 2011, which not only contributes to a reduction in administrative costs, but also to a significant reduction in maintenance costs over the next few years, rental and asset management have also been pushed forward.

The improved cost structure within the Salzgitter portfolio also benefits the cash flow, which in the third quarter of 2011 was positive for the first time ever despite renovation expenses for 350 residential units. Another 220 units were prepared for rental in the fourth quarter. The cost amounts to only about EUR 3,000 per unit. Maintenance costs will be relatively low as a result, and are expected to total EUR 2.5 million in 2012 (maintenance costs in 2010 amounted to EUR 3.5 million). This is possible because the renovation of the empty apartments were tendered nationwide on the one hand, and on the other the various measures were not contracted individually for each apartment, but were cost-effectively pooled for hundreds of apartments with similar renovation needs.

Initial successes in vacancy reduction have been evident since the second quarter in positive rental figures significantly above those of the apartments whose contracts had been terminated. In the fourth quarter, net absorption amounts to about 30 residential units per month. At the same time rent per square metre for new leases was increased by over 50 cents from EUR 4.41. Because of the aforementioned measures in rental and asset management, vacancy in the Salzgitter portfolio fell from 24.4 percent to 23,6 percent from the end of March to December. Future vacancy reduction will proceed at a pace similar to that seen in 2011 and will likely amount to one percentage point per quarter. The aim is to reduce the vacancy rate to within the single-digit range over the next three years.



Portfolio – Commercial

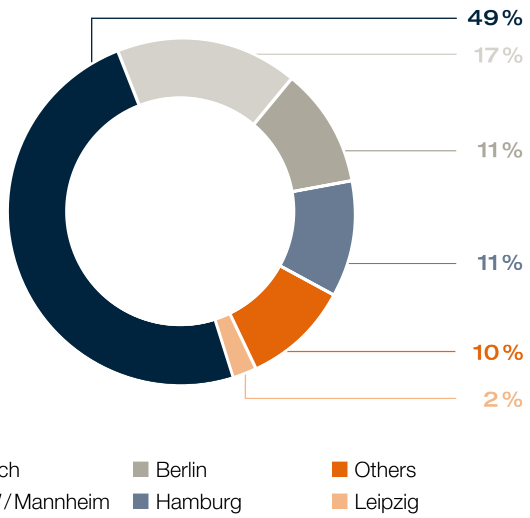
Office properties in attractive urban locations in Germany

In the commercial sector, TAG focuses on long-term-lease office properties in sought-after business locations in German metropolitan centres such as Hamburg, Munich, Mannheim, and North Rhine-Westphalia. In addition to attractive locations, the portfolio is characterised by good quality, positive returns, and above all stable cash flows based on long-term leases. The portfolio is continuously optimised through active asset management.

Changes within the commercial real estate portfolio – particularly in Munich

The past year saw changes especially in the commercial properties in Munich. The property in Kustermannpark is a prime example of the successful transformation of a 'single-tenant property' from the Siemens portfolio. While Siemens AG was previously TAG's sole rental partner, they themselves had sublet the premises under the original fixed term to various companies.

Real estate portfolio by region*



* as of 31/12/2011 by book value

At the beginning of 2011, Siemens AG was released early from its contractual obligations, in order to take advantage of the current positive market phase and reposition the property. TAG signed direct leases with the existing tenants in Kustermannpark on better terms. The vacant areas sublet by Siemens AG were also renegotiated. The new and improved rental terms led to a revaluation gain of the property by EUR 6 million.

Also in the first half of the year, TAG completed all preparations to put the property in Tübinger Strasse in Munich to a new use and to realise the value improvement potential as part of a development project. In this context, the existing building rights (approx. 20,000 sqm gross floor area) were increased by over 100 percent to 41,000 sqm of approved new building area. In October 2011 TAG sold the property for a total of EUR 31 million to a project developer from Munich and another vendor. The proceeds based on the IFRS book values will lead to a profit of EUR 8 million in the fourth quarter.

Preparations are also underway to convert a third property in Hofmannstrasse, Munich for a new usage. Here, too, the development plan is to build a residential complex, significantly expand the existing building rights, and then sell the building.

Even after these changes Siemens AG is still one of the top five tenants in the commercial sector and contributes a 33 percent share of overall revenues generated by the commercial real estate portfolio.

Hofmannstraße, Munich

TAG achieved rental income of EUR 28.8 million (annualised actual rent) with its commercial portfolio, accounting for 21 percent of total rental income and nearly 30 percent of the Group's rental profits. Vacancy in the commercial real estate portfolio at the end of 2011 was 8.2 percent after 3.8 percent at year-end 2010. In the second half of the year a commercial property lease in northern Germany could not be renegotiated in a timely manner. At 17,500 sqm the property in question is very large, and its vacancy significantly affects the vacancy rate because we use area as the basis for calculating vacancy. However, the annualised actual rent and the associated loss of rent is small.

The intrinsic value of the commercial real estate portfolio is characterised by growth potential, among other things in the good urban locations in German cities.

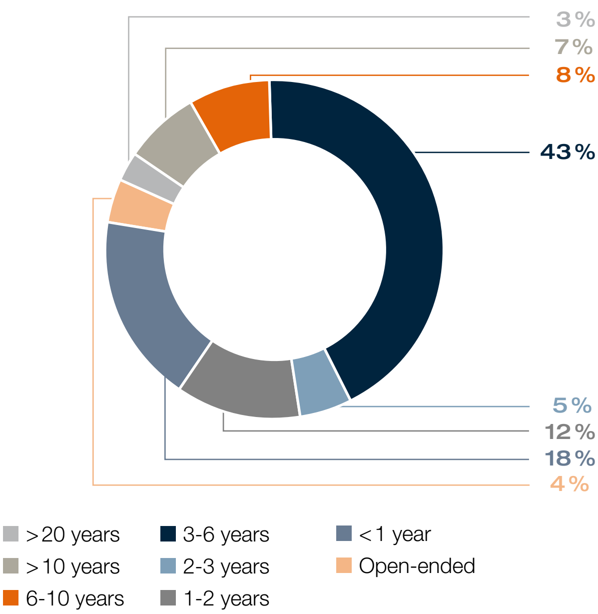
No further acquisitions are currently planned in the commercial property sector; active asset and property management are the focus of business activities here. And the gradual sale of individual properties will continue without any rush.

High-yield properties with varying lease terms and creditworthy tenants

The TAG Group commercial real estate portfolio comprises high-yield properties with varying lease terms and creditworthy tenants. Its top five tenants in the commercial sector include Siemens AG, followed by EPCOS AG, Schenker Deutschland AG, the city of Wuppertal and Kratzer Automation AG.

TAG's commercial portfolio is characterised by long lease terms. About 42 percent of the leases have a term of three to six years and nearly 8 percent are signed for six to ten years. Another 7 percent of the leases have a term of ten years. 3 percent run for over 20 years, and 4 percent of the leases are open-ended. So more than 60 percent of the leases have very long-term contract periods. These are characteristics of a 'defensive' portfolio with a strong cash flow.

Duration of commercial rental agreements from 2011 on*



* as of 31/12/2011

Siemensdamm

Commercial Presentation of individual properties

Investments	Postcode/ City/Street	Floor area sqm	% of total floor area	Va-cancy sqm	Va-cancy %	Annua-lised net actual rental TEUR	% of total	Net actual EUR per sqm	Target rent TEUR p.a.
Siemensdamm	13629 Berlin, Siemensdamm 50, Wernerwerksweg 16	53,962	15.0	–	0.0	3,000	10.0	4.63	3,000
Dynamostraße	68165 Mannheim, Dynamostraße 4	32,032	–	–	0.0	2,373	8.0	6.17	2,373
Franz-Geuer-Straße	50823 Köln, Franz-Geuer-Straße 10	26,492	8.0	–	0.0	2,400	8.0	7.55	2,400
Stuttgart Südtor	70178 Stuttgart, Hauptstätter Straße 149, Kolbstraße 10, Heusteigstraße 114, Filderstraße	25,109	7.0	3,943	15.7	3,000	10.0	11.81	3,656
Logistikzentrum Gründlacher Straße	90765 Fürth, Gründlacher Straße 259	23,964	7.0	–	0.0	1,096	4.0	3.81	1,096
Hofmannstraße	81379 München, Hofmannstraße 51	23,152	7.0	–	0.0	1,827	6.0	6.57	1,827
Pegasus Business Center	85716 Unterschleißheim, Gutenbergstraße 5	21,465	6.0	–	0.0	1,958	7.0	7.60	1,978
St.-Martin-Straße (Kustermannpark)	81669 München, St.-Martin-Straße 53	19,987	6.0	1,171	5.9	2,097	7.0	9.29	2,097
Kloster Blankenburg	26135 Oldenburg, Klostermark 70-80	17,520	5.0	14,640	83.6	103	0.0	2.99	577
Bartholomäusstraße	90489 Nürnberg, Bartholomäusstraße 26	15,455	4.0	311	2.0	1,552	5.0	8.54	1,567
Oststraße	22844 Norderstedt, Oststraße 73 c	12,358	4.0	–	0.0	612	2.0	4.12	612
Werther Carré	42275 Wuppertal, Kleiner Werth 30, Kohlgarten 7	9,811	3.0	–	0.0	1,127	4.0	9.57	1,127
Ferdinand-Porsche-Straße	51149 Köln, Ferdinand-Porsche-Straße 1	6,445	2.0	–	0.0	1,060	3.7	13.7	1,060
Planckstraße	22761 Hamburg, Planckstraße 13-15	6,259	2.0	1,096	17.5	683	4.0	11.03	831
Steckelhörn	20457 Hamburg, Steckelhörn 5-9	6,230	2.0	–	0.0	1,227	4.0	16.41	1,227
Osswaldstraße	82139 Starnberg, Osswaldstraße 1a, 1b	5,492	2.0	382	7.0	943	4.0	15.38	1,021

Planckstraße

Investments	Postcode/ City/Street	Floor area sqm	% of total floor area	Va-cancy sqm	Va-cancy %	Annua-lised net actual rental TEUR	% of total	Net actual EUR per sqm	Target rent TEUR p.a.
Titotstraße	74072 Heilbronn, Titotstraße 7-9	5,033	1.0	1,482	29.4	366	1.0	8.60	447
Rathausgalerie Markkleeberg	04416 Markkleeberg, Rathausstraße 33-35	4,902	1.0	382	7.8	520	2.0	9.58	550
Neue Eilerstraße	51145 Köln, Neue Eilerstraße 50-52	4,613	1.0	–	0.0	252	–	4.56	252
Innere Kanalstraße	50823 Köln, Innere Kanalstraße 69	4,565	1.0	1,004	22.0	421	–	9.85	484
FAZ Dachau	85221 Dachau, Hochstraße 27	3,625	–	315	8.7	513	2.0	12.91	562
Stahltwiete	22761 Hamburg, Stahltwiete 20	2,839	1.0	–	0.0	354	1.0	10.40	354
Boschstraße	82178 Puchheim, Boschstraße 1	2,716	1.0	–	0.0	377	–	11.58	377
Königstorgraben	90402 Nürnberg, Königstorgraben 7	2,595	1.0	51	2.0	299	–	9.79	301
Porschezentrum	86368 Gersthofen, Porschestraße 5	1,995	1.0	0	0	348	1.0	14.55	348
Schleinufer	Schleinufer 14 39104 Magdeburg	1,846	1.0	825	44.7	36	0.1	6.02	78
Steinweg	59821 Arnsberg, Steinweg 13	1,698	0.5	1,140	67.1	24	0.1	3.63	71
Bogenstraße	22926 Ahrensburg, Bogenstraße 47	1,676	0.5	276	16.5	62	0.3	3.67	68
Harburger Straße	21429 Stelle, Harburger Straße 1	1,608	0.5	650	40.4	79	0.2	6.86	85
Hauptstraße	56155 Bendorf, Hauptstraße 186	1,536	0.4	–	0.0	85	0.3	4.62	85
Vahrenwalder Straße	30165 Hannover, Vahrenwalder Straße 12-14	1,422	0.4	796	56.0	53	0.2	7.03	125
Portfolio commercial		**348,403**	**100**	**28,463**	**8.2**	**28,847**	**100**	**7.51**	**30,636**

Sustainability

Besides the fact that sustainability is becoming more and more important, it is a complex issue with economic, ecological and social components. TAG Immobilien AG is committed to this issue and to the principles of sustainable business. These also include a fair and respectful treatment of employees, tenants and business partners.

For TAG as a real estate company, sustainable management of its real estate inventories first and foremost means the upkeep of the properties themselves. This includes continual renovation and modernisation measures such as switching to district heating or upgrading to digital TV reception. Above and beyond this, a social responsibility for the tenants and their immediate living environment is also at the forefront of TAG's daily business, because inventories can only be managed successfully where people feel at home.

Furthermore, the two TAG subsidiaries, POLARES Real Estate Asset Management GmbH and TAG Stuttgart-Südtor Projektleitungs GmbH und Co. KG, are members of Germany's Sustainable Building Council (DGNB), and the 'Stuttgart Südtor' development project has been awarded a silver pre-certification for the office sector by the DGNB.

Ecological and economic sustainability

In modernising our portfolio, TAG strives for economy as well as maximum environmental friendliness. All renovation measures, such as the wall insulation carried out last year in Hamburg, Leipzig and Berlin's Marzahn district, served not only to increase the value of our existing inventory, but also reduced energy consumption and costs. These measures have positive effects on our tenants' incidental costs and on CO2 emissions. TAG successfully completed the renovation of the energy systems of 114 residential units in Berlin's Marzahn last year, as well as those of 53 residential units in Hamburg and about 30 units in Leipzig. This year some of the properties in Salzgitter are being converted to district heating, and we are introducing remote radiatormeter reading, which eliminates the need for time-consuming and expensive local meter reading. This in turn leads to increased efficiency in our property management.

In some cases, new space was created by demolishing buildings. In the Fredenberg district of Salzgitter, three high-rises were demolished in order to build homes for the elderly and a nursing home on the land gained – facilities that make sense because of the demographic development in Salzgitter.

Social sustainability

TAG's dedicated local asset managers monitor and take part in events in the area surrounding the existing inventories and support numerous social projects. For example, TAG regularly attends the neighbourhood council meetings in Berlin's Marzahn and Hellersdorf, as well as in Elmshorn. The budgets established for social purposes are then used together with the neighbourhood association for various projects to integrate and support children.

At the site of TAG's largest portfolio, in Salzgitter, a non-profit club was founded under the 'meineSZitty' rental brand. The 'meineSZitty Club' works with other associations and institutions for children, teenagers and senior citizens in Salzgitter. The aim is to promote constructive leisure activities and strengthen social interaction. In the year under review, TAG's community efforts in Salzgitter included a Caritas furniture shop and the creation of a 'job applicant book' for secondary school students in the district of Fredenberg. Primary school pupils in Fredenberg also receive a hot lunch – a project that is financially supported by TAG.

Sustainable business practice also includes waste management, safety, and good media connectivity. At our Dusseldorf and Salzgitter properties, cooperations are in place for presorting waste to reduce the volume of rubbish. This benefits the environment as well as the tenants, who can save money as a result. Using a security firm at some of our properties in Berlin, Elmshorn and Itzehoe helps to reduce crime, noise and vandalism and to improve the image of these residential areas. Similar measures are also planned for 2012, such as building renovation and the conversion of various residential units to digital television. Furthermore, TAG's broad regional presence and the substantial increase in our residential portfolio helps us modernise our residential units in a cost-effective way and optimise our maintenance budgets.

Children and teenagers are the primary focus of our efforts, so TAG provides financial support to a number of sports clubs such as the CRE Icefighters Salzgitter (hockey), the CRE Eagles Itzehoe (basketball) and the football clubs 1. FC Marzahn in Berlin and the Rot-Weiss Moers in NRW. This commitment is often based on reciprocity: in thanks for the support it receives, 1. FC Marzahn, whose training ground is located in the middle of TAG's properties, organises a yearly tenants' party for TAG.

Most of the partnerships are long term and will be continued in 2012.

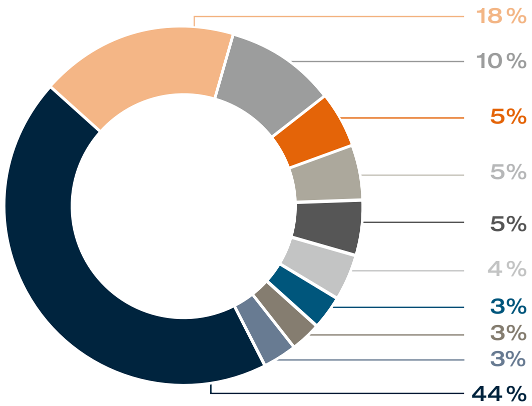
TAG share

The palpable uncertainty from the European debt crisis and the financial and economic crisis in the capital markets in 2011 resulted in a weak stock market year in 2011 and a negative performance of the key indices. The DAX, relatively strong at 7,000 points at the beginning of the year, briefly slipped to just below 5,000 points, and eventually ended the year 2011 below 6,000 points. The performance of the EPRA (European Public Real Estate Association) index was similar. It was down by 13 percent at the end of the year, and the SDAX also lost 15 percent during the full year. The TAG share could not entirely escape these trends, but showed a much less negative development than the benchmark EPRA and SDAX indices. While the TAG share's closing price was EUR 6.36 in 2010, it was down 4 percent a year later at EUR 6.16. So the share has stood its ground relatively well in a very uncertain market environment.

Several capital increases increased both the number of shares and the share capital

Within the past year, the share capital and number of shares have changed significantly through several capital increases. At the beginning of 2011, the number of shares was 58,566,364. By the end of the year, it was 74,905,174. This corresponds to total share capital of EUR 74,905,174.00. Free float is 96 percent, and the Group's market capitalisation was EUR 461 million at 30 Dec 2011, up significantly compared with 2010 (+24 percent) due to the increase in the number of shares. The average daily trading volume in 2011 was EUR 1,353,390.

Shareholder structure on December 31, 2011



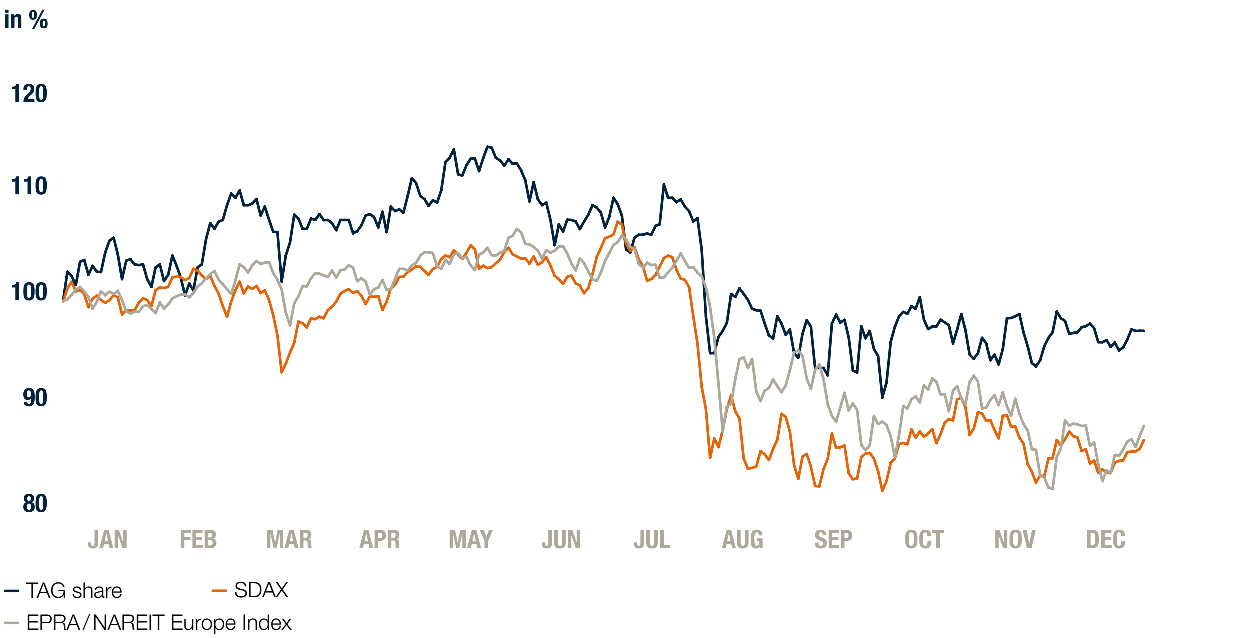
- Ruffer LLP, UK*
- IP Concept, Flossbach von Storch SICAV, D*
- DWS Investment GmbH, D*
- Taube Hodson Stonex LLP, UK*
- Threadneedle, UK*
- Group Dr. Ristow
- Skagen AS Stavanger, N*
- Scottish Widows, UK*
- Scottish Value Management, UK*
- Free Float

* Deutsche Börse definition including institutional investors

TAG share holds its own high on the SDAX

The TAG share is listed in the Prime Standard quality segment of the German Stock Exchange and is traded on all German stock exchanges. Nearly 90 percent of sales are made via the XETRA electronic trading system. Since December 2006, the TAG share has been listed on the SDAX index and ended December 2011 in a top position with the option of possibly advancing onto the MDAX in future. The shareholder structure remains characterised by institutional national and international investors with a predominantly long-term investment strategy.

Share price 2011



Capital market communications further strengthened

In the past fiscal year, TAG held conference calls for analysts and investors to accompany the publication of its quarterly results as well as to report on the current status of the portfolio in Salzgitter. The Management Board also regularly attended capital market conferences at home and abroad, where the company was presented to a wider audience. At the same time, TAG hosted a number of road shows to present itself to interested parties, potential investors, private investors and financial analysts.

Dividend payment planned

One focus of TAG's future business policy is the steady payment of dividends to its shareholders. For fiscal 2011 a dividend of 20 cents per share is planned, which represents a dividend yield of 3.3 percent (the market average for real estate shares is 2.7 percent). The development of earnings over the past few quarters shows the Group's increased profitability. TAG intends to let shareholders participate in the company's success in the years ahead as well and plans to distribute a significant portion of the profits as dividends.

TAG stock parameters

Stock market ticker	TEG
Type of stock	Bearer ordinary shares
ISIN	DE0008303504
Transparency level	Prime Standard
Indices	SDAX, German CDAX Performance, SDAX Performance Index, Prime All Share, Prime Financial Services, Classic All Share, DIMAX, EPRA
German securities code number	830350
Designated Sponsor	Close Brothers Seydler AG, Frankfurt/Main
Stock exchange	All German stock indexes including Xetra

Price on the first day of the year	01/03/2011	EUR 6.55
Price on the last day of the year	12/30/2011	EUR 6.16
High	05/25/2011	EUR 7.40
Low	10/04/2011	EUR 5.70
Current share price	03/30/2012	EUR 6.99
NAV per share	12/31/2011	EUR 8.72

Hummelweg, Salzgitter

The EPRA NAV (Net Asset Value)

The acronym EPRA stands for European Public Real Estate Association. This association represents the interests of Europe's largest property companies and supports the development and market presence of listed real-estate companies in Europe. The NAV is the international benchmark for the assessment of real estate companies, and this indicator represents a company's asset strength. Calculating the NAV in accordance with EPRA guidelines aims to show the fair value of net assets on a consistent and long-term basis. The NAV calculation only includes the shareholders' equity before minorities from the balance sheet adjusted for derivatives and deferred tax liabilities. All values that are relevant for the calculation are verified by expert opinions. For a detailed overview of the EPRA NAV calculation, please see the Management Report (page 44).

TAG forecasts FFO (funds from operations) for the first time for 2012

The FFO key indicator reflects a company's operating profit. For the first time, TAG is publishing an FFO for the current year – it was published late last year as part of the detailed forecast for 2012. For 2012 we expected to achieve FFO of EUR 27 million. With the income from real estate sales – an expected EUR 8 million – the overall operating result should be EUR 35 million. The acquisition of DKB Immobilien AG is not included in these figures for 2012, so we will revise and possibly adjust the forecast during the course of the year.

Corporate Governance

TAG corporate governance report for fiscal 2011

In accordance with section 3.10 of the "German Corporate Governance Code" (GCGC) in the version dated 26 May 2010, the Management Board and Supervisory Board submit the following report on corporate governance at TAG Immobilien AG:

1. The GCGC and the company's compliance with its recommendations aims strengthen the confidence of shareholder, customer, public and employees in the company's management. Compliance with the GCGC promotes transparency and control of listed companies. TAG is committed to these goals, and therefore embraces an open and active information policy towards shareholders and the public. Providing open, prompt information to stakeholders creates transparency and builds trust. Shareholders, analysts and the media are given regular updates by means of business reports, financial statements, press conferences and conference calls on the company's quarterly and annual results. All of the company's information may be accessed online on the TAG homepage. Since TAG has established corporate governance as an important element in its corporate culture, it also helps to strengthen its enterprise value.

2. Article 161 of the German Stock Corporations Act stipulates that the Management Board and Supervisory Boards shall issue annual declarations of conformance with the recommendations of the GCGC, specifying which recommendations were not applied. The Declaration of Conformance dated December 2011 was the subject of the Supervisory Board session of 14 December 2011 and was published in December 2011.

Any deviations from the recommendations of the GCGC are mainly for technical reasons. Please refer to the Declaration of Conformance printed below for the reasons for deviations from the recommendations of the GCGC. The size of the Supervisory Board does not warrant the formation of committees. The Supervisory Board does reserve the right to use committees if this should become necessary for reasons of efficiency. In the year under review, however, the Supervisory Board and Management Board cooperated effectively and efficiently, especially on the important decision-making regarding the capital measures. In its meeting on 14 December 2011, the Supervisory Board discussed its own working methods and efficiency. As part of this ongoing process, suggestions from Board members were taken up and put into practice.

3. In accordance with Section 5.4.1 of the GCGC, the Supervisory Board is to specify goals for its own composition, taking into account the company's specific situation, its activity, potential conflicts of interest, an age limit (yet to be specified) for Supervisory Board members and the diversity of the board. The Supervisory Board had already discussed these guidelines in its session on 9 December 2010 and had formulated its goals as follows:

- In addition to the expertise, skills and professional traits of the Supervisory Board members, which are considered a given, they should have special expertise and experience with the German real estate market so as to be able to critically evaluate the decisions of the Management Board;

- Due to the great importance of capital market measures in financing larger transactions, special experience and skills in the German capital market are required and should be brought onto the Board; and

- Because of the guidelines set out in Section 100 para 5 AktG (German Stock Corporation Act) if nothing else members should have special competencies in the areas of accounting and auditing, in particular in order to be able to critically evaluate the annual accounts drawn up by the Group.

The TAG Supervisory Board acknowledges the other “aims“ stipulated in the GCGC, and they were not changed in fiscal 2011. However, their implementation is regarded as a long-term process; a change in the composition of the board is only possible as part of new Supervisory Board elections. The Supervisory Board has also decided not to set an age limit. While TAG aims to achieve an appropriate representation of women in managerial positions, the Supervisory and Executive Board feel that fixing a binding women’s quota is not a good way to achieve this purpose.

4. There were no conflicts of interest arising from the joint Board mandates in Bau-Verein zu Hamburg Aktien-Gesellschaft and Colonia Real Estate AG during the period under review. The internal business transactions are part of the Dependent Company Report drawn up by the company and reviewed by the auditor. Any assets transferred within the Group and in particular between TAG and Colonia Real Estate AG, the assessment of the compensation was accompanied by external statements from auditors, which confirmed the values underlying the transfers as appropriate and standard for the market in each case. There were no other conflicts of interest between the company and the members of the Supervisory or Executive Board either, e.g. through the assumption of consultative and board functions for third parties or business partners.

5. The remuneration paid to members of the Supervisory Board was adjusted based on a resolution by the Annual General Meeting of 26 August 2011. Until that decision and the amendment to Article 15 of the Company’s Articles of Association, members received a fixed compensation in the amount of EUR 15,000.00 for each full fiscal year of their membership on the Supervisory Board, plus the premiums for appropriate D&O insurance. The adjustment involves increasing this amount to EUR 20,000.00. The Chairman of the Supervisory Board receives a fixed fee of EUR 175,000.00 for each fiscal year. His Deputy receives 1½ times the basic fixed fee. The previously stipulated variable remuneration based on the company’s payout, if any, was annulled. In doing so, the company responded to the recent debate on the remuneration of Supervisory Board members and now is more in line with ‘best practice’ in this area. The company believes that a purely function-driven remuneration of the Supervisory Board better reflects its monitoring tasks. An appropriate fixed and hence continuous remuneration ensures the functioning of the Supervisory Board independent of outside influences, thereby emphasising the board’s independence. The following net remuneration was paid for 2011:

Dr. Lutz R. Ristow (Chairman)	EUR 72,292
Prof. Dr. Ronald Frohne (Deputy Chairman)	EUR 24,688
Mr Rolf Hauschildt	EUR 16,458
Mr Andrés Cramer	EUR 16,458
Mrs Andrea Mäckler	EUR 16,458
Mrs Wencke Röckendorf	EUR 16,458

In part of 2011, Dr. Lutz R. Ristow rendered services to the Group that fell outside his scope of duties as Chairman of TAG's Supervisory Board, and that were charged based on the time required. He received total fees of TEUR 64 in the year under review. This includes fees from 2010 (TEUR 28).

Prof. Ronald Frohne is affiliated with the Nörr, Stiefenhofer, Lutz law firm, which provided legal advice on corporate law issues and other legal matters in 2011. A total fee of TEUR 567 was paid for these services.

Please refer to the remuneration report and page 47 and 123 of the Notes to the consolidated financial statements for further details on the basics of remuneration paid to members of the Management Board and the amounts paid out or promised. They also form part of this Corporate Governance report.

Article 6.6 of the GCGC stipulates that members of the Supervisory Board and the Management Board shall disclose details of shares held directly or indirectly in the Company or financial instruments based on these:

As of 31 December 2011, the following shares were held:

Shareholders	Number of shares
Dr. Lutz R. Ristow und Rita Ristow	1,624,500
Albert Asmussen GmbH (Prof. Dr. Ronald Frohne)	295,677
A&B Vermögensverwaltung GmbH, Dusseldorf (CEO: Mr Hauschildt)	300,000
WH Vermögensverwaltung GmbH, Dusseldorf (Waltraud Hauschildt)	400,000
RH Vermögensverwaltung GmbH, Dusseldorf (Rolf Hauschildt)	300,000
Rolf Elgeti (CEO)	90,000
Hans-Ulrich Sutter (CFO)	17,155

Hamburg, April 2012

Supervisory Board and Management Board of TAG Immobilien AG

Statement of conformity

In Accordance with § 161 AktG (German Companies Act)

The management and supervisory boards of TAG Immobilien AG ("the company" in the following) declare that they have been and are in compliance with the conduct recommended and published by the Federal Ministry of Justice in the official section of the electronic Bundesanzeiger (Federal Gazette) recommendations by the Government Commission "German Code of Corporate Governance" (DCGK) in the version of 26 May 2010, with the following exceptions:

1. The company is unable to support its shareholders in carrying out a postal vote (Section 2.3.3. of the German Corporate Governance Codex), as the articles of association do not provide for the option of an absentee ballot.

2. The supervisory board of TAG Immobilien AG will not form any committees for the time being. In particular, neither an Audit Committee (Section 5.3.2 Sentence 1 DCGK) nor a Nomination Committee (Section 5.3.3 DCGK) has been formed to date. The company's supervisory board is of the opinion that, due to the particular circumstances of the company and in particular the size of the supervisory board, which makes possible its efficient work, the establishment of such committees is neither necessary nor purposeful.

3. While the supervisory board the TAG has adopted specific goals for its composition in accordance with Section 5.4.1 DCGK, due to its current composition it has refrained from setting an age limit for members of the supervisory board. Diversity can only be taken into account and put into practice with a long-term perspective, and usually this involves supervisory board elections.

4. The company's group financial statements will not be published within 90 days after the end of the fiscal year (Section 7.1.2 DCGK) In compliance with legal requirements, the group financial statements will be published within the first four months after the end of the financial year or eight weeks after the end of the quarter. The company's management and supervisory boards feel that bringing the deadlines forward any further is untenable given the different deadlines and the associated effort and cost.

Hamburg, December 2011

The Management and Supervisory Boards of TAG Immobilien AG

Supervisory Board Report

Dear Shareholders, Ladies and Gentlemen,

TAG Immobilien AG continued its expansionist course in 2011 and – with a residential property inventory of over 30,000 units at 31 Dec 2011 – was able to reposition itself among publicly traded real-estate stock corporations. This significant increase in residential inventory is mainly due to the acquisition of Colonia Real Estate AG, Cologne. However, other acquisitions were also successfully completed, which were largely financed by capital measures. The share capital increased from approximately EUR 58 million at 31 Dec 2010 to around EUR 75 million at 31 Dec 2011. This increase shows that the shareholders and investors endorsed and supported TAG's expansionist course, despite the insecurity that arose in the capital markets in 2011 in the context of the debt crisis. The full placement of each new share issue underlines the trust and confidence placed in TAG. In fulfilment of its advisory and supervisory duties in accordance with the law and the Articles of Association, the Supervisory Board closely supported the Management Board in this dynamic business development.

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

The Supervisory Board regularly advised the Management Board in the discharge of its duties and monitored the management of the company. In accordance with Section 90 para 1 and para 2 of the German Stock Corporations Act the Management provided regular, up-to-date and comprehensive information on all relevant matters of corporate planning and strategy. The Supervisory Board was involved in all decisions of fundamental importance to TAG Immobilien AG and the Group.

The Management Board's reporting covered the economic situation and profitability of the Group's companies, their business progress, risk situation, and the implementation of risk management, including compliance. Reporting in 2011 focused on the acquisition of the majority of the shares of Colonia Real Estate AG, the subsequent integration process, and the structural measures related to this process, as well as the other acquisitions and the capital measures to finance them.

The reports were made both in writing and orally. The Chairman & CEO was in constant contact with the Chairman of the Supervisory Board in order to coordinate major business transactions. Important matters were immediately brought to his attention.

Deliberations and resolutions of the Supervisory Board

In a total of four scheduled meetings the Supervisory Board was informed of the progress of the business and discussed subjects and items requiring its approval together with the Management Board. In urgent matters, resolutions were also adopted outside these sessions, by written ballot or in conference calls. During the fiscal year there was an increased use of conference calls – a total of four conference calls were held to be able to discuss and decide the numerous projects in a timely manner. No member of the Supervisory Board attended fewer than half of the meetings.

The very first meeting of the year on 18 February 2011 was conducted as a conference call, to discuss convening an extraordinary general meeting at which – in light of current acquisition opportunities – the implementation of a capital increase of up to 5.8 million shares and the granting of new authorised capital background would be presented to shareholders. Due to the planned acquisition and the resulting financing requirements, it was already apparent at the beginning of the year that TAG would need additional resources to strengthen its equity base. During this conference call meeting, the Supervisory Board concurred with the Management Board's proposal to convene an extraordinary general meeting on 7 April 2011. The Supervisory Board also approved a loan to Colonia Real Estate AG of up to EUR 75 million, to cover any liquidity needs that Colonia Real Estate AG might encounter.

The focus of the meeting on 2 March 2011 was a presentation of the preliminary results for 2010 and the acquisition of the majority of shares in Colonia Real Estate AG, Cologne (as of 15 February 2011, when 50 percent of the voting rights in Colonia were exceeded). The previously implemented voluntary takeover offer to Colonia Real Estate AG shareholders had been closely coordinated with the Supervisory Board. At the meeting Rolf Elgeti and Hans-Ulrich Sutter's appointment to the Colonia Management Board was approved. Once again, the granting of shareholder loans to Colonia was on the meeting's agenda. The acquisition of a majority of voting rights in Colonia had led to holders of convertible bonds issued by the Colonia being legally entitled to early termination, which could trigger an early redemption of convertible bonds and thus a further need for liquidity. Finally, at this meeting the Supervisory Board approved the acquisition of the residential complex in Marzahn with 612 residential units.

At the meeting to approve the year-end financial statements on 6 April 2011, the Supervisory Board dealt in detail with the 2010 annual financial statements and the audit results from the auditors, who reported verbally on the outcome of the audit discussed the financial statements extensively with the Board.

At this meeting the Supervisory Board also approved the sale of shares in LARUS Asset Management GmbH to Colonia Real Estate AG. This transfer was related to the pooling of asset and property management activities in the TAG Group under the umbrella of POLARES Real Estate Asset Management GmbH (formerly known as Colonia Real Estate Solutions GmbH). At this meeting, details of the extraordinary general meeting on 7 April 2011 were also discussed.

Three acquisitions were on the agenda of the Supervisory Board's conference call meeting on 7 July 2011. The Board approved the acquisition of the residential complex on Gubener Strasse, Dresden with 150 residential and 6 commercial units. It also approved the acquisition of the residential complex on Tangermünder Strasse, Berlin with 454 residential units. Finally, the Supervisory Board dealt in detail with the 'Theta' project, which involved the acquisition of five limited liability companies with a housing stock of 3,083 residential and 71 commercial units, located mainly in northern Germany and Saxony. In connection with this acquisition, a capital increase against contribution in kind was resolved, as the shares in the holding companies were brought into the Group as contribution in kind. Using the authorised capital 2011/I approved by the extraordinary shareholders' meeting on 7 April 2011, 5,576,924 new shares were created. This action was successfully completed in the 4th quarter of 2011.

The agenda for the Annual General Meeting on 26 August 2011 was also approved during the conference call meeting of 7 July 2011.

At its meeting on 25 August 2011, the Supervisory Board primarily discussed the further process of integrating Colonia, bringing Colonia employees over to TAG, and the merger of several admin and HQ departments. To optimise the equity structure of Colonia Real Estate AG, a capital increase against contribution in kind – to be adopted at the level of Colonia – was approved at this meeting. The contribution in kind in this case was a loan receivable by TAG, part of the shareholder loan of EUR 47,812,842.00, which was later contributed into Colonia as contribution in kind.

In the conference-call meeting held on 21 October 2011, current acquisition projects and their financing were discussed.

The resolutions to approve the use of the authorised capital and carry out a capital increase of up to EUR 5 million in November 2011 were also adopted at a conference call on 16 November 2011.

At its last meeting of the year, on 14 December 2011, the Supervisory Board discussed and approved the 2012 budget submitted by the Management Board. It also dealt with a actual/target performance comparison of the acquisitions to date and other new projects, including the purchase of the residential complex at Eberswalde with approximately 1,000 residential units, which was completed in January 2012; the plan to buy an apartment building in Erfurt, with around 360 residential units; the sale of a Bau-Verein property in Hamburg; as well as a project development property of TAG Gewerbeimmobilien-Aktiengesellschaft in Munich. Finally, the Supervisory Board dealt with the Group's new organisation, developed in 2011, and the compliance program, which had been updated due to the integration of Colonia and other companies. In advance of this meeting an efficiency review had been conducted, and its results were discussed at the meeting.

In numerous meetings, the Board discussed acquisition projects that could not be brought to a successful conclusion for various reasons. Some of the not inconsiderably large volumes of real estate that are constantly offered to TAG were checked with outside legal counsel, and some actually progressed to advanced stages of negotiation without leading to a successful conclusion.

Auditors in 2011

In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board engaged the auditor Wirtschaftsprüfungsgesellschaft Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, which had been chosen by the shareholders at the Annual General Meeting on 26 August 2011 to audit the annual financial statements of TAG Immobilien AG for 2011.

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

Approval of annual financial statements and consolidated financial statements

The auditors, Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, carried out the audit of the annual financial statements and the management report, as well as the consolidated financial statements, including the Group management report, for 2011, which was prepared in accordance with the International Financial Reporting Standards (IFRS). An unqualified auditor's report was issued.

The financial statements and the audit reports were circulated to all members of the Supervisory Board in a timely manner and discussed in detail at the meeting of 23 April 2012. The auditors attended the meeting, during which they elaborated on their report and were available to answer any questions. The auditor additionally confirmed that the risk early detection system which had been installed by Management Board was suitable for detecting in good time any developments liable to jeopardise the Company's going-concern status.

The Supervisory Board accepted the auditors' results and, on the basis of its own review of the parent company and consolidated financial statements together with the respective management reports, raised no objections. The Supervisory Board endorsed the Management Board's proposal for the appropriation of net profit to pay a dividend of EUR 0.20 per share. The annual financial statements and the consolidated financial statements prepared by the Management Board were approved and accepted by the Supervisory Board.

Dr. Lutz R. Ristow

Corporate Governance

As in previous years, the Supervisory Board closely monitored the management's compliance with the principles of good corporate governance. Because of the dual mandates of Board members in the Bau-Verein zu Hamburg Aktien-Gesellschaft and, since 15 February 2011, at Colonia Real Estate AG, special attention was paid to the risk of conflicts of interest, but no such conflicting interests arose in 2011.

At the meeting in December, the Supervisory Board and the Management Board jointly adopted the declaration of conformance prescribed by Section 161 of the German Stock Corporations Act, regarding the recommendations set out in the German Corporate Governance Code. The recommendations are being implemented save for a small number of justified exceptions. Given its current size, which permits efficient and swift decisions, the Supervisory Board still sees no need to set up separate committees.

Please also refer to the details set out in the Corporate Governance Report (page 26-28 of the Annual Report).

Personnel

At the meeting of 2 March 2011, Dr. Harboe Vaagt was appointed as a member of the Management Board with effect from 1 April 2011.

The employees of TAG and its subsidiaries have contributed with great commitment to TAG's dynamic development during the year under review. The Supervisory Board commends the Management Board and all employees for all their hard work.

Hamburg, April 2012

The Supervisory Board

Dr. Lutz R. Ristow
Chairman

Group Management Report 2011

I. Group structure, business activity and macroeconomic conditions

Overview of the Group structure and business activity

TAG Immobilien AG ('TAG' in the following) is an integrated, broadly set-up real-estate group that does business in the residential and commercial property rental sector in Germany. As a publicly listed company, it pursues a long-view growth strategy. Its operating business revolves around the acquisition, management and development of residential real estate and the ongoing optimisation of its real-estate portfolio. As a property holder, TAG leverages potential for increasing value within its portfolio through active asset management and strategic acquisitions. As well as its residential real estate holdings, TAG owns a diverse inventory of commercial real estate. The geographical focus of its real estate portfolio lies in the regions of Berlin, Hamburg, Lower Saxony, Munich, Rhine/Ruhr and Leipzig. As part of its growth strategy, TAG is widening its regional base and is acquiring residential inventory in select locations where it already has investments, and which accordingly promise good yield and potential for value increases. In addition, TAG offers real-estate services related to residential and commercial property management and development.

The 2011 fiscal year was characterised by an exceedingly dynamic pace of acquisition and was a successful year for TAG both in terms of its expanded residential real estate portfolio and the overall results achieved. At year-end 2011, the total value of the real estate volume amounted to EUR 1,968.6 million after EUR 978.0 million at year-end 2010. TAG more than doubled its revenues thanks to its takeover of Colonia Real Estate AG ('Colonia' in the following) at the beginning of 2011 and through other acquisitions – from EUR 82.9 million in 2010 to EUR 178.3 million in 2011. Rental revenues alone were up by over 120 percent to EUR 115.4 million thanks to the acquisitions and successful vacancy reduction seen in 2011. This resulted in rental income of EUR 79.0 million, nearly twice the prior-year figure (2010: EUR 40.2 million). At EUR 83.3 million, earnings before taxes (EBT) were significantly above the approx. EUR 60 million in EBT forecast for 2011 and have thus nearly quadrupled (2010: EUR 22.2 million). Group profit after taxes came to EUR 65.9 million after EUR 19.2 million in 2010.

TAG Group		
Residential RE	**Commercial RE**	**Services**
TAG Immobilien AG	TAG Gewerbeimmobilien AG	POLARES Real Estate Asset Mgt. GmbH
Bau-Verein zu Hamburg AG	other companies	
Colonia Real Estate AG		
other companies		

TAG's key lines of business are:

Residential real estate

TAG's active portfolio management in the residential real estate sector is mainly focused on reducing vacancy through targeted investments and portfolio development in order to increase the value of the portfolio; realising rental increases to an appropriate, legally permissible extent; and reducing vacancy costs. As part of its acquisition strategy, TAG has also expanded its portfolio, especially at locations where it has offices or branches, to ensure a cost-effective, efficient integration of new inventory in its in-house administration and management. Finally, portfolio management also includes selling off individual properties to optimise and round out the portfolio. In 2011, TAG acquired a total of six portfolios with a focus on Berlin (Marzahn, Hellersdorf), Chemnitz (Closing in 2012), and Northern Germany/Saxony. In February 2011, TAG also acquired the majority of shares in Colonia Real Estate AG, a publicly listed company, and at 31 Dec 2011 held approx. 70 percent of the voting rights in Colonia. At year-end 2011, TAG possessed 30,820 residential units with total floor space of 1,904,392 sqm and a real-estate volume of around EUR 1,463 million. Vacancy in the residential real estate portion of TAG's "existing inventory" portfolio – i.e. the portfolio without the acquisitions realised in 2011– was decreased from 5.9 percent to 3.9 percent in 2011. Vacancy in TAG's overall residential real estate portfolio initially increased to 13.3 percent in Q1/2011 following the Colonia takeover, but was brought down to 11.6 percent again by the end of the year.

The TAG Group's residential real estate is mostly owned by the holding companies, in particular Colonia Real Estate AG, Bau-Verein zu Hamburg Aktien-Gesellschaft (Bau-Verein), TAG Nordimmobilien S.à r.l., TAG NRW-Immobilien GmbH (formerly: FrancoWest AG), and TAG Sachsenimmobilien GmbH.

Acquisitions 2011

Portfolio	Acquisition date	Closing when	Number of units	Purchase price incl. transaction costs	sqm	Price per sqm	Annualised net actual rent	Initial yield (gross on pp incl. ac)	Appraised value	Budgeted rental income per 1,000 EUR of appraised value	Impact on NAV per share (in cent)
Colonia	02/15/2011	02/15/2011	18,888	716,670,000	1,162,749	616	56,988,000	8.0	789,397,000	50	81
Marzahn	04/26/2011	06/01/2011	612	25,240,000	43,591	579	2,296,608	9.1	28,950,000	59	5
Hellersdorf	07/14/2011	09/30/2011	461	18,656,000	26,921	693	1,740,077	9.3	22,700,000	56	6
Northern Germany plus Saxony	07/27/2011	11/01/2011	3,343	151,110,000	208,287	725	13,709,337	9.1	162,988,000	61	17
Dresden	07/22/2011	09/30/2011	156	7,700,000	11,427	674	610,047	7.9	8,750,000	54	2
Chemnitz	10/25/2011	01/31/2012	429	23,750,000	32,217	737	1,794,000	7.6	24,800,000	66	2
Total			**23,889**	**943,126,000**	**1,485,192**	**635**	**77,138,069**	**8.2**	**1,037,585,000**	**52**	**112**
									Comparable figure in 2010 TAG (residential)	**42**	

Commercial real estate

Most of the TAG Group's commercial real estate is held by TAG Gewerbeimmobilien-Aktiengesellschaft (TAG Gewerbe), a wholly owned subsidiary of TAG. TAG Gewerbe's main field of business is active asset and property management and the ongoing optimisation of the Group's 27 commercial properties. Together they have total rental space of 285,820 sqm with a real-estate volume of around EUR 360 million, and consist mostly of office buildings.

In Munich, new rental contracts for the 'Kustermannpark' property were signed at better terms towards the end of Q2/2011, resulting in an upgrading of the property's value. Also during the first half of the year, TAG created the conditions for re-zoning the property on Tübinger Strasse in Munich, then went on to realise the potential value created by selling the property during the second half for subsequent development. Because the original building rights had been expanded by more than 100 percent to 41,000 sqm (new construction), TAG was able to sell the property for a total of EUR 31 million in October 2011, realising an EUR 8 million gain on its IFRS book value.

TAG Gewerbe has held pre-REIT status since June 2007. It has since been renewed and is valid through mid-2012.

Real-estate services

Property services for the commercial sector are handled by POLARES Real Estate Asset Management GmbH ('POLARES REAM' in the following). This Group company was created in Q2/2011 by pooling Colonia's previous activities and units with those of the TAG Group, i.e. a merger between Colonia Real Estate Solutions GmbH and LARUS Asset Management GmbH. Merging the companies results in synergies within the TAG Group and unites all services under a single umbrella. As well as asset and property management, the company's business proposition includes developing and managing third-party properties for acquisitions and sales.

Holdings

During 2011, new shareholdings in residential real-estate companies were added through acquisition. For instance, TAG acquired a majority stake Colonia Real Estate AG through a voluntary takeover offer to its shareholders and further purchases, and at 31 Dec 2011 held 71 percent of the voting rights. It also acquired approx. 100 percent each in TAG Marzahn-Immobilien GmbH and TAG SH-Immobilien GmbH; TAG Magdeburg-Immobilien GmbH; TAG Grebensteiner-Immobilien GmbH; TAG Klosterplatz-Immobilien GmbH; TAG Wolfsburg-Immobilien GmbH with inventories in northern Germany and Saxony; and TAG Chemnitz-Immobilien GmbH (Closing in 2012); and during the period under review TAG held a more than 20 percent stake in Estavis AG, which was, however, sold in Q1/2012.

Company management

To monitor and steer its business activities, TAG uses a modern, constantly updated financial tracking system that allows it to monitor and calculate income effects such as value growth and returns in connection with liquidity and earnings. The company places a high priority on the financial stability of the whole group of companies and manages this by continually determining the ongoing performance of the individual objects as well as the individual lines of business. Relevant factors here include feasibility studies for optimising the use of assets; cost calculations; cost controlling and calculation of revenue. Regular meetings with the Asset and Property Management department ensure strategic portfolio measures, from acquiring and positioning the property, to renting it out, investments, evaluations and portfolio optimisation and streamlining.

For TAG, value-driven business management includes letting shareholders participate in the results achieved in the form of a dividend. The dividend policy takes its cue from the company's profitability, with the aim of giving shareholders an appropriate participation in the company's success while also safeguarding the company's growth – i.e. ensuring that TAG will continue to be able to seize market opportunities in order to move forward with its growth strategy.

Strategy/Goals

TAG's overall aim is to increase the company's value by expanding and increasing the value of its residential real estate portfolio, so that it constitutes a good investment based on the profitability of the holdings and their development.

TAG takes the following measures to put its strategic goals into practice:

- Increase the company's value through acquisitions
- Focus on the residential real estate business and real estate services.
- Leverage economies of scale by systematically expanding the residential real estate portfolio
- Increase the cash flow from operations by leveraging potential for rent increases and optimising costs
- Exploit potential for increasing value by taking targeted measures to develop the portfolio
- Active portfolio management

The basis for increasing the company's value long-term are: a high-quality, high-yield, actively managed real-estate portfolio; secure payment flows; secure third-party financing of the inventory; and not least transparent, clear Corporate Governance. At the same time, we want financial investors to regard the TAG share as an attractive, safe asset class that is fungible at all times, and to develop it for the benefit of shareholders. As ever, the strategy centres on residential properties in selected locales. They should have attractive locations with growth potential and positive long-term prospects, and should be able to be managed by the Group's existing branches without significant added expense. The portfolio is also to be culled for strategically secondary properties, so as to realise profits once the value creation is complete, or when a favourable opportunity arises. The successful realisation of the Group's strategy is based on the management and staff's long years of expertise and in-depth knowledge of the market.

Research and Development

Due to the type of its business, the Group has no research or development operations. The Group's business does not depend on patents, licences or brands.

Economic conditions

General economic situation

The global economy in 2011 was dominated by the public finance debt crisis, especially in southern European countries.

According to the IMF, the biggest risk for economic development in Germany is from the euro crisis, which could cause a slowdown of the German economy in 2012, whose growth rate fell from 3.0 percent in 2011 to 0.3 percent this year and is not expected to grow again until 2013. Regarding economic growth in 2012, the IMF is more pessimistic than the Bundesbank and federal government, which are assuming growth of 0.6 percent and 0.7 percent respectively. The prospect of even slow growth for Germany is based on positive figures from the German job market – compared to other euro zone countries such as Italy and Spain, which will remain in recession until 2013 according to the IMF. Although job growth is expected to slow, various research institutes expect the unemployment rate to keep falling (unemployment rate for January 2012: 7.3 percent and less than 3 million unemployed on average for the year). The federal government expects that 220,000 additional new jobs will be created in 2012. In times of weak exports, the positive job market data will boost consumer spending and the domestic economy. TAG Immobilien AG, which operates exclusively in the German market, is assuming that it will benefit from the slowing but still positive economic growth in 2012.

The German real estate market

Compared with the rest of Europe, Germany remains an attractive location for residential and commercial real estate. This assessment is supported by the financial and euro crisis, which fosters interest in investing in material assets like commodities and real estate. This trend is further boosted by the currently very low interest rates. A period of cheap money is also expected for 2012, albeit the economy will be somewhat more subdued. Thus Germany is regarded more than ever as a safe place for real estate investments.

Residential real estate
In 2011 as in 2010, demand in the transaction market significantly exceeded supply. In 2011 the transaction volume in residential properties grew by 59.0 percent to almost EUR 6.0 billion (EUR 5.97 billion). Altogether 92,000 apartments were sold in 235 sales. As in 2010, the average revenue per transaction was around EUR 25 million. Berlin received by far the most investment, with 47 sales involving revenues of nearly EUR 2.5 billion.

Demand for stable properties is especially high, with the primary focus not on maximising returns but on medium- to long-term capital preservation, including a realistic value appreciation. Regionally, market-oriented residential portfolio and multi-family dwellings were in great demand, especially where a sustainable population and household growth can be expected. As well as independent urban districts, in particular these are the ‘big seven’ cities of Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart. High demand has meant that purchase prices have risen further. The level of initial returns for multi-family homes nationwide is very uneven and differentiated. Impressive top yields were achieved in Munich (4.0 percent), Stuttgart (4.2 percent) and Hamburg (4.4 percent).

In Frankfurt am Main, Dusseldorf and Berlin returns on first-class properties were at 4.5 percent, and at 4.9 percent in Cologne. Markets which still have very low entry factors are Magdeburg, Rostock and Leipzig, where returns on premium properties are 7.5 percent in Magdeburg, 6.5 percent in Leipzig and 6.3 percent in Rostock. As these three cities show, eastern Germany also has potential and is often underestimated. A study by the real estate newspaper BulwienGesa demonstrated that attractive rent increases could be achieved in eastern Germany during the past three years – for instance 4.6 percent in Zwickau and 4.0 percent in Gera and Dresden. The German Real Estate Federation (IVD) reports that in cities in Saxony and Saxony-Anhalt rents increased by an average 5.8 percent in 2011. This trend is expected to continue in 2012 and will affect the cities of Leipzig, Dresden, Magdeburg, Halle and Chemnitz. In the development of rents for existing properties up to 2015 Hamburg (+7.0 percent) indicates the highest variance, followed by Munich (+6.8 percent), Cologne and Dusseldorf (+6.2 percent). In Berlin rents for existing properties will remain under 7 EUR/sqm in 2015 due to the heterogeneous inventory and very different price levels in the different areas of the city.

Opportunities for a successful engagement on the German investment market are favourable given the ongoing difficulties in the international financial markets. The economic recovery of the last two years will slow down noticeably in 2012 (growth forecast for Germany is below 1.0 percent), but the risk of recession is low due to the positive employment situation and strong domestic demand. Demand for residential properties should also be above average in 2012 and thus affect the transaction volume. The sustained stability of leases, stable to moderately rising rents and the reduction of residential vacancy make property investment, especially in urban centres and top 1B cities, an attractive asset class.

As an outlook for 2012 we therefore conclude that demand and investor interest in German residential real estate will continue very high. So chances of achieving a similarly high transaction volume as in 2011 are good. In times of continuing tension in the financial markets, financing will continue to be a particular imponderability.

Last year TAG further expanded its portfolio of residential properties in metropolitan areas such as Berlin, Leipzig/Saxony and Hamburg, as well as other selected locations in. For instance, sites in Dresden, Chemnitz and Eberswalde in the Greater Berlin Area were expanded or established.

With the submission of its bid for DKB Immobilien AG (DKBI) in February 2012, TAG confirms its growth strategy on the one hand, and on the other aims to strengthen its eastern locations, as the 25,000 units of DKBI are located mainly in the regions of Thuringia, Greater Berlin and Saxony. Therefore we would like to discuss the markets of Berlin and eastern Germany in more detail below.

Berlin as a location and focus of acquisition

Berlin‘s importance as a real estate location has grown steadily in recent years and has made the city with its 3.5 million inhabitants one of the most important German metropolitan regions. Its broad cultural spectrum attracts creative people of all ages, giving the city its innovation and sustainability and providing skilled workers. Moreover, the economic fundamentals of Berlin are proving to be extremely robust. Berlin‘s economy grew by around 2.5 percent in 2011 – however, this growth rate will be considerably lower in 2012. The Berlin labour market is relatively solid. As expected, the number of people in employment developed positively in 2011 and rose by 1.3 percent. Thus, the unemployment rate fell to 13.6 percent; in the mid-2000s it was still at 19.0 percent.

Berlin's population has grown since 2005, with an average of 13,000 people being added each year over the past 5 years. In the medium term Berlin should continue to grow at higher rates than Germany as a whole. It is encouraging that young people in particular are attracted to Berlin and the 25,000 increase in 20-30 year olds in 2010 was notable. Consequently, the demographic forecasts for Berlin are positive. The overall share of one- and two-person households is 83.7 percent, an even higher proportion than in Hamburg and Cologne (nearly 81.0 percent). Larger households with three or more persons are correspondingly underrepresented at just 16.3 percent.

The Berlin housing market is heterogeneous, because the 13 districts are developing very differently and their assessed attractiveness varies greatly. A closer inspection is required here. TAG has invested in the following districts: Zehlendorf, Charlottenburg/Wilmersdorf, Friedrichshain/Kreuzberg, Neukölln and Marzahn/Hellersdorf. Almost all of these districts are benefiting from the positive population development in Berlin. Zehlendorf in particular has experienced above-average migration gains. In the last 10 years only Marzahn/Hellersdorf has seen mainly net falls in population, but in 2010 this trend was reversed for the first time and the district had a net increase in population of about 1,800.

Quoted rents are on a steady rise again in Berlin following a two-year stagnation period since the end of 2007. However, the increase slowed in 2011 compared to 2010, from 8.4 percent to 5.1 percent. Rents for new apartments built since 2000 and for apartments with high quality facilities are developing much better. The average net rent (without utilities) for existing housing for all of Berlin was 6.49 EUR/sqm during Q1-Q3/2011. Half of all Berlin apartments are offered at net rents of 5.51 to 8.00 EUR/sqm. Rents for new apartments are above these levels. The Berlin districts with the highest quoted rents are Charlottenburg/Wilmersdorf (7.98 EUR/sqm), followed by Steglitz/Zehlendorf (7.03 EUR/sqm) and Friedrichshain/Kreuzberg and Pankow. In other districts, rents are often substantially below the average price of 6.49 EUR/sqm – for instance in Neukölln (5.93 EUR/sqm), Reinickendorf (5.75 EUR/sqm) and Spandau (5.37 EUR/sqm). The cheapest apartments on average are in Marzahn/Hellersdorf (4.82 EUR/sqm).

Currently, the average living space per capita is 38.7 sqm and the average apartment size is 70.6 sqm. The vacancy rate for Berlin was 5.0 percent in 2010 (2009: 5.5 percent).

These basic figures show the potential that the Berlin real estate market offers – especially in the rental market. TAG has more than 10,000 units in Berlin, and is steadily realising the existing potential for value increases through active asset and property management.

The environs of Berlin are also benefitting from their proximity to the city and the appeal of the capital. In 2010 around 19,000 Berliners moved to the surrounding countryside while only 15,000 people moved from the surrounding countryside to Berlin. TAG's investment decision to acquire around 1,100 residential units in Eberswalde in January 2012 should be seen in this context. Eberswalde has a population of 41,000 and is accessible by train from Berlin's Hauptbahnhof (Central Station) in 32 minutes. It also offers all the advantages of a small town with easy connections to the workplace in Berlin.

Leipzig and eastern Germany in general as a location and focus of acquisition

Germany's good economic performance last year was also reflected in the federal state budgets where there were quite a few surprises. Four federal states did not incur any new debt, and three of them are located in the east: Saxony, Brandenburg and Mecklenburg-Western Pomerania. Bavaria was the only western state that did not grow its deficit. Among other things this shows that the East is still underestimated far too much. And this also applies to the real estate market. Because some investors lost a lot of money there in the nineties the eastern German real estate market still carries a stigma even after all these years. The attractiveness of the Baltic Sea coast, Greater Berlin and the towns along the A4 autobahn from Erfurt to Weimar, Jena, Gera, Chemnitz and Dresden are overlooked by many as is the opportunity of achieving good rental yields in the eastern cities. The German Real Estate Federation's (IVD) mid-eastern chapter reports that in 2011 rents rose by 2.9 percent in Saxony and Saxony-Anhalt for old apartments and by 2.1 percent for flats built after 1949. And this trend is expected to continue in the current year. Attractive rental returns have been recorded in the past three years in Gera (about 4.0 percent) and Dresden (4.0 percent) among others.

TAG expanded its portfolio in Leipzig / Saxony last year, purchasing 156 residential units in Dresden and 429 in Chemnitz. With its bid to acquire DKB Immobilien AG on 29 February 2012 TAG is clearly demonstrating that it recognises and aims to realise the potential of the eastern German real estate market. This acquisition involves a total of 25,000 residential units located mainly in Thuringia, Greater Berlin and Saxony. The successful acquisition of this portfolio would significantly expand TAG's footprint in Berlin and Saxony / Leipzig.

Commercial real estate

The commercial real estate market saw a similarly positive developing as the residential property market in 2011. The transaction volume in the commercial real estate segment totalled nearly EUR 23.5 billion in 2011, exceeding the prior year's volume of EUR 19.6 billion by 20.0 percent. A third of the total revenues were from foreign investors who regard Germany as a safe investment destination in difficult times. But for German investors (66.0 percent) real estate is also currently hard to beat as an asset class in comparison to possible investment alternatives. 84.0 percent (EUR 19.8 billion) of the transaction volume is attributable to individual sales, with only EUR 3.67 billion (16.0 percent) invested in portfolios. Again, this can be seen as an indication of the strong interest in high-quality, safe and easily calculable properties.

Retail properties occupy the top spot (46.0 percent), followed by office properties (30.0 percent), logistics properties (5.0 percent) and hotels (4.0 percent). The most sought-after locations were the 'Big Six': Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne and Munich, which saw transactions of EUR 12.1 billion (+10.0 percent compared to 2010). The favourites are definitely Frankfurt with EUR 2.97 billion (+58.0 percent), Munich with EUR 2.88 billion (+67.0 percent) and Hamburg with EUR 2.19 billion (+9.0 percent). Yields stabilised towards the end of 2011 and barely changed. For office properties, prime yields are still the lowest in Munich (4.75 percent), followed by Hamburg (4.8 percent) and Frankfurt (4.9 percent).

Looking at 2012, the conditions are favourable for the German investment market, particularly for real estate (properties with attractive locations, a high occupancy rate and long-term lease terms) partly due to the uncertainties caused by the difficult financial markets. There is a lot of evidence that once again a high transaction volume of at least EUR 20 billion can be realised.

TAG's diversified real estate portfolio puts it in a good position to face future challenges. In the commercial portfolio in particular, the company generates attractive returns and stable cash flows through active portfolio management. Long-term leases also have a positive effect. 65 percent of the leases have a remaining maturity of longer than 3 years. And 33.0 percent of the commercial portfolio rental income is generated by Siemens AG, an economically strong and financially solvent company.

II. Net assets, results of operations and financial position

Pursuant to Regulation (EC) No. 1606/2002, the consolidated financial statements of the listed stock corporation TAG as of 31 December 2011 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 (HGB). The annual financial statements of TAG as well as the separate financial statements of the Group companies were again prepared in accordance with the provisions of the German Commercial Code. The consolidated subgroup financial statements of listed subsidiaries Bau-Verein AG and Colonia AG were also 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, pursuant to Regulation (EC) No. 1606/2002.

The Group's net assets, results of operations and financial position in 2011 were materially affected by the first-time consolidation of Colonia effective 1 February 2011. The TAG Group's revenues rose substantially as a result of the inclusion of Colonia in its consolidated financial statements and other acquisitions completed in 2011.

Results of operations

Revenues

Total revenues more than doubled, rising from EUR 82.9 million in 2010 to EUR 178.3 million in 2011. In addition to increased rental income as a result of acquisitions and the successful reduction in vacancies, income from real estate sales also contributed to the increase in revenues. Rental income climbed from EUR 51.8 million in 2010 to EUR 115.4 million, equivalent to an increase of EUR 63.6 million or 122.8 percent chiefly as a result of the first-time consolidation of Colonia from 1 February 2011. Income from real estate sales climbed from EUR 29.5 million EUR 54.5 million. The largest transaction in 2011 was the sale of the "Tübinger Straße" commercial real estate asset in Munich, which generated revenues of around EUR 31 million.

Service income also rose primarily as a result of the acquisition of Colonia as its asset management company was merged with TAG's asset management company under the roof of POLARES to form a single service company. As a result, service income climbed from EUR 1.7 million to EUR 8.5 million.

Other operating income and fair value remeasurements
Other operating income primarily stems from non-recurring effects in connection with new acquisitions and rose to EUR 66.8 million (previous year: EUR 15.7 million). It includes the earnings effect of EUR 32.4 million arising from the first-time consolidation of Colonia. The fair value remeasurement of investment properties and the net profit from the first-time consolidation of property companies yielded total net remeasurement gains of EUR 28.9 million (previous year: EUR 16.9 million).

With the increase in rental income achieved together with the net fair value remeasurement gains, the Company sees this as vindicating its strategy of reinforcing the profitability of investment properties on a sustained basis by means of active project management. The acquisitions in 2011 made significant contributions to earnings, offering incentive to engage in further acquisitions to drive growth.

Gross profit
The TAG Group's gross profit improved substantially, rising from EUR 73.0 million in 2010 to EUR 182.5 million in 2011. This improvement was achieved thanks to an increase in operating earnings from letting (up EUR 38.9 million on the previous year), an increase in net earnings from real estate sales (up EUR 7.9 million on the previous year), improved net fair value remeasurement gains (up EUR 12.1 million on the previous year) and increased other operating income, particularly non-recurring effects from first-time consolidation (up EUR 51.1 million on the previous year).

Expenses
In line with the increase in revenues, expenses were also higher chiefly for acquisition-related reasons. Thus, personnel expenses at the Group level rose from EUR 8.8 million in 2010 to EUR 12.8 million in 2011 primarily as a result of the increased number of employees. Other operating expenses also increased to a total of EUR 20.5 million in 2011 (previous year EUR 16.0 million). This item chiefly comprises legal, advisory and valuation expenses as well as general administration and reporting expenses incurred by the Group.

Earnings before interest and taxes (EBIT)
EBIT improved from EUR 46.9 million to EUR 144.6 million.

Net interest income/expense and share of profits of associates
Net borrowing costs, i.e. interest expense net of interest income, came to EUR -61.6 million (previous year: EUR -31.2 million) chiefly as a result of the heightened debt capital requirements in connection with the acquisitions and the first-time consolidation of Colonia within the TAG Group. Whereas in the previous year the measurement of the investments in Colonia and Estavis AG had resulted in a share of profit of associates of EUR 6.5 million, this figure dropped to EUR 0.3 million in 2011.

Earnings before taxes (EBT)
Earnings before taxes improved substantially, rising from EUR 22.2 million in 2010 to EUR 83.3 million in 2011.

Income taxes
Consolidated income tax expense came to EUR -17.3 million in 2011, up from EUR -2.8 million in 2010. Tax expense comprises almost solely deferred income tax liabilities arising from the greater differences between the tax base of the real estate and its carrying amount in the IFRS consolidated financial statements.

Consolidated net profit after non-controlling interests
Consolidated net profit after non-controlling interests improved substantially, rising to EUR 66.9 million (previous year EUR 18.5 million).

Net assets

Total equity and liabilities

Total assets rose by 72.0 percent from EUR 1,191 million on 31 December 2010 to EUR 2,048 million on 31 December 2011. This increase was chiefly due to the first-time consolidation of Colonia effective 1 February 2011. Similarly, real estate assets rose from EUR 978 million on 31 December 2010 to EUR 1,969 million at the end of 2011 as a result of the corporate acquisitions. Available-for-sale properties dropped in value from EUR 114.0 million at the end of the previous year to EUR 37.4 million as of 31 December 2011. This was due to sales of properties as well as the reclassification of properties which are no longer to be sold. As of 31 December 2011, the non-current assets held for sale of EUR 38 million (previous year EUR 16 million) comprise investment properties and the investment in Estavis AG, which are to be sold in the following year.

As of 31 December 2011, there was a net increase in deferred income tax liabilities to EUR 67 million (previous year EUR 9 million) chiefly as a result of the consolidation of Colonia AG and the fair value remeasurement of the real estate holdings.

Net asset value (NAV)

Net asset value, the international standard for comparing real estate companies calculated in accordance with the EPRA standards, increased from EUR 6.67 per share on 31 December 2010 to EUR 8.72 per share. EPRA-NAV is calculated on the basis of equity before non-controlling interests as shown on the face of the balance sheet, adjusted for derivatives and deferred income taxes, divided by the number of shares as of the reporting date.

EPRA NAV – TAG Group		12/31/2011	12/31/2010
Equity before non-controlling interests		547,392	356,461
Correction for derivatives	Receivables from derivatives	-489	-16
	Liabilities from derivatives	39,601	25,289
Correction for deferred taxes	Deferred income tax assets	-118	-3,996
	Deferred income tax liabilities	66,884	12,894
EPRA NAV		**653,270**	**390,632**
Number of shares		**74,905,174**	**58,566,364**
NAV per share		**8.72**	**6.67**

Capital spending

The TAG Group's total capital spending increased from EUR 145.2 million in 2010 to EUR 314.1 million. At EUR 109.1 million, this chiefly entailed the acquisition of the shares in Colonia AG beyond the 50 percent interest as well as the acquisition of real estate companies and properties for a total of EUR 202.7 million (previous year EUR 65.7 million). These acquisitions enlarged the Group's own residential real estate portfolio and are thus strengthening its core business on a sustained basis.

Financial condition

Equity

The equity ratio before non-controlling interests contracted in 2011 to just under 27 percent, compared with just under 30 percent in the previous year. With this equity ratio, the TAG Group remains solidly funded. In 2011, cash and non-cash equity issues were executed to fund further acquisition activity, causing the number of shares outstanding to rise from 58.6 million on 31 December 2010 to 74.9 million on 31 December 2011. All told, the equity issues resulted in an increase of around EUR 131 million in equity.

Funding

Total consolidated financial liabilities climbed to EUR 1,189 million in 2011, up from EUR 648 million in 2010. This was predominantly due to the consolidation of Colonia AG, which had financial liabilities of EUR 477 million on 31 December 2011. Within this item, bank borrowings due for repayment in more than one year were valued at EUR 1,017 million, compared with EUR 524 million at the end of 2010. The average interest rate on these non-current liabilities stood at around 3.2 percent allowing for the hedges utilised. Current bank borrowings stood at EUR 173 million, up from EUR 124 million as of 31 December 2010. The average interest rate on these liabilities was around 3.7 percent.

Funding structure	12/31/2011	12/31/2010
Bank borrowings in TEUR	**1,189,393**	**647,655**
of which non-current	1,016,825	523,512
of which current	172,568	124,143
Net borrowing costs	-61,546	-31,185
Average interest rate %		
non-current	3.2	4.7
current	3.7	2.3
Hedging of interest risks through swaps/caps		
Nominal volume in TEUR	671,897	313,343
Interest rate %	3.8	4.5
Average term in years	3.0	4.0

The TAG Group had issued convertible bonds in 2010 to finance its continued growth. These had a value of EUR 108 million as of 31 December 2011 (previous year EUR 104 million). The convertible bonds within the Colonia subgroup are valued at EUR 2.4 million. The coupons on all convertible bonds range from 4.5 percent to 6.4 percent.

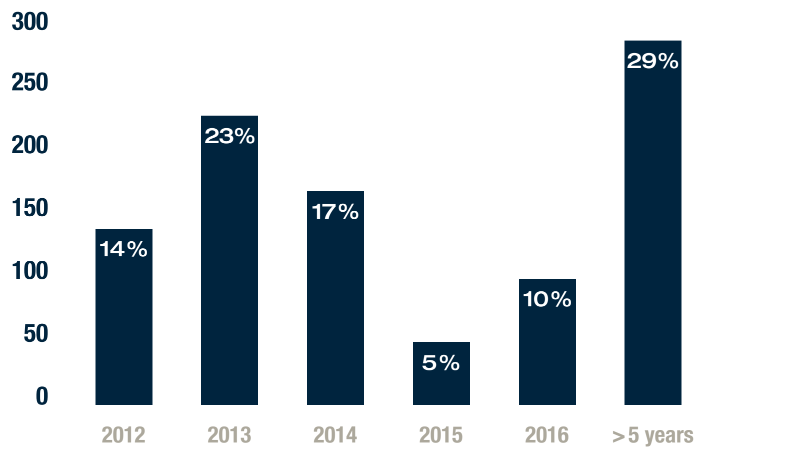
Cash and cash equivalents were valued at just under EUR 32 million as of 31 December 2011, down from EUR 129 million as of 31 December 2010. The previous year's high figure includes the cash and cash equivalents for financing the acquisition of Colonia.

TAG assumes that all loans expiring in 2012 will be renewed as planned. TAG does not have any foreign-currency finance. In expectation of lower market interest rates, we assume that the Company's overall borrowing costs will drop in the long term.

Breakdown by remaining period	in EUR m 2011	in EUR m 2010
2011	0	114
2012	156	117
2013	247	54
2014	180	62
2015	56	57
2016	216	44
2017	143	146
2018	15	15
2019	0	0
2020	34	39
2021 and beyond	142	0
Total	**1,189**	**648**

Financial structure

TAG Credit periods in EUR m



General statement on economic situation

TAG's total assets rose by around 72 percent as a result of the acquisitions executed in 2011, with the carrying amounts of the investment properties increasing sharply by around 126 percent. The Group's results of operations are positive also thanks to the additions to its real estate portfolio and the foundations are in place for a further improvement in the future thanks to its enlarged core business.

At just under 27 percent, the equity ratio before non-controlling interests remains at a high level by sector standards. TAG has sufficient liquidity and is solidly financed.

Employees

The successful achievement of TAG's strategic and operating goals hinges on qualified and committed employees. The close partnership between management and staff encourages performance, dedication and a team spirit, while also providing scope for initiative and responsibility. Staff training at all levels of the Group ensures that employees have the competence required. TAG also offers its employees language and IT courses as well as instruction on real-estate-related matters via external training institutions. This results in strong employee bonding and a consistently high number of qualified staff as the Group also does all it can to support career development.

Given the intensified competition for qualified staff and demographic trends, the availability of internal training is becoming an increasingly decisive competitive factor. TAG is a recognised career trainer in the real estate industry and trains staff for its own requirements. As of last year, school-leavers have been able to commence traineeships for careers as real estate management assistants at four TAG offices. The Group had a total of 15 trainees in 2011.

Two students have been on internships at TAG in connection with dual studies in real estate management since last year. TAG is greatly interested in broadening these possibilities for students in the future and wishes to offer several students the opportunity of completing these extremely career-oriented courses with the goal of obtaining qualified graduates. It is pursuing a similar goal with the partnership and sponsorship contract which was entered into with the Technical University of Darmstadt last year.

As a result of the acquisitions completed in the previous year, the Group's headcount increased. At the end of 2011, TAG had 281 employees – excluding trainees, janitors and cleaning staff – up from 168 one year earlier.

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

In accordance with the provisions of the Act on Appropriateness of Management Board Remuneration, the members of the Management Board receive a fixed and a variable remuneration component. This system was applied for the first time for 2010. The Supervisory Board calculates the variable remuneration component after the annual financial statements have been approved. In doing so, it takes account of the tasks of the Management Board as a whole and of the individual members, their personal performance, the Group's business performance in Germany and its success and outlook. The variable components of the Management Board remuneration are calculated for the previous year on the basis of the following criteria, which are given an equal weighting:

- Performance of the share price in the year
- Performance of the net asset value of the share in the year, and
- Earnings before tax (EBT) as recorded in the IFRS consolidated financial statements for the year net of any fair value remeasurement gains or losses on the investment properties.

These figures are calculated relative to the figures for the previous year as of 31 December. In the event of any extraordinary development in the individual criteria, the Supervisory Board may change their individual weighting. The variable remuneration is paid in instalments, i.e. over a period of three years, and may be corrected if there is any deterioration in the Company's performance. This ensures that allowance is made for the long-term business performance. Upon the ordinary termination of office on the part of any member of the Management Board, such member receives the outstanding part of the variable remuneration for which entitlement has accrued. The variable remuneration has been capped at EUR 250,000.00 or, in the case of the chairman of the Management Board (CEO), at EUR 500,000.00. In exceptional cases, the Supervisory Board may pass other resolutions to allow for special circumstances and/or the special performance of the individual member of the Management Board.

No provision has been made for stock options or similar variable remuneration arrangements. The members of TAG's Management Board are not entitled to claim any additional bonuses or duplicate remuneration if they simultaneously serve on the Management Board of Bau-Verein AG or Colonia Real Estate AG. The variable remuneration is determined solely at the level of and charged to TAG.

In the event of any change of control, i.e. if one or more shareholders acquire a majority of the voting rights or a controlling influence over TAG, Mr. Rolf Elgeti, the chairman of the Management Board (CEO), and also Dr. Harboe Vaagt are entitled to terminate their service contract subject to advance notice of six months (special right of termination). If this special right of termination is exercised, the Company undertakes to pay a gross settlement amount on the date on which the Company is left equalling the annual gross salary provided that the service contract still has a remaining period of at least 24 months as of the date of termination. In the event of a shorter remaining period, he is entitled to claim a gross settlement equalling the gross salary which he would have earned in the remaining term of the service contract.

The service contracts with the members of the Management Board do not provide for any pension entitlement to accrue. In the event of the premature termination of the service contract for any other reason, the contract entered into with Dr. Vaagt states that the compensation is to be capped at a value equalling two annual instalments and is not to exceed the amount owing over the remaining period of the contract. The members of the Management Board receive further benefits as other remuneration, some of which are classified as non-cash benefits and are taxed accordingly. In particular, these include a Bahn-Card (for discounted rail travel), accident and liability insurance and refunds of travel expenses. Any management and supervisory board mandates for companies within the Group are taken on free of charge. All ancillary activities are subject to approval. The non-performancetied remuneration takes the form of a fixed annual salary paid out in equal monthly instalments. Dr. Vaagt uses a company car, which in part constitutes a non-cash benefit and is taxed accordingly. Please refer to the notes to the consolidated financial statements for details of the remuneration paid to the members of the Management Board.

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

Share capital
The Company's share capital stands at EUR 74,905,174.00 as of 31 December 2011, up from EUR 58,566,364.00 as of 31 December 2010, and is divided into 74,905,174 shares. Each share accounts for an amount of EUR 1.00 of the share capital. The same rights are attached to all shares. There is one vote per share; dividend entitlement is determined by the number of shares held.

Authorisation of the Management Board to issue of new shares

Authorised capital 2011/I
In a resolution passed at the extraordinary shareholder meeting of 7 April 2011, the Management Board was authorised subject to the Supervisory Board's approval to increase the Company's share capital once or repeatedly on or before 6 April 2016 on a cash and/or non-cash basis by a maximum amount of EUR 25,000,000.00 by issuing up to 25,000,000 new shares in the Company's capital. The Management Board made use of this authorisation in a resolution passed on 15 April and 5 May 2011 and issued new shares for EUR 5,856,635 on a cash basis. The new shares were entered in the commercial register on 6 May 2011. Moreover, in a resolution dated 26 July 2011, the Management Board issued new shares worth EUR 5,476,924 on a non-cash basis. This issue was entered in the commercial register on 1 November 2011. In a resolution of 17 November 2011, which was entered in the commercial register on 22 November 2011, further new shares worth EUR 5,000,000 were issued on a cash basis.

Authorised capital 2011/II
In a resolution passed at the annual general meeting on 26 August 2011, further authorised capital (authorised capital 2011/II) was established and entered in the commercial register on 15 September. The Management Board is authorised subject to the Supervisory Board's approval to increase the share capital once or repeatedly on or before 25 August 2016 by a maximum amount of EUR 7,000,000.00 by issuing up to 7,000,000 no-par value shares on a cash or non-cash basis.

Contingent capital 2009/I
At the annual general meeting held on 27 August 2009, the shareholders authorised the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds on or before 26 August 2014. The bearers or creditors of such bonds are granted conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to EUR 8,200,000.00 in accordance with the terms and conditions determined. The Management Board also made use of this authorisation with the Supervisory Board's approval in resolutions passed on 17 December 2009 and 15 April 2010, meaning that it has now also been utilised in full. In addition, the share capital increased by 5,251 shares as a result of the exercise of conversion rights using condition capital 2010/I.

Contingent capital 2010/I
In a resolution passed at the ordinary shareholder meeting on 25 June 2010, the Company's share capital was increased by EUR 9,000,000.00 through the issue of up to 9,000,000 new bearer shares on a contingent basis. The contingent capital is to be used to grant shares to the holders of convertible and / or option bonds which have been issued by the Company in accordance with the authorisation granted at the shareholder meeting.

Contingent capital 2011/I
At the annual general meeting held on 26 August 2011, the shareholders additionally authorised the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds with a total nominal amount of up to EUR 150.0 million on or before 25 August 2016 and to grant the bearers or creditors of such bonds conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to EUR 15.0 million in accordance with the terms and conditions determined.

Rules on amendments to the bylaws and on the appointment and dismissal of the Management Board

The scope of the activities which the Company may perform is defined in its bylaws. These bylaws may only be modified through 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 at least 75 percent of the share capital represented is required for any amendment to the Company's purpose in accordance with Section 179 (2) of the German Stock Corporation Act.

TAG is managed and represented by its Management Board. The Management Board comprises at least two persons who are appointed by the Supervisory Board 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.

Authorisation to buy back own shares

In accordance with a resolution passed at the annual general meeting on 25 June 2010, the Company is authorised to buy treasury stock in an amount of up to 10 percent of its share capital of EUR 34,984,546.00, i.e. up to 3,498,454 shares, on or before 24 June 2015. The authorisation may not be utilised by the Company to trade in treasury stock. The Company has so far not made any use of this authorisation.

Conditions for a change of control following a take-over offer

In connection with the entities acquired in 2011, TAG assumed loan contracts which require the bank's approval on account of the change of shareholder or which may lead to the loans being terminated. This entails a loan contract for TAG NRW-Immobilien GmbH for around EUR 11.6 million and EUR 8.1 million, a loan contract for TAG Sachsenimmobilien GmbH for around EUR 11.6 million, a loan contract with Colonia Real Estate AG of around EUR 32 million, a loan contract with Colonia Bremen GmbH & Co. KG of around EUR 3.1 million, a loan contract for TAG Leipzig Immobilien GmbH of around EUR 9.6 million, a loan contract for TAG Marzahn-Immobilien GmbH of around EUR 19.0 million as well as several loan contracts of around EUR 99.6 million in connection with the “Theta” project.

Whereas the loans granted to TAG Sachsenimmobilien GmbH and Leipzig-Immobilien GmbH are based on the change of shareholder, the contracts with TAG NRW-Immobilien GmbH and TAG Marzahn-Immobilien GmbH as well as the “Theta” contracts require a change of more than 50.0 percent in the voting rights of the borrower.

TAG issued two convertible bonds in 2010, a EUR 30.0 million bond in May 2010 maturing in May 2015, and a EUR 66.6 million bond in December 2010 maturing in December 2015. Both provide for an early right of cancellation in the event of a change of control, which in both cases is defined as a takeover of more than 30 percent of the voting rights in TAG. In addition, the chairman of the Management Board (CEO) as well as the Management Board member Dr. Vaagt has a special right of termination in the event of any change in TAG's current shareholder structure. If this special right of termination is utilised, he is entitled to claim a settlement based on the remaining period of service contract as of the date of termination. Further information can be found in the remuneration report.

Equity investments exceeding 10.0 percent of the voting rights

The Company is aware of only two direct or holdings of more than 10.0 percent of its voting rights. One of these is held by Ruffer LLP, London, United Kingdom, which holds 18.0 percent of the voting rights as of the reporting date. The second one is IP Concept/FvS Strategie SICAV, which holds 10.0 percent as of the reporting date.

V. Corporate governance declaration in accordance with Section 289a of the German Commercial Code

The corporate governance declaration in accordance with Section 289a of the German Commercial Code can be found on TAG's web site at www.tag-ag.com/investor-relations under "Corporate governance declaration".

VI. Material events occurring after the balance sheet date

On 11 January 2012, TAG acquired directly and via a subsidiary 100 percent of the capital of Eberswalde Verwaltungs GmbH, which owns a residential estate comprising 1,057 units with a total floor area of 59,911 square metres located to the north of Berlin. The residential units generate net annual target rental of around EUR 2.7 million. The total purchase price for the interest stood at EUR 30.4 million, with a material component of around EUR 19.5 million paid through the absorption of the bank liabilities held by Eberswalde Verwaltungs GmbH.

There have been further changes in the investments held by TAG since the reporting date. Following the offer to the remaining outstanding shareholders of Bau-Verein zu Hamburg AG during a period from 10 February until 9 March 2012, TAG's share in Bau-Verein rose from 93.21 percent as of 31 December 2011 to 96.09 percent as of 10 March 2012. At the end of January 2012, TAG sold its share of 20.7 percent in Estavis AG at an attractive price which the parties have agreed not to disclose.

On 29 February 2012, TAG submitted to Deutsche Kreditbank AG an offer binding until 30 March 2012 for the acquisition of DKB Immobilien AG. The offer was submitted in a bidding process organised by Deutsche Kreditbank AG for the sale of DKBI. The purchase price offered (cash component) equalled EUR 160 million. Of this amount, TAG offered to pay a preliminary instalment of EUR 100 million upon the contract being signed, with the second instalment to be deferred by the vendor. The DKBI Group's bank liabilities stood at around EUR 800 million as of 31 December 2011 and were to be absorbed by the buyer. As of 31 December 2011, DKBI had around 25,000 residential units with a lettable floor area of a total of some 1.6 million square metres and around 500 commercial units, generating total net rental income of around EUR 72.3 million. Nearly all of the company's properties are located in the eastern German states, primarily Thuringia, greater Berlin and Saxony. DKBI's real estate portfolio was valued at around EUR 1,050 million as of 31 December 2011.

To finance the acquisition, the Management Board acting with the approval of the Supervisory Board passed a resolution on 28 February 2012 to execute a cash equity issue entailing the utilisation of the existing authorised capital to issue up to around 20.6 million new TAG shares. The new shares were offered to the shareholders on a 3-for-11 basis in a subscription period between 2 and 16 March 2012. Subscription rights were excluded for fractional amounts. In addition, the new shares have been offered to institutional and private investors in Germany in a public offer and in selected other countries in the form of a private placement. The new shares were placed in full at a subscription price of EUR 6.15 each. The proceeds from the equity issue thus came to EUR 127 million. The issue of a total of EUR 20,667,737.00 was entered in the commercial register on 19 March 2012. Accordingly, the Company's share capital now stands at EUR 96,428,250.00. The new shares, which are dividend-entitled from 1 January 2011, were admitted to trading in the regulated market (Prime Standard) of the Frankfurt Stock Exchange on 20 March 2012.

VII. Risk and opportunities report

Risk management

Risks are a basic element of all business activity. However, they are subject to the principle under which the opportunities must clearly outweigh the risks, speculative transactions are not permitted and TAG's conduct must comply not only with the applicable law but also with ethical and moral standards. The main purpose of risk and opportunities management is to safeguard the TAG Group and to ensure its continued development and growth. TAG must expose itself to risks in order to utilise the opportunities arising in the German real estate market within the scope of its business strategy. In this connection, it is of crucial importance for all aspects to be identified, assessed and monitored to ensure a professional approach to addressing possible risks. To this end, TAG has implemented a central risk management system to identify, measure, control and monitor all of the material risks to which the Group is exposed. This risk management system reduces potential risks, safeguards the Group's assets and supports its continued successful performance. All organisational units within TAG are obliged to observe the requirements of risk management.

The Management Board of TAG is responsible for implementing a consistent and appropriate risk management process. As in previous years, a risk early detection system is utilised in accordance with Section 91 (2) of the German Stock Corporation Act. Group controlling supports the Management Board and the organisational units required to submit reports on a methodical basis by means of recurring internal report controls. Risks are recorded and evaluated regularly, with the countermeasures taken reviewed and updated. In addition, the Management Board and the Supervisory Board are kept regularly informed in writing.

Moreover, the Management Board is notified immediately of all material risks and provided with the necessary information to take the requisite steps with minimum delay. The reviews conducted did not give rise to any evidence calling into question the appropriateness, efficacy and functioning of the risk management system.

Risk identification

In order to identify risks, TAG observes general conditions and trends in the financial services and real estate sectors. As well as this, it monitors internal processes. Risk identification is an ongoing task on account of the constant changes in conditions and requirements and is integrated in operative processes through the use of checklists, for example. As a matter of principle, all organisational units are required to identify risks likely to arise from present or future activity. Regular meetings, controlling discussions, department meetings, one-on-ones and queries also help to identify risks.

Sector risks

TAG is exposed to general risks in connection with the real estate sector. These risks typically entail the following: cyclical movements in the real estate market in general, and in international and local markets in particular, sales and rental risks, the risk of physical damage, and construction risks and the risk of construction budget overruns, e.g. when modernising and renovating. TAG addresses sector risks by means of intensive observation of the real estate markets and by entering into long-term leases with investment-grade lessees in the commercial real estate segment as far as possible.

Description of individual risks

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

Economic and sector risks

TAG is exposed to various risks in the real estate sector. In the rental market, surplus supply may exert pressure on prices and margins and result in vacancies. TAG minimises this risk by means of intensive examinations of the local market ahead of an investment.

TAG's real estate portfolio is exposed to risks in the rental and investment markets. Market risks may arise in the rental market in the event of a deterioration of economic conditions in Germany, causing rentals to stagnate or decline. In addition, changes in underlying economic conditions may trigger an increase in unemployment, which may result in financial curtailments on the part of a non-quantifiable group of lessees as well as rising vacancies and the resultant vacancy costs. Further effects may arise on the transaction level with respect to individual or portfolio sales and exert pressure on real estate prices, thus leading to reduced proceeds from sales. On the demand side of the rental market, cyclical effects and long-term structural shifts may give rise to risks. With the euro crisis still persisting, economic researchers project only muted growth for Germany in 2012. In addition, risks continue to emanate from the US housing market, the uncertainties in the euro exchange rate, inflationary tendencies and a further increase in the price of energy and oil.

In contrast to rural locations, the dynamic metropolitan regions and selected other locations which form the focus of TAG's strategy will not be materially affected by demographic factors, meaning that these risks will remain limited for TAG.

Unexpected changes on the supply and demand side of the rental markets are reflected in actual rental income, vacancies, future market expectations and thus ultimately also real estate prices. TAG sees little risk of any impairment in the fundamental appeal of real estate as an asset class. Various studies and press reports suggest that the particular risk/reward profile of real estate compared with other asset classes, the combination of security (inherent value of a tangible asset) and regular rental income will ensure that real estate plays a greater role in the asset portfolios of institutional investors.

Regulatory and political risks

TAG is exposed to general risks arising from changes in regulatory or legislative conditions. As its activities are confined to Germany and such changes normally do not occur suddenly or unexpectedly, there is sufficient time to make the appropriate adjustments. We consider this risk to be marginal in 2012.

Rental risks

TAG addresses the risk of payment defaults under commercial rental leases by leasing its properties to companies with a good credit standing in conjunction with a consistent and low-risk business model. In the case of residential tenants, a standard credit check is performed prior to the contract being signed. In addition, reducing vacancies by means of active asset and property management forms part of the Group’s core business, thus reducing vacancy costs and also harnessing available rental potential. Active portfolio management combined with ongoing lessee relationship management ensures long-term leases. This has a positive effect on fluctuation and, related to this, a reduction in the risk of rental defaults. At the same time, the implementation of a successful receivables management system safeguards continuous payment receipts and can help to avert defaults with minimum delay. TAG attempts to avoid risk clustering, i.e. a situation in which a small number of tenants account for a large proportion of rental income. Siemens AG as TAG’s largest tenant is considered to be an investment-grade premium tenant.

In addition, the risk of rental payment defaults is averted by means of an intensive analysis of the property, location and tenants ahead of the acquisition as well as ongoing observation of the relevant real estate markets. The scope for third-party utilisation also plays a crucial role in investments.

Generally speaking, long-term leases are sought particularly for commercial real estate. At the same time, measures are taken at an early stage to ensure that leases which are soon to expire are duly renewed. Although there is an individual risk of default, we consider it to be marginal in its entirety.

In connection with rental risks, it should be noted that the leases which TAG has with Siemens AG as its largest tenant have been entered into for different periods. If they are not renewed and it is not possible to find a new tenant for the property, this will have an adverse effect on TAG Gewerbe’s rental income and the fair value of its real estate.

Risks arising from corporate strategy

TAG considers the main risks with respect to corporate strategy to entail transaction risks. As the real estate transaction market performed very well in Germany in 2011 and the outlook for 2012 is reasonably favourable, opportunities for continued growth in the German real estate market should arise for TAG. If any acquisition opportunities arise for TAG in 2012, there is a risk in connection with large-volume portfolios of the earnings and synergistic potential being overrated and the rental and cost risks being underrated. TAG is responding to these risks by means of thorough pre-acquisition due-diligence activities and the use of risk-oriented forecasts which are rolled over and adjusted with minimum delay on an ongoing basis. However, omissions in the due diligence reports and evaluations as well as opaque contract award processes may give rise to risks. Similarly, newly acquired units may fail to achieve the expected returns, with a potentially adverse effect on the TAG Group’s business.

A further risk may arise from the failure to recognise trends in good time. If TAG does not detect and act on market developments or trends within an acceptable time frame, this may have far-reaching consequences. To address this risk from the outset, the awareness of all asset and property management executives within the Group has been strengthened for the need to observe trends in individual markets and sectors closely and to communicate any changes without delay and to pass them on risk management so that an appropriate response can be implemented if necessary.

Payment risks

Losses may occur as a result of excess payments or defaults, among other things. We consider the loss of assets to be the main source of risk in this respect and address it by means of an internal control system comprising incoming invoice examinations as well as payment approval components, among other things. This system is documented by means of instructions and signing rules and is regularly monitored. We consider the probability and the potential financial effects of these risks to be minimal at the moment.

Financial risks

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

Credit risks

TAG is dependent upon the receipt of bank loans to finance further acquisitions. Similarly, it must renew these loans when they expire or find alternative sources of finance. In all cases there is a risk that it may not be possible to renew such loans on these terms or only on less favourable terms due to the financial crisis. However, TAG has already addressed this risk by restructuring material parts of its non-current debt.

Within the Group there are loan contracts of a total of EUR 923 million (previous year EUR 258 million) for which the banks have stipulated compliance with certain financial covenants relating to capital service or gearing ratios. If any of these covenants are breached, there is a risk of the bank demanding early repayment of the loan in question.

In the year under review, the financial covenants stipulated in loan contracts were complied with. Only in one case (bank loan for EUR 10.0 million) was the gearing covenant notionally slightly exceeded as of the balance sheet date as the cash and cash equivalents as of 31 December 2010 were excluded from the calculation of the gearing. Although the creditor has a right of termination in the event of non-observance of a financial covenant, resulting in a liquidity risk of EUR 20.5 milion, this particular situation is not likely to have any legal consequences following the negotiations held with the bank. Similarly, the convertible bond of EUR 12.5 million issued in December 2009 and the convertible bonds issued in May and December 2010 of EUR 30.0 million and EUR 66.6 million, respectively, are subject to certain terms and conditions which, if breached, may constitute a liquidity risk.

In the event of any breach of the terms of issue, e.g. a change of control, these convertible bonds – like the loans referred to in the section entitled "Disclosures in accordance with Section 315 (4) of the German Commercial Code – Conditions for a change of control following a take-over offer" – may be subject to a right of premature termination.

Liquidity risks

Extensive liquidity planning instruments are used in both the short and medium term segments at the level of the individual operating subsidiary and the Group as a whole to ensure that business transactions are based on forecast data. Extensive liquidity reports are regularly submitted to the Management Board.

Liquidity requirements in particularly, the extent of which cannot currently be conclusively assessed, may arise in connection with the master loan contract entered into with Colonia on 23 February 2011 for up to EUR 75 million. Utilisation of the master loan hinges on the extent to which the creditors of the convertible bonds issued by Colonia make use of their special right of termination on account of a change of control. Upon the acquisition of the majority interest in Colonia, it was not possible for TAG to fully determine Colonia's liquidity requirements.

Interest risks

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

As of 31 December 2011, Group companies had conservative interest derivatives (mainly payer swaps) in a volume of roughly EUR 671.9 million (previous year EUR 313.3 million). Payer swaps constitute synthetic fixed-rate agreements in connection with a variable underlying. In this way, the Group is able to reduce its exposure to changes in the money market and also facilitate the planning of debt servicing with respect to the hedged tranches.

The Group's interest management works actively with credit management and Group planning. As a result, it is possible to structure derivatives in such a way that they generate the greatest possible benefits and maximum stability for the Group's current and future status. Future changes in market interest rates may cause the derivatives to exert adverse effects on the hedge accounting reserve in equity or consolidated net earnings.

Currency risks

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

Portfolio measurement risks

The fair value of the real estate reflects the market value determined by an independent surveyor. The market value of real estate depends on various factors. Some of these factors are exogenous in nature and cannot be influenced by TAG as they are determined by macroeconomic trends such as declining rental levels, weaker demand and increasing vacancy rates. Moreover, many qualitative factors, such as the location, quality and the amount of rental income, determine the value of real estate. The factors described here are taken into account in the valuation of the real estate by independent experts and are subject to a certain degree of discretion in some cases. Accordingly, the valuation may result in measurement losses, which may be considerable in some cases. Moreover, the valuation of real estate may be adversely affected by economic changes, interest rate fluctuation and inflation. Risk is minimised by regional diversification of the portfolio, segment diversification (residential and commercial real estate) as well as market observation and analysis. The market value of the entire TAG portfolio is determined at least once a year by independent and acknowledged experts. In accordance with IAS 40, any changes in fair value are recorded through profit and loss in the consolidated financial statements and may therefore result in greater volatility in consolidated earnings. This generally does not have any impact on TAG's solvency.

The IFRS consolidated financial statements prepared by Colonia as of 31 December 2010 are currently being reviewed by Deutsche Prüfstelle für Rechnungslegung e. V. ("DPR") in accordance with Section 342b (2) Sentence 3 of the German Commercial Code in a routine random sample audit. In a letter dated 22 November 2011, DPR informed Colonia that in its preliminary view the discounted cash flow method used by the company for the measurement of investment properties did not comply with the IFRS requirements. It stated that the measurement method did not take account of the fact that a future acquirer's transaction costs (land transfer tax, brokerage fees, notary fees etc.) must be deducted in full from the fair value of the investment properties. However, the question as to whether the fair value is calculated before transaction costs (gross capital value) or net of transaction costs (net capital value) is not expressly answered by the IFRS and is the subject of some dispute in the specialist literature. Colonia and also TAG consider the measurement method and the recognition of gross capital values to be consistent with IFRS.

As of the date on which the financial accounts were prepared, this issue with DPR had not been resolved. If the view taken by DPR is accepted and all transaction costs are deducted notwithstanding the fact that they do not always arise, this will give rise to a difference in the mid double-digit millions in TAG's equity and earnings for the period on the basis of preliminary and unaudited calculations.

Personnel risks

The TAG Group requires qualified specialists and executives to reach its strategic and operating goals especially as the constant changes in underlying conditions give rise to new tasks which can only be performed by committed and qualified employees. Accordingly, recruiting and retaining qualified employees for the Group is a permanent challenge in the face of intensive competition. Staff training and skills development at all levels of the Group ensure that employees have the crucial expertise required. In addition, employees can be assigned tasks most matching their particular skills thanks to the fact that the subgroups concentrate on separate core business segments. In order to avert the risk of a shortage of qualified employees, TAG has been training school leavers as real estate management assistants for many years now with the aim of offering them permanent employment contracts upon the completion of their traineeships.

TAG avoids pooling specialist knowledge with individual employees so as to protect itself from a loss of expertise. The Group attaches importance to documentation, internal training and other interests to support the sharing of knowledge. As a result, the Group-wide risk of a loss of knowledge caused by the departure of individual employees can be considered to be negligible.

Appropriate provisions have been set aside for all future material personnel-related risks.

IT risks

Like any other company, the TAG Group is exposed to IT risks such as the loss of data and computer viruses. For this reason, the IT infrastructure is protected throughout the entire Group by means of up-to-date firewall and anti-virus programs. In addition, permanent monitoring of data traffic to identify any hidden or harmful content provides protection against external attacks. Moreover, the Company has a stand-alone network. All operating data is backed up once a day. In the event of a hardware or software failure, all data can be recovered within a short space time. The risk of hacker or intrusion attacks is considered to be small given the nature of the sector as a whole. Despite high security standards, substantial costs may arise in the event of any disruptions or impairments.

Legal risks

TAG has set aside reasonable provisions to cover risks in connection with legal disputes, claims for damages or guarantee claims. TAG supports its subsidiaries' efforts to raise the finance they require by issuing guarantees and letters of comfort. In addition, finance is made possible in the first place or granted at more favourable terms and conditions. These guarantees involve risks for TAG due to the possibility of recourse being taken in the event of unforeseen occurrences in projects.

Claims have been asserted against TAG Asset Management GmbH by buyers of historical residential units on the grounds that the preferential tax treatment expected when the purchase contract was signed was not received. Encouraged by the pro-consumer court decisions, the acquirers are seeking to recover damages or, in some cases, to revoke the contracts, some of which were entered into many years ago. TAG is seeking to defend itself against such claims but is simultaneously endeavouring to compensate the acquirers in out-of-court settlements for any loss actually sustained. As far as can be seen, sufficient provisions have been set aside to cover these risks.

Risks in connection with the currently still ongoing bidding process for the acquisition of DKB Immobilien AG

TAG AG is participating in the bidding process for the acquisition of DKB Immobilien AG being organised by Deutsche Kreditbank AG and, in this connection, submitted a binding offer on 29 February 2012. The vendor is expected to make a decision on the award of the contract in the course of March 2012.

The offer submitted provides for payment of a purchase price of EUR 160 million and the absorption of the DKBI Group's bank liabilities of around EUR 800 million.

DKBI has around 25,000 residential units and some 500 commercial units with a lettable floor area of a total of some 1.5 million sqm and generates total net rental income of around EUR 73.2 million. Nearly all of the company's properties are located in the eastern German states, primarily Thuringia, the greater Berlin region and Saxony. The portfolio is in good condition and is fully or partially refurbished. It is valued at around EUR 1,060 million as of 31 December 2011. According to information provided, the vacancy rate for the entire portfolio stands at 10.9 percent as of 31 December 2011.

If TAG is awarded the contract, its portfolio will increase to around 56,000 residential units, with the current annualised rental income within the Group rising to around EUR 209 million accompanied by an increase in total assets to some EUR 3.2 billion.

If the vendor does not accept TAG's bid, the proceeds of the equity issue will be used for other acquisitions, to reduce financial liabilities or to strengthen TAG's equity base.

Other risks

Other risks are considered to be immaterial, improbable or minor in terms of their economic impact.

Material characteristics of the internal control and risk management system of relevance or Group accounting

The structure of TAG's internal control system of relevance for accounting is largely derived from the central organisation of its accounting system. Nearly all of the Group's financial statements are prepared by its own employees at the Group headquarters in Hamburg. Even though parts of accounting activities are performed locally, e.g. payroll accounting, which is handled by external service providers, and rental accounting, which is performed by the external and internal facility management company, ultimate responsibility is held by the accounting department.

All the figures in the financial statements of the individual companies as well as the sub-group financial statements are checked by Financial Controlling and reconciled with the budgets. The main findings derived from these figures are submitted to the Management Board in a monthly report. The figures for the financial year are reviewed by external independent auditors. During the statutory audit, the Group's internal control system of relevance for accounting, including the IT system, is also examined. The statutory auditors report to the Management Board and the Supervisory Board on any material shortcomings and scope for improvement.

The accounts department primarily uses a software package, which has been certified by independent auditors, to prepare the financial statements. In 2011, this is the "RELion" system. The support of external service providers is utilised to prepare the internal and annual financial statements. Thus, independent valuers prepare reports on the fair value of our real estate. The fair value of interest swaps is calculated with the assistance of external experts. Risks arising from interest swaps are monitored on an ongoing basis. The efficiency of interests swaps relative to the hedged loans is determined on a quarterly basis.

Overall view

Despite the Group's performance in the period under review and the strong growth in its real estate portfolio and debt position, there has not been any fundamental change in the overall risk situation compared with 2010. Using the monitoring system described above and the available instruments, TAG Immobilien AG has taken the necessary measures to identify and address risks to its going-concern status at an early stage. Moreover, management is aware of no risks liable to impact the Company's going-concern status. We are convinced that we will continue to be able to make use of the opportunities and challenges arising in the future without exposing ourselves to undue risk.

Opportunities of future development

TAG Immobilien AG further strengthened and extended its market position last year. At the same time, it spurred the consolidation process in the German real estate market by acquiring a majority interest in the listed company Colonia Real Estate AG and successfully integrating it within the TAG Group. In the course of the year under review, the Company acquired further portfolios in locations in which it had already invested, such as Berlin and Saxony, as part of its growth strategy. These different growth processes provided employees and management with valuable experience, which will be put to good use in future acquisition strategies. As a result of the increase in the number of units, the real estate volume, EPRA net asset value (EPRA-NAV), total assets and earnings have risen. At the same time, however, enterprise value measured in terms of market capitalisation has continued to grow as a result of several corporate actions, reaching the threshold of some EUR 500 million. Consequently, TAG now ranks close to the top of Deutsche Börse's SDAX index and is very well positioned on several levels to successfully continue its business and growth strategy in 2012.

With its decentralised Group structure with headquarters in Hamburg and branches in Berlin, Dusseldorf/Cologne, Leipzig, Salzgitter and Munich, it is possible for TAG to identify market trends at an early stage and to respond to them more quickly than its competitors are able to.

The portfolio is located in various regions such as Berlin, Hamburg, Leipzig/Saxony, Salzgitter, Dusseldorf, North Rhine-Westphalia and Munich, where growth potential continues to be found and can be harnessed. Good diversification of apartment sizes and micro-locations within the regions as well as modern and efficient tenant relationship management ensure that returns and cash flows are generated consistently from the portfolio. Moreover, TAG's core skills entail active asset and property management, which in the past has made a crucial contribution to reducing vacancies, boosting rental income and lowering vacancy-related costs. The basis for further organic value growth is also derived from the reduction in vacancies in the following years and the harnessing of potential for enhancing rentals within the portfolio.

In addition to implementing its growth strategy and improving its position in the capital market, TAG has a solid funding structure. The Group is fully financed on a long-term basis; Average interest stood at 4.2 percent in 2011 and the average loan tenor at 5.4 years. During the year, it was possible to refinance expiring loans on substantially more favourable terms (below 4 percent). The loan-to-value ratio, which is the indicator of a company's gearing, came to 59 percent, while the equity ratio before non-controlling interests stood at 26.7 percent. TAG's business model – successful implementation of its growth strategy coupled with active asset management – is established with banks. This is reflected in the fact that it has been able to gain new strategic bank partners – 28 purely German banks figure among TAG's business and finance partners.

Taken together, all these factors form the basis for successful implementation of the Group's strategy and, looking forward, will continue to ensure that TAG is able to raise the necessary funding in the capital market as well as from banks.

VIII. Forecast

Looking ahead over the next few years, the global economy is set to perform very disparately again from region to region, with major regional uncertainty arising. The developing countries and emerging markets should continue growing at robust, albeit weaker, rates, whereas most of the Western industrialised nations are expect to remain flat or, at most, achieve only marginal growth.

The European economy will continue to be heterogeneous, with markets expected to contract in the countries most severely afflicted by the euro and sovereign debt crisis.

After the strong performance achieved in 2010 and 2011, the German economy will weaken somewhat in the coming year. Despite this, however, Germany will retain its relatively strong competitive position. Specifically, exports are expected to continue providing crucial support in 2012, with gross domestic product likely to grow by 0.7 percent or 0.6 percent according to the German federal government and the Bundesbank, respectively.

As TAG operates solely in Germany, which remains a stable and attractive market for real estate investments, it assumes that it will be able to benefit from the continued, albeit weaker, growth in the economy in 2012. TAG will make use of the opportunities arising in the German real estate market to enhance the value of its portfolio within the scope of its business strategy.

The German real estate market – particularly the residential segment – is a balanced market. With its diversified business model in the residential and commercial real estate segments together with real estate services, TAG is well positioned to make use of opportunities arising in the German real estate market and minimising possible risks.

TAG's real estate assets are situated in attractive locations, such as Berlin, Hamburg, Leipzig/Saxony, Salzgitter and North Rhine-Westphalia. These locations are for the most part characterised by a strong infrastructure and attractive growth potential in both economic and demographic terms. Strong economic and purchasing power is to be found in these regions, prompting TAG to assume even despite the current economic difficulties that rentals – particularly in the residential real estate segment – will rise in these regions over the next few years.

This year as well, the focus in the residential real estate segment will again be on efforts to continue reducing vacancies, integrating the companies/portfolios which have been acquired and additionally optimising fixed costs. TAG assumes that successful implementation of these activities and moderate strategic capital spending will have a favourable effect on revenues and earnings and also unleash potential for enhancing the value of its real estate. In addition, it wants to make use of further opportunities in the residential real estate market for achieving additional growth provided that they satisfy the acquisition criteria, such as the ability to increase net asset value, generate a positive cash flow and make a contribution to consolidated earnings. To this end, TAG will be concentrating on acquisitions in regions in which it is already present to ensure that property and asset management of the newly acquired real estate can be efficiently handled by the closest TAG office using the existing infrastructure.

Conditions in the German commercial real estate market are not quite as favourable as in the residential segment. Given the difficult economic situation of the past few years, the possibility of adverse effects as a result of company insolvencies with rising vacancies and heightened rental defaults cannot be ruled out.

That said, TAG does not assume that it will be forced to make any adjustments to the value of its commercial real estate as this portfolio – like the Company's residential real estate – is situated in good urban locations in German cities exhibiting high growth potential. In addition to this, it has generally entered into long-term leases with investment-grade tenants in the commercial real estate segment, something which should minimise the payment default risk. No further additions are planned to the commercial real estate portfolio at this time. Instead, the focus will be on asset and property management as well as ongoing step-by-step selling activity in cases in which the individual assets can be sold at prices in excess of their book values.

Colonia Real Estate AG and the other companies and portfolios acquired in 2011 were integrated and consolidated within the Group in the course of the year. Alongside these integration and restructuring processes, lean and efficient structures were successfully implemented throughout the entire TAG Group.

Outlook and goals

With the acquisitions which have now been completed and the resultant extensions to the portfolio alongside the integration of the new real estate, TAG successfully pursued its growth-oriented strategy in 2011. One crucial step on this growth trajectory was the acquisition and integration in 2011 of Colonia Real Estate AG with its roughly 19,000 units. The resultant consolidation of Colonia caused the TAG Group's total assets and rental income to almost double in 2011. At the same time, the value of the investment properties and also the bank liabilities changed proportionately.

As already mentioned, TAG is participating in a bidding procedure for the acquisition of DKB Immobilien AG with over 25,000 units. As of the date of this report, the outcome of this process was still open and is not expected to be known until the end of March 2012. If TAG is awarded the contract, its portfolio in the greater Berlin region as well as in Thuringia and Saxony will be substantially enlarged. In addition, the acquisition will impact all financial ratios. At this stage, it is not possible to conclusively assess the effects on the TAG Group's results of operations or its equity position. However, they will be determined in a first-time consolidation balance sheet and income statement over the next few months.

The Management Board of TAG is confident that the synergistic benefits arising from the integration of DKBI can be harnessed and that the acquisition of DKBI will therefore have a sustained positive effect on earnings in 2012.

Given the continued favourable performance of the economy and the German real estate market, TAG reconfirms the detailed guidance published in November 2011 for 2012. TAG assumes that rental income will come to around EUR 144 million in 2012, resulting in earnings before taxes (EBT) of some EUR 75 million. Net income of EUR 8 million is expected to be derived from real estate sales. Moreover, TAG is striving for operating earnings of EUR 35 million and FFO (funds from operations) of EUR 27 million for the first time. The EPRA net asset value (EPRA-NAV) per share is expected to come to EUR 9.75, up from EUR 8.72 in 2011. Turning to 2013, TAG expects to be able to report a further increase in its relevant earnings and will be providing more specific guidance on these in the course of the current year.

Hamburg, 23 March 2012

Rolf Elgeti **Hans-Ulrich Sutter** **Dr. Harboe Vaagt**

Consolidated balance sheet

Assets in TEUR	Notes	12/31/2011	12/31/2010
Non-current assets			
Investment properties	(1)	1,889,860	837,204
Intangible assets	(2)	7,320	4,911
Property, plant and equipment	(3)	12,010	11,990
Investments in associates	(4)	61	59,379
Other financial assets	(5)	12,150	335
Deferred taxes	(6)	118	3,996
		1,921,519	**917,815**
Current assets			
Land with unfinished and finished buildings	(7)	37,413	113,973
Other inventories	(7)	247	1,102
Trade receivables	(8)	13,188	6,654
Income tax refund claims	(8)	1,455	1,324
Derivative financial instruments	(8)	489	16
Other current assets	(8)	3,292	4,006
Cash and cash equivalents	(9)	31,714	129,417
		87,798	**256,492**
Non-current available-for-sale assets	(10)	**38,366**	**16,200**
		2,047,683	**1,190,507**

Equity and liabilities in TEUR	Notes	12/31/2011	12/31/2010
Equity			
Subscribed capital	(11)	74,905	58,566
Share premium	(12)	363,031	248,568
Other reserves	(13)	-16,260	-9,507
Unappropriated surplus	(14)	125,716	58,834
Attributable to the equity-holders of the parent company		547,392	356,461
Non-controlling interests	(15)	47,239	8,849
		594,631	**365,310**
Non-current liabilities			
Bank borrowings	(16)	1,016,825	523,512
Retirement benefit provisions	(17)	1,760	1,801
Liabilities from convertible bonds	(18)	93,868	101,712
Derivative financial instruments	(18)	28,222	15,752
Other non-current liabilities	(18)	153	2,622
Deferred taxes	(6)	66,884	12,894
		1,207,712	**658,293**
Current liabilities			
Other provisions	(19)	17,807	15,537
Income tax liabilities	(20)	1,760	1,664
Bank borrowings	(16)	172,568	110,490
Trade payables	(21)	16,380	7,762
Derivative financial instruments	(22)	11,379	9,537
Liabilities from convertible bonds	(22)	13,901	1,786
Other current liabilities	(22)	11,545	6,475
		245,340	**153,251**
Liabilities in connection with the non-current available-for-sale assets	(23)	**0**	**13,653**
		2,047,683	**1,190,507**

Consolidated income statement

in TEUR	Notes	01/01–12/31/2011	01/01–12/31/2010
Total revenues	(24)	**178,303**	**82,941**
Rental revenues	(24)	115,377	51,802
Rental expenses	(27)	-36,359	-11,633
Net rental income		79,018	40,169
Revenues from the sale of inventory real estate	(24)	7,606	20,665
Expenses on the sale of inventory real estate	(27)	-7,762	-20,884
Net revenues from sale of inventory real estate		-156	-219
Revenues from the sale of investment properties	(24)	46,862	8,799
Expenses on the sale of investment properties	(27)	-38,955	-8,740
Net revenues from sale of investment properties		7,907	59
Revenues/net revenues from property management	(24)	8,458	1,675
Expenses for the provision of property management	(27)	-8,461	-1,233
Net income from the provisions of property management		-3	442
Other operating income	(25)	66,803	15,696
Fair-value remeasurement of investment properties	(26)	24,173	12,797
Net gains from the first-time consolidation of property companies	(26)	4,760	4,049
Total net gains from the remeasurement of investment properties		28,933	16,846
Gross profit		**182,502**	**72,993**
Personnel expenses	(28)	-12,747	-8,779
Depreciation/amortisation	(29)	-1,168	-770
Impairment losses on receivables and inventories	(30)	-3,499	-624
Other operating expenses	(31)	-20,482	-15,955
EBIT		**144,606**	**46,865**
Net profit from investments	(32)	72	0
Share of profit of associates	(33)	246	6,528
Impairment of financial assets	(34)	-105	0
Interest income	(35)	10,141	3,228
Borrowing costs	(35)	-71,687	-34,413
EBT		**83,273**	**22,208**
Income taxes	(36)	-17,261	-2,834
Other taxes	(37)	-108	-183
Consolidated net profit		**65,904**	**19,191**
of which attributable non-controlling interests	(15)	-978	690
of which attributable to the Parent Company's equityholders		66,882	18,501
Earnings per share (EUR), basic			
Basic loss per share	(38)	1.05	0.48
Diluted loss per share	(38)	0.89	0.45

Consolidated statement of comprehensive income

in TEUR	Notes	01/01–12/31/2011	01/01–12/31/2010
Net loss as shown in the income statement		**65,904**	**19,191**
Unrealised gains and losses from hedge accounting	(13)	-10,214	3,523
Deferred taxes on unrealised gains and losses	(6)	2,107	-1,043
Other comprehensive income after taxes		-8,107	2,480
Total comprehensive income		**57,797**	**21,671**
of which attributable non-controlling interests	(15)	-2,301	811
of which attributable to the Parent Company‘s equityholders		60,098	20,860

Consolidated cash flow statement

in TEUR	Notes	12/31/2011	12/31/2010
Consolidated net profit/loss		**66,882**	**18,501**
Depreciation/amortisation	(29)	1,273	770
Share of profits/losses of associates	(33)	-246	-6,528
Comprehensive income from investment properties	(26)	-28,933	-16,846
Losses from deconsolidation	(31)	440	0
Gains from business combinations	(25)	-56,757	-8,407
Gains/ losses on disposal of jointly held companies	(25, 31)	-94	747
Gains from the disposal of other financial assets	(25)	54	-345
Gains/losses from the disposal of investment properties	(1)	-7,907	-59
Gain on buy-back of convertible bond	(25)	0	-1,102
Impairments on receivables and inventories	(30)	3,499	624
Changes in deferred income taxes	(6)	12,745	4,605
Changes in provisions	(17, 19)	1,585	-884
Changes in receivables and other assets	(7, 8, 9, 10)	82,262	1,977
Changes in payables and other liabilities	(18, 20, 22, 23)	-82,062	-10,039
Cash flow from operating activities		**-7,259**	**-16,986**
Payments made for investments in investment properties	(1)	-55,573	-37,942
Payments received from the disposal of investment properties	(1)	46,862	8,799
Payments made for investments in intangible assets and property, plant and equipment	(2, 3)	-693	-593
Payments made for acquisition of consolidated companies net of cash disposed of		-28,576	-5,357
Payments received from the disposal of joint ventures net of cash disposed of		-58	-2,283
Payments made for investments in associates and other financial assets	(4, 5)	-4,761	-40,110
Payments received on the disposal of other financial assets	(5)	3,540	1,723
Cash flow from investing activities		**-39,259**	**-75,763**
Payments received from cash equity issues	(11, 12)	71,496	87,422
Cost of issuing equity (after income taxes)	(18)	-2,810	-1,951
Payments received from the issue of convertible bonds	(18)	0	109,100
Payments made for the buy-back of the convertible bonds	(18)	0	-11,400
Payments made for the redemption of convertible bonds	(18)	-60,519	0
Payments received from bank borrowings	(16)	78,957	84,324
Payments made for repaying bank borrowings	(16)	-113,588	-51,478
Payments made for business combinations without change of status	(12, 15)	-27,195	-897
Cash flow from financing activities		**-53,659**	**215,120**
Net change in cash and cash equivalents		-100,177	122,371
Cash and cash equivalents at the beginning of the period	(9)	121,776	-595
Cash and cash equivalents at the end of the period	(9)	**21,599**	**121,776**

Statement of changes in consolidated equity

in TEUR	Notes	Equity holders of the parent company: Subscribed capital	Share premium	Other reserves: Retained earnings	Hedge accounting reserve	Currency translation	Unappropriated surplus	Total	Minority interests	Total equity
01/01/2010		**32,566**	**170,307**	**527**	**-12,393**	**0**	**5,391**	**196,398**	**8,083**	**204,481**
Consolidated net profit		0	0	0	2,359	0	18,501	20,860	811	21,671
Business combination without change of status	(12, 15)	0	30	0	0	0	0	30	-36	-6
Buy-back convertible bond	(12)	0	-334	0	0	0	0	-334	0	-334
Issue of convertible bond	(12, 18)	0	3,525	0	0	0	0	3,525	0	3,525
Capital increase against contribution in kind	(11, 12)	10,343	40,168	0	0	0	0	50,511	0	50,511
Cash equity issue	(11, 12)	15,657	71,765	0	0	0	0	87,422	0	87,422
Cost of issuing equity (after income taxes)	(12)	0	-1,951	0	0	0	0	-1,951	0	-1,951
Amounts withdrawn from share premium	(12, 14)	0	-34,942	0	0	0	34,942	0	0	0
Other changes in non-controlling interests	(15)	0	0	0	0	0	0	0	-9	-9
12/31/2010		**58,566**	**248,568**	**527**	**-10,034**	**0**	**58,834**	**356,461**	**8,849**	**365,310**
01/01/2011		**58,566**	**248,568**	**527**	**-10,034**	**0**	**58,834**	**356,461**	**8,849**	**365,310**
Consolidated net profit		0	0	0	-6,784	0	66,882	60,098	-2,301	57,797
Business combination Colonia	(12, 15)	0	0	0	0	0	0	0	86,845	86,845
Business combination without change of status	(12, 15)	0	27,025	0	0	0	0	27,025	-44,806	-17,781
Cash equity issue	(11, 12)	10,857	60,640	0	0	0	0	71,497	0	71,497
Non-cash equity issue	(11, 12)	5,477	27,330	0	0	0	0	32,807	0	32,807
Capital increase from conversion	(11, 18)	5	23	0	0	0	0	28	0	28
Cost of issuing equity (after income taxes)	(12)	0	-1,903	0	0	0	0	-1,903	0	-1,903
Currency translation	(13)	0	0	0	0	31	0	31	0	31
Other changes in non-controlling interests	(15)	0	1,348	0	0	0	0	1,348	-1,348	0
12/31/2011		**74,905**	**363,031**	**527**	**-16,818**	**31**	**125,716**	**547,392**	**47,239**	**594,631**

Consolidated segment report

in TEUR	Residential real estate Hamburg	Residential real estate Berlin	Residential real estate Munich	Residential real estate NRW	Residential real estate Salzgitter	Residential real estate Others	Total Residential	Commercial real estate	Services	Other acitivites	Consolidation	Group
Total revenues	**20,188**	**36,663**	**8,692**	**10,521**	**22,074**	**6,440**	**104,579**	**67,020**	**10,067**	**1,409**	**-4,773**	**178,303**
Previous year	12,451	31,655	2,216	4,633	0	3,323	54,278	26,312	2,120	1,457	-1,224	82,941
■ Of which external revenues	20,188	36,563	8,518	10,521	22,074	4,236	102,101	66,335	8,458	1,409	0	178,303
Previous year	12,451	31,559	2,041	4,633	0	3,323	54,008	25,802	1,675	1,457	0	82,941
■ Of which internal revenues	0	100	174	0	0	2,204	2,479	686	1,609	0	-4,773	0
Previous year	0	96	174	0	0	0	270	509	445	0	-1,224	0
Segment profit/loss	**16,539**	**35,729**	**643**	**7,092**	**9,072**	**2,779**	**71,854**	**42,788**	**-4**	**1,060**	**0**	**115,699**
Previous year	5,005	19,964	638	4,308	0	657	30,571	24,938	442	1,346	0	57,297
■ Of which remeasurement of investment properties	4,448	8,956	289	-983	-752	1,718	13,676	10,496	0	0	0	24,173
Previous year	874	7,902	-502	1,290	0	30	9,594	3,165	0	39	0	12,797
■ Of which net gains/losses from the first-time consolidation of property companies	0	4,760	0	0		0	4,760	0	0	0	0	4,760
Previous year	-803	5,087	0	0		0	4,284	-235	0	0	0	4,049
■ Non-allocated other operating income												66,803
Previous year												15,696
Gross profit												**182,502**
Previous year												72,993
■ Miscellaneous non-allocated expenses												-99,229
Previous year												-50,785
EBT												**83,273**
Previous year												22,208
Segment assets	**328,574**	**526,748**	**25,112**	**178,295**	**375,030**	**54,991**	**1,488,749**	**475,676**	**0**	**4,180**	**0**	**1,968,605**
Previous year	108,876	213,043	32,608	120,175	0	15,761	490,464	483,363	0	4,180	0	978,007
■ Non-allocated assets												79,077
Previous year												212,500
Total assets												**2,047,683**
Previous year												1,190,507

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

Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of TAG Immobilien AG, Hamburg, (hereinafter referred to as "TAG" or the "Company") as of 31 December 2011 were prepared in accordance with the International Financial Reporting Standards (IFRS) in the form required to be applied in the European Union. In addition, the provisions contained in Section 315a (1) of the German Commercial Code were observed. The requirements set forth in the standards applied have been satisfied and result in the presentation of a true and fair view of the net assets, financial position and results of operations of the Group.

The following new accounting standards and interpretations were subject to compulsory application for the first time for the IFRS consolidated financial statements prepared for the previous year:
The first-time application of these new accounting rules did not have any material effect on the consolidated financial statements.

IFRS 1	First-time adoption of the International Financial Reporting Standards – exception from the duty to provide comparison information in accordance with IFRS 7 (revised)
IAS 24	Related party disclosures (revised)
IAS 32	Financial Instruments: Presentation – classification of rights issues (revised)
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding require-ments and their interaction (revised, to be applied in accounting periods commencing on or after 1 January 2011)
IFRIC 19	Extinguishing financial liabilities with equity instruments (new, to be applied in accounting periods commencing on or after 1 July 2010)
Various	IFRS 2010 improvement project

The following standards, which were new or revised as of the reporting date and had in some cases not yet been endorsed by the European Union, are not applicable until after the reporting date – pending endorsement by the European Union – and were not early adopted on a voluntary basis.

IAS 1	Presentation of items of other comprehensive income (revised, to be applied in accounting periods commencing on or after 1 July 2012)
IAS 12	Deferred income taxes – recovery of underlying assets (revised, to be applied in accounting periods commencing on or after 1 January 2012)
IAS 19	Employee benefits (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IAS 27	Separate financial statements (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IAS 28	Investments in associates and joint ventures (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IAS 32	Financial instruments – offsetting of financial assets and financial liabilities (revised, to be applied in accounting periods commencing on or after 1 January 2014)
IFRS 1	Severe hyperinflation and fixed transition dates for first-time adopters (to be applied in accounting periods commencing on or after 1 July 2011)
IFRS 7	Disclosures – transfers of financial assets (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IFRS 9	Financial instruments (revised, to be applied in accounting periods commencing on or after 1 January 2015)
IFRS 10	Corresponding figures (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IFRS 11	Joint arrangements (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IFRS 12	Disclosures of interests in other entities (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IFRS 13	Calculation of fair value (revised, to be applied in accounting periods commencing on or after 1 January 2013)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine (to be applied in accounting periods commencing on or after 1 January 2013)

Future application of the new and revised standards is currently not expected to have any material impact on the Group's consolidated financial statements.

The financial year of the parent company and of the consolidated subsidiaries, joint ventures and associates, all of which – with the exception of three subsidiaries in Switzerland, the Netherlands and Luxembourg – are domiciled in Germany, is the calendar year with the exception of one associate whose financial year ends on 30 June of each year and which is consolidated on the basis of interim financial statements as of 31 December. Uniform recognition and measurement methods have been applied to the financial statements prepared by the consolidated companies in accordance with IFRS. The consolidated financial statements are prepared in euros, which is the Group's functional currency. Amounts are mostly stated in thousands of euros (TEUR). As a result, rounding differences may occur.

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

The material part of the Group's business is performed at the offices located at Steckelhörn 5, 20457 Hamburg. TAG is a listed real estate company which can look back on a history spanning more than 125 years. Its main business activities entail the management of residential and commercial real estate in Germany as well as the provision of real estate services. It primarily performs activities aimed at generating long-term value from its portfolios.

Under its articles of incorporation, 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.

TAG's consolidated financial statements and Group management report were prepared by the Management Board and approved for publication on 23 March 2012 with the consent of the Supervisory Board.

Consolidation

The consolidated financial statements include all companies in which TAG is entitled directly or indirectly to exercise a majority of the voting rights. These enterprises are included in the consolidated financial statements from the date on which 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 available-for-sale financial assets.

The purchase method of accounting as defined in IFRS 3 is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair value is recorded as goodwill. If the cost of acquisition is less than the fair value of the netassets of the subsidiary acquired, the difference is recognised directly in the income statement. The cost of business combinations is recorded in profit and loss. If shares are acquired or sold in companies which are previously or subsequently consolidated in full (business combination without any change of status), the differences between the purchase price and the carrying amount of the net assets acquired or sold are recognised directly in equity. In addition, the full goodwill method was applied for the first time in the year under review. Accordingly, when the majority of the shares in Colonia Real Estate AG were acquired, the non-controlling interests were recognised at their fair value. The purchase and sale of property companies which do not engage in any business as defined in IFRS 3 are treated as a direct real estate purchase or sale (asset deal). In the case of step business combinations, e.g. the fullconsolidation of a previous associate as a subsidiary, the previously recognised carrying amount of this entity is remeasured at its fair value as part of the cost of the business combination and the resultant gain or loss taken to profit and loss.

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.

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 “Non-controlling interests” in the consolidated balance sheet and the consolidated income statement. The effects of purchase accounting recognised directly in the income statement are also included in calculating the share in consolidated net profit attributable to minorities.

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

- TAG Immobilien AG, Hamburg (parent company)
- TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg (99.98 percent)
- TAG Leipzig-Immobilien GmbH, Hamburg (99.98 percent)
- TAG Logistik Immobilien GmbH & Co. KG, Hamburg (99.98 percent)
- TAG Logistik Immobilien Verwaltungs GmbH, Hamburg (99.98 percent)
- TAG Asset Management GmbH, Hamburg (99.97 percent)
- TAG Dresdner Straße GmbH & Co. KG, Hamburg (99.97 percent)
- TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, Hamburg (99.97 percent)
- TAG Stuttgart-Südtor Verwaltungs GmbH, Hamburg (99.97 percent)
- Ingenieur-Kontraktbau Gesellschaft für Ingenieurfertigbau mit beschränkter Haftung i.L., Leipzig (99.97 percent)
- Patrona Saxoniae GmbH & Co. KG, Hamburg (99.97 percent)
- Patrona Saxoniae Grundbesitz GmbH, Hamburg (99.97 percent)
- Wenzelsplatz GmbH & Co. Nr. 1 KG, Hamburg (99.97 percent)
- Wenzelsplatz Grundstücks GmbH, Hamburg (99.97 percent)
- TAG Nordimmobilien S.à r.l., Luxembourg, (99.97 percent)
- TAG Sachsenimmobilien GmbH, Hamburg (99.97 percent)
- TAG Marzahn-Immobilien GmbH, Hamburg (99.97 percent)
- TAG SH-Immobilien GmbH, Hamburg (99.97 percent)
- TAG Magdeburg-Immobilien GmbH, Hamburg (99.97 percent)
- TAG Grebensteiner-Immobilien GmbH, Hamburg (99.97 percent)
- TAG Klosterplatz-Immobilien GmbH, Hamburg (99.97 percent)
- TAG Wolfsburg-Immobilien GmbH, Hamburg (99.97 percent)
- TAG Beteiligungs GmbH & Co. KG, Hamburg (99.50 percent)
- TAG Wohnimmobilien Beteiligungs AG & Co. KG, Hamburg (99.50 percent)
- Wasserkraftanlage Gückelsberg OHG, Leipzig (99.47 percent)
- Tegernsee-Bahn Betriebsgesellschaft mit beschränkter Haftung, Tegernsee (98.38 percent)
- Kraftverkehr Tegernsee-Immobilien GmbH, Tegernsee (98.28 percent)
- TAG NRW-Immobilien GmbH (formerly FranconoWest AG), Hamburg (99.97 percent)
- 1. FranconoInWest GmbH, Dusseldorf (99.97 percent)
- 2. FranconoInWest GmbH, Dusseldorf (99.97 percent)
- TAG Administration GmbH (formerly RheinAcquisition GmbH Dusseldorf), Hamburg (100 percent)
- Fürstenberg´sche Häuser GmbH, Hamburg (93.97 percent)
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (93.21 percent)
- Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg (93.21 percent)
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg (93.21 percent)
- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg (93.21 percent)
- Bau-Verein zu Hamburg "Junges Wohnen" GmbH, Hamburg (93.21 percent)
- Bau-Verein zu Hamburg Wohnungsgesellschaft mbH, Hamburg (93.21 percent)
- BV Hamburger Wohnimmobilien GmbH, Hamburg (93.21 percent)
- BV Steckelhörn GmbH & Co. KG, Hamburg (93.21 percent)
- BV Steckelhörn Verwaltungs GmbH, Hamburg (93.21 percent)
- G+R City Immobilien GmbH, Berlin (93.21 percent)
- URANIA Grundstücksgesellschaft mbH, Hamburg (93.21 percent)
- VFHG Verwaltungs GmbH, Berlin (93.21 percent)
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin (93.21 percent)
- Wohnanlage Ottobrunn GmbH, Hamburg (93.21 percent)
- Colonia Real Estate AG (71.56 percent)
- Colonia Wohnen GmbH, Cologne (71.56 percent)
- Colonia Portfolio Ost GmbH, Cologne (71.56 percent)
- Colonia Portfolio Berlin GmbH, Cologne (71.56 percent)

- Colonia Wohnen Service GmbH, Cologne, (71.56 percent)
- Colonia Wohnen Siebte GmbH, Cologne (71.56 percent)
- Colonia Immobilien Verwaltung GmbH, Cologne (71.56 percent)
- Colonia Portfolio Hamburg GmbH & Co. KG, Cologne (71.56 percent)
- Colonia Portfolio Bremen GmbH & Co. KG, Cologne (71.56 percent)
- POLARES Real Estate Asset Management GmbH, Hamburg (71.56 percent)
- Grasmus Holding B.V., Maastricht, Netherlands (71.3 percent)
- Emersion Grundstückverwaltungs-Gesellschaft mbH, Cologne (71.02 percent)
- Domus Grundstückverwaltungs-Gesellschaft mbH, Cologne (71.02 percent)
- Gimag Immobilien AG, Zug, Switzerland (67.27 percent)
- Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg (98.03 percent)
- ARCHPLAN Projekt Dianastraße GmbH, Munich (62.08 percent)

Following the first-time consolidation of Colonia Real Estate AG as of 31 January 2011, the following companies within this subgroup were also consolidated for the first time:

- Colonia Wohnen GmbH, Cologne
- Colonia Portfolio Ost GmbH, Cologne
- Colonia Portfolio Berlin GmbH, Cologne
- Colonia Wohnen Service GmbH, Cologne
- Colonia Wohnen Siebte GmbH, Cologne
- Colonia Immobilien Verwaltung GmbH, Cologne
- Colonia Portfolio Hamburg GmbH & Co. KG, Cologne
- Colonia Portfolio Bremen GmbH & Co. KG, Cologne
- POLARES Real Estate Asset Management GmbH, Hamburg
- Grasmus Holding B.V., Maastricht, Netherlands
- Emersion Grundstückverwaltungs-Gesellschaft mbH, Cologne
- Domus Grundstückverwaltungs-Gesellschaft mbH, Cologne
- Gimag Immobilien AG, Zug, Switzerland
- Colonia Residential Sales GmbH, Cologne

In connection with the first-time consolidation of the Arsago companies, the consolidation group was extended effective 31 October 2011 with the addition of TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH and TAG Wolfsburg-Immobilien GmbH.

In 2011, a further 1.66 percent of the shares in Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg, (Bau-Verein AG) were acquired for TEUR 1,540 and approximately a further 2.5 percent of the shares in FranconoWest AG (since renamed TAG NRW-Immobilien GmbH) acquired for TEUR 778. Since the first-time consolidation of Colonia Real Estate AG as of 31 January 2011, a further 21.54 percent of the shares in this company have additionally been acquired for TEUR 72,690. These transactions were recorded within equity as a business combination without any change of status.

In addition, the consolidation group was extended effective 1 April 2011 with the establishment of TAG Wohnimmobilien Beteiligungs AG & Co. KG (100 percent of shares).

Effective 1 June 2011, TAG acquired 100 percent of the capital of DOM Immobilien 14 GmbH (to be renamed TAG Marzahn-Immobilien GmbH). This company was consolidated by TAG for the first time effective 1 June 2011, resulting in a gain of TEUR 4,760, which is reported within net gains and losses from the first-time consolidation of property companies within the net fair value gains and losses from investment properties.

In addition, there were changes in the companies consolidated as a result of the following internal mergers:

Effective 1 January 2011, Bau-Verein zu Hamburg Bauregie GmbH was amalgamated into Bau-Verein zu Hamburg-Eigenheim Immobilien GmbH, AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft into TAG Sachsenimmobilien GmbH, Pateon 1. Verwaltungs GmbH into LARUS Asset Management GmbH, and LARUS Asset Management GmbH into Colonia Real Estate Solution GmbH. Thereupon, Colonia Real Estate Solution GmbH was renamed POLARES Real Estate Asset Management GmbH. In addition, Vierte Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, was transferred to URANIA Grundstücksgesellschaft mbH by way of accrual.

Reference should also be made to the following section entitled “Business combinations” for details of the business combinations coming within the scope of IFRS 3 executed in the year under review.

The following companies were consolidated on a proportionate basis in the year under review:

- Neue Ufer GmbH & Co. KG, Leipzig (49.99 percent)
- An den Obstgärten Bauträger GmbH & Co. KG, Ingelheim (45.78 percent) until 1 January 2011
- An den Obstgärten Verwaltungs GmbH, Ingelheim (45.78 percent) until 1 January 2011

The shares in the two companies An den Obstgärten GmbH & Co. KG and An den Obstgärten Verwaltungs GmbH, which had been consolidated on a proportionate basis, were sold effective 1 January 2011. The deconsolidation of these shares resulted in a gain of TEUR 94, which was recognised under other operating income.

With respect to the joint ventures, only the financial information on the 49.99 percent interest in Neue Ufer GmbH & Co. KG is disclosed below as of 31 December 2011. With respect to the two companies An den Obstgärten Bauträger GmbH & Co. KG and An den Obstgärten Verwaltungs GmbH, which were deconsolidated as of 1 January 2011, the financial information as of the date of deconsolidation is identical to that as of the end of the previous year. These items are therefore marked with an “-”. The financial information is thus as follows:

Joint venture	Assets TEUR	Liabilities TEUR	Revenue TEUR	Profit/loss TEUR
Neue Ufer GmbH & Co. KG, Leipzig	22 (Previous year 225)	6,628 (Previous year 6,371)	- (Previous year 59)	-410 (Previous year 410)
An den Obstgärten Bauträger GmbH & Co. KG	– (Previous year 7,741)	– (Previous year 8.285)	– (Previous year 4,806)	– (Previous year 258)
An den Obstgärten Verwaltungs GmbH	– (Previous year 27)	– (Previous year -)	– (Previous year -)	– (Previous year 3)

The assets and liabilities stated are current in nature.

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

- Colonia Real Estate AG, Cologne (29.8 percent) until 31 January 2011
- Estavis AG, Berlin (20.7 percent) until 31 December 2011
- GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, Hamburg (45.78 percent)
- Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH, Hamburg (45.78 percent)

The following combined financial information on these associates is available as of 31 December 2011. In this connection, a separate analysis has been dispensed with for Colonia Real Estate AG as this company was included in TAG AG's consolidated financial statements (the figures are therefore marked with an "-").

Associates	Assets TEUR	Liabilities TEUR	Revenue TEUR	Profit/loss TEUR
GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG	5,648 (Previous year 5,680)	5,621 (Previous year 5,636)	421 (Previous year 412)	52 (Previous year 68)
Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH	32 (Previous year 32)	3 (Previous year 3)	1 (Previous year 1)	– (Previous year -)
Estavis AG	145,442 (Previous year 150,397)	84,321 (Previous year 97,719)	50,271 (Previous year 60,891)	721 (Previous year 103)
Colonia Real Estate AG (until 01/31/2011)	– (Previous year 880,893)	– (Previous year 634,511)	– (Previous year 122,569)	– (Previous year 9,071)

The disclosures for Estavis AG, whose financial year ends on 30 June of each year, are based on the interim financial statements as of 31 December 2011.

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

Non-consolidated entities	Share %	Profit (HGB) 2011 TEUR	Equity (HGB) 12/31/2011 TEUR
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	91.55	17	479
„Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg“	91.55	5	52
TAG Beteiligungsverwaltungs GmbH, Hamburg	49.60	3	28

Disclosures on the shares held in fully and proportionately consolidated companies as well as associates and other investments refer to the shares held directly or indirectly by TAG.

Business combinations

Colonia Real Estate AG, Cologne

On 20 December 2010, TAG AG submitted to the shareholders of Colonia Real Estate AG (hereinafter referred to as "Colonia") a voluntary offer to acquire the shares in Colonia Real Estate AG in accordance with the German Securities Acquisition Act. Colonia Real Estate AG predominantly engages in residential real estate business. In addition, it offers real estate services. The purpose of the acquisition of Colonia was to additionally extend these two areas of business within the TAG Group. The voluntary takeover procedure was completed on 18 January 2011, upon which TAG initially acquired a total of 38.28 percent of the capital of Colonia including the shares previously acquired in 2010 and then additionally increased this share step by step with the result that it held more than 50.02 percent of the voting rights of Colonia on 15 February 2011.

As of the date of the takeover, TAG AG held 15,658,191 shares, which were valued at EUR 5.77 per share on the basis of the stock price prevailing on 15 February 2011. The cost of the business combination thus came to EUR 90,347,762.07. The non-controlling interests are valued at EUR 118.92 million, equivalent to 49.98 percent. As of the reporting date on 31 December 2011, TAG had acquired further shares and now holds 71.56 percent of Colonia's capital.

Prior to first-time consolidation, Colonia was recognised as an associate using the equity method and a fair-value gain of EUR 2.17 million was recognized on the carrying amount of the investment as of the date of acquisition. This gain was recorded within the share of profit of associates. Colonia was fully consolidated by TAG for the first time effective 31 January 2011. The business combination yielded a first-time consolidation gain (negative goodwill) which was reported within other operating income in the consolidated income statement and breaks down as follows:

	Fair value on acquisition TEUR	IFRS carrying amount on acquisition TEUR
Investment properties	787,643	817,720
Intangible assets	2,451	2,835
Property, plant and equipment	357	557
Investments	1,930	2,430
Deferred income tax assets	3,420	986
Other non-current assets	6,073	6,573
Land with finished and unfinished buildings	9,478	9,478
Current receivables	5,124	8,124
Cash and cash equivalents	10,815	10,815
Other current assets	2,741	2,741
Non-current bank borrowings	-474,002	-487,813
Deferred income tax liabilities	-41,330	-44,457
Other non-current liabilities	-21,072	-19,091
Current liabilities	-18,687	-19,102
Other current liabilities	-65,367	-66,888
Net assets at fair value or IFRS equity capital	**209,574**	**224,908**
of which attributable to non-controlling interests based on 15,647,809 shares at EUR 5.55 each	-86,845	
Costs of the business combination	-90,348	
Gain from first-time consolidation	**32,381**	

The gain from first-time consolidation arose from the utilisation of the low prices of the stock of listed real estate companies. The first-time consolidation gain of TEUR 12,407 recorded in the consolidated financial statements for the first time as of 31 March 2011 had been based on preliminary calculations. The final measurement of real estate, receivables, other assets, financial liabilities and non-controlling interests caused the first-time consolidation gain to increase by TEUR 19,974 over the first quarter of 2011. The fair value of the share in Colonia's equity held immediately before the date of acquisition stood at TEUR 52,144.

The assets acquired included gross trade receivables of around TEUR 12,300, on which impairments of around TEUR 7,189 were recognised. Since the date of acquisition, Colonia has generated revenues of TEUR 60,607 and sustained a net loss for the period of TEUR 2,440. If the business combination had been executed as of 1 January 2011, Colonia would have generated revenues of TEUR 71,027 and a net profit for the period of around TEUR 1,133.

Acquisition of the “arsago” companies

In a contract dated 31 October 2011, TAG acquired roughly 100 percent of the capital of the following companies:

- TAG SH-Immobilien GmbH, Hamburg (known at the time as “arsago wohnen I GmbH”)
- TAG Magdeburg-Immobilien GmbH, Hamburg (known at the time as “arsago wohnen II GmbH”)
- TAG Grebensteiner-Immobilien GmbH, Hamburg (known at the time as “arsago wohnen IV GmbH”)
- TAG Klosterplatz-Immobilien GmbH, Hamburg (known at the time as “arsago wohnen V GmbH”)
- TAG Wolfsburg-Immobilien GmbH, Hamburg (known at the time as “arsago wohnen VI GmbH”)

In accordance with the contractual agreements, TAG gained control on 31 October 2011 (date of acquisition). The business purpose of the companies is to acquire, manage, lease, let and resell real estate particularly of a residential nature and to acquire shares in other companies with the same or a similar business purpose. These companies were acquired to additionally extend asset management activities for residentialreal estate within the TAG Group.

The total costs of the business combination (fair value of the consideration provided) came to TEUR 44,493. The business combination produced a first-time consolidation gain (negative goodwill) which was reported within other operating income in the consolidated income statement and breaks down as follows:

	Fair value on acquisition TEUR	IFRS carrying amount on acquisition TEUR
Investment properties	172,997	172,997
Deferred income tax assets	643	552
Cash and cash equivalents	5,664	5,664
Other current assets	67,761	67,761
Non-current bank borrowings	-102,189	-102,189
Deferred income tax liabilities	-7,856	-7,856
Other current liabilities	-68,151	-67,639
Net assets at fair value or IFRS equity capital	**68,869**	**69,290**
of which TAG AG approx. 100 percent	68,869	
Costs of the business combination	-44,493	
Gain from first-time consolidation	**24,376**	

The gain from first-time consolidation chiefly arose from the favourable outcome of negotiations with respect to the individual purchase price. Since the date of acquisition, the acquiree has generated revenues of TEUR 2,151 and a net profit for the period of TEUR 270. If the business combination had been executed as of 1 January 2011, the company would have generated estimated revenues of TEUR 20,324 and net profit for the period of TEUR 2,904.

For this purpose, TAG issued a total of 5,476,924 new bearer shares at the price of EUR 5.99 per share prevailing on the date of issue.

The aforementioned business combinations were financed by means of a cash component as well as the issue of new shares. Of the resultant issue costs, a total amount of TEUR 1,903 (net of deferred income tax effects of TEUR 907) was recorded directly within equity.

Sale of companies

The shares acquired Colonia Residential Sales GmbH, Colonia in connection with the first-time acquisition of Colonia were sold effective 20 May 2011 pursuant to a notarised contractsigned on 4 May 2011. Deconsolidation of the company generated a loss of TEUR 440, which is reported within other expenses in the income statement and breaks down as follows:

	TEUR
Real estate held for sale	9,006
Receivables and other assets	106
Cash and cash equivalents	162
Financial liabilities	-5,582
Deferred income tax liabilities	-5
Trade payables and other liabilities	-797
Sum total of assets and liabilities sold	**2,890**
Purchase price received in cash	2,450
Deconsolidation loss	**440**

Recognition and measurement principles

Principles

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

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. Real estate which is to be held on a long-term basis but does not come within the definition of an investment property in accordance with IAS 40 is recorded within property, plant and equipment.

No marketing activities are performed in connection with investment properties. They are to be held in the portfolio and leased on a medium to long term basis and used to enhance the Group's enterprise value. Real estate held under operating leases in which the Group is the lessee is not classified as or reported within financial assets.

Investment properties are initially recognised at cost including transaction costs. They are subsequently measured at their fair value, which reflects market conditions as of the reporting date. Any gains or losses from changes in fair value are recognised in the income statement.

If current assets are reclassified as investment properties, any difference between the fair value and the carrying amount as of that date is recognised in the income statement.

The fair values of investment properties were calculated with the assistance of external valuers based on current market data and using acknowledged valuation methods. For the most part, the capitalised income value method stipulated by the Real Estate Value Calculation Ordinance and the discounted cash flow method were used. The independent valuers retained are suitably qualified and experienced in the light of the location and type of the real estate to be valued.

Intangible assets

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

Intangible assets with a definite useful life are written down on a straight-line basis over their expected useful life (generally three to eight years) and tested for impairment in the event of any indication of any impairment in their value. The amortisation period and method are reviewed at the end of each year at least and any resultant changes treated as a change to the estimate.

Intangible assets with an indefinite life, e.g. goodwill arising from a business combination, undergo impairment testing at least once a year or in the event of any evidence pointing to impairment 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 indefinite life assumption is reviewed for its continued justification at least once a year. If the assumption no longer applies, the prospective definite useful life is applied.

Impairments on intangible assets are recorded within amortisation of intangible assets in the income statement.

Property, plant and equipment

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

Investments in associates

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

If the net assets measured at fair value exceed the cost of the business combination as of the date of acquisition, the difference is reported in profit and loss.

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 within the share of profit of associates in the income statement.

Impairments are recognised if the recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use, is less than the carrying amount.

Financial assets

Financial assets are initially recognised at their fair value. 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 which are classified as held for trading purposes are intended to be sold in the near future. Changes in hedges are netted directly against equity to the extent permitted under hedge accounting. Profit and loss from such financial assets or liabilities held for trading are recognised in the income statement. Derivative financial instruments are also assigned to this category unless they are designated as derivatives and are effective as such.

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. 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 historical cost. When the asset is sold or if it is found to be impaired, the amount previously carried under equity is taken to the income statement.

A financial asset is derecognised if the contractual rights to cash flows from it have expired.

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

The receivables and other current assets recognised in TAG's consolidated balance sheet are classified as "loans and receivables". Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not traded in an active market After initial recognition, they are measured using the effective interest method at amortised cost net of any impairment. Gains and losses are reported in profit and loss for the period when the loans and receivables are derecognised or impaired, and through the amortisation process.

Trade receivables primarily result from the sale of real estate, rentals and the provision of facility management services 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.

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

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

Deferred income taxes are calculated using the balance sheet oriented liability method for all temporary differences arising as of the reporting 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 were recognised in the past for all deductible temporary differences, unused taxlosses and unused tax credits to the extent that realisation of the relatedincome tax benefit through future taxable profits is probable within a forecast period of five years. The carrying amount of deferred income tax assets were reviewed on each balance sheet date and adjusted to the extent that sufficient taxable profits will not be available. Given the uncertainty as to whether taxable profits will be available in the future, deferred income tax assetswere recognised only up to an amount equalling deferred income tax liabilities in 2011.

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 realised or a liability settled in the light of the tax rates likely to apply as of the date of reversal.

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 and cash at bank with an original maturity period of less than three months.

Non-current assets held for sale and related liabilities

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

Differentiation of equity capital

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

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

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

In the past, Colonia Real Estate AG established various stock option programmes. The stock options vesting as of the reporting date were of subordinate importance for TAG's equity.

Hedges (cash flow hedge accounting)

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

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

Financial liabilities

When liabilities, 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, liabilities are measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the contractual obligations underlying them are settled or suspended, cancelled or expire.

Retirement benefit provisions

In the past, the Group had a defined-benefit retirement benefit plan for former members of the Management Board and employees of its subsidiaries Bau-Verein zu Hamburg Aktien-Gesellschaft and POLARES Real Estate Asset Management GmbH 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 obliga-tion is possible despite uncertainty as to the amount or timing.

Leases

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

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

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

Revenue recognition

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

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.

Revenues from the provision of services are recognised in accordance with the percentage of completion as of the balance sheet provided that they can be reliably assessed. The percentage of completion is determined on the basis of the fees agreed upon with the customer under the individual contracts or for the specific activities.

Currency translation

The currency in which the consolidated financial statements are prepared is the euro. 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.

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

Material judgements and estimates

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

- With respect to the real estate held by the Group, the Management Board must determine as of the reporting date whether it is held on a long-term basis for rental or for investment or whether it is available for sale. Depending on the outcome of this decision, real estate is accounted for as investment properties or as available-for-sale land with finished or unfinished buildings (inventories) or as non-current available-for-sale assets.

- The fair value of investment properties is determined solely on the basis of the results of the independent valuers who are retained for this purpose. The calculations are performed on the basis of discounted future surplus income, which is generally determined using the capitalised income value method or the discounted cash flow method. For valuation purposes, the valuers must estimate certain factors, such as future rental income and the applicable discount rates, which may have a direct bearing on the fair value of the investment properties. The fair value of these properties as of the reporting date stood at TEUR 1,889,860 (previous year TEUR 837,204).

- In connection with the measurement of investment properties using the discounted cash flow method, TAG assumes that only minor transaction costs for a possible acquirer would arise in the markets of relevance for TAG. The DCF method applied to the investment properties held by the Colonia subgroup by surveyors factors in only the transaction costs which TAG considers to be likely. The recognition of such transaction costs resulted in a deduction in the carrying amount of these investment properties of around TEUR 883 as of 31 December 2011.

- The estimate of the net proceeds from the sale of real estate held as inventories entails uncertainty particularly with respect to the realisable prices. As of the reporting date, the carrying amount of the land with finished and unfinished buildings stood at TEUR 37,413 (previous year TEUR 113,973).

- A new impairment method was applied to the TAG Group‘s residential portfolio, under which all rental receivables are subject to a percentage adjustment depending on the number of outstanding monthly rentals. The adoption of the new method entailed a change in estimates, resulting in an increase in impairments of receivables of TEUR 1,197, i.e. TEUR 1,162 higher than under the previous method. In the years ahead, the impairments will reflect the age structure of the outstanding rental receivables. It is not possible to estimate the age structure at this time.

- There are ranges in the estimates applied to impairment testing of goodwill and investments in associates particularly with respect to future earnings. Although the Management Board assumes that the assumptions applied in the calculation of future earnings are reasonable, unforeseen changes in these assumptions could result in impairment expense with a correspondingly detrimental effect on the Group’s net assets, financial condition and results of operations. As of the reporting date, the goodwill had a carrying amount of TEUR 4,607 (previous year TEUR 2,364) and the investments in associates a carrying amount of TEUR 61 (previous year TEUR 59,379). In addition, investments in associates of TEUR 7,420 are included within the non-curent available-for-sale assets (previous year TEUR 0).

- For the purpose of testing the other financial assets for any impairment, the fair values of the investments and other financial assets (loans) are compared. The appropriateness of the carrying amounts is assessed on the basis of information available on the associates and borrowers such as the annual financial statements. In the event of any evidence of an impairment of the fair values, the carrying amounts are adjusted accordingly. The carrying amount of the other financial assets stands at TEUR 12,150 (previous year TEUR 335) and chieflycomprises investments in other real estate companies.

- With respect to other provisions, various assumptions have been made, e.g. with respect to the probability and amount of utilisation of provisions for repairs, damages and litigation risks. For this purpose, account is taken of all information available as of the reporting date. Other provisions are valued at TEUR 17,807 as of the reporting date (previous year TEUR 15,537).

Changes in presentation compared with the previous year

Compared with the consolidated financial statements as of 31 December 2010, the following changes have been made to the presentation of items in the consolidated income statement as the Company considers these to provide a greater insight into the Group’s results of operations:

- The derivative financial instruments of TEUR 16 reported within other current assets in the previous year have been recorded separately from other current assets as of 31 December 2011. The figures for the previous year have been restated accordingly.

- The derivative financial instruments of TEUR 15,752 reported within other non-current liabilities in the previous year have been recorded separately from other non-current liabilities as of 31 December 2011. The figures for the previous year have been restated accordingly.

- The derivative financial instruments of TEUR 9,537 reported within other current liabilities in the previous year have been recorded separately from other current liabilities as of 31 December 2011. The figures for the previous year have been restated accordingly.

- The non-current liabilities under convertible bonds of TEUR 101,712 reported within other non-current liabilities in the previous year have been recorded separately from other non-current liabilities as of 31 December 2011. The figures for the previous year have been restated accordingly.

- The current liabilities from convertible bonds of TEUR 1,786 reported within other current liabilities in the previous year have been recorded separately from other current liabilities as of 31 December 2011. The figures for the previous year have been restated accordingly.

- As part of a regular random sampling, TAG’s consolidated financial statements (IFRS) dated 31 December 2009 were inspected first by the Deutsche Prüfstelle für Rechnungslegung e.V. (‘DPR’ – German Financial Reporting Enforcement Panel), then by the Bundesanstalt für Finanzdienstleistungsaufsicht (‘BaFin’ – German Financial Supervisory Authority). By decision of 21 March 2011, BaFin notified TAG that according to their review, provisions for damage claims shown on the balance sheet in the IFRS consolidated financial statements dated 31 December 2009 were EUR 1.6 million short. Also, key assumptions in determining the value of the investment properties were missing from the Notes to the Management Report. TAG has not appealed against the establishment of what the company feels are non-essential errors and has also decided not to correct the IFRS consolidated financial statements of 31 December 2009.

Notes on the balance sheet

1. Investment properties

In 2011, fair value remeasurement losses of TEUR 18,335 (previous year TEUR 11,571) and fair value remeasurement gains of TEUR 42,508 (previous year TEUR 24,368) were recorded. These gains and losses resulted in a net fair value gain of TEUR 24,173 (previous year TEUR 12,797).

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

Investment properties	TEUR
Amount on 01/01/2010	**596,720**
Additions as a result of business combinations	156,405
Additions as a result of acquisition	37,942
Additions through subsequent cost of acquisition or construction	3,183
Reclassified as non-current assets held for sale	-6,900
Reclassification of properties held for sale	43,995
Reclassified as property, plant and equipment	-1,980
Net gains/losses in fair value as of 12/31/2010	12,797
Disposals as a result of sale	-4,958
Amount on 12/31/2010	**837,204**
Additions as a result of business combinations	960,641
Additions as a result of acquisition	55,661
Other disposals	-88
Reclassified as non-current assets held for sale	-54,490
Reclassification of properties held for sale	66,759
Net gains/losses in fair value as of 12/31/2011	24,173
Amount on 12/31/2011	**1,889,860**

In the year under review, investment properties with a carrying amount of TEUR 1,889,860 (previous year TEUR 837,204) were secured by real-property liens and the assignment of rental income.

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

Investment properties	2011 TEUR	2010 TEUR
Rental income	109,034	45,915
Operating expenses (maintenance, facility management, land taxes etc.)	-34,006	-10,391
Total	**75,028**	**35,524**

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

The following table sets out the material assumptions used by the independent experts to calculate the fair value of the investment properties in accordance with the capitalized earnings value method:

	12/31/2011		12/31/2010	
	Average	Range	Average	Range
Return on property in %	5.60	3.0–7.0	5.35	3.75–7.0
Useful lives in years	45	16–80	44	16–85
Maintenance costs EUR/m²	6.9	3.0–14.5	7.6	3.0–11.5
Management costs as a % of gross annual income	4.00	0.4–11.4	3.40	0.50–8.0

The following assumptions were applied to the discounted cash flow method utilised by the Colonia Real Estate subgroup:

Measurement is based on international valuation standards using the discounted future excess income identified in accordance with the DCF method. Under the DCF method, expected future cash surpluses generated by a property are discounted as of the measurement date. For this purpose, the surpluses from the property in question are calculated for a detailed forward period of mostly ten years. These surpluses are calculated by netting expected cash inflows and outflows. Whereas the cash inflows are normally comprised of net rentals, the cash outflows (gross) chiefly include the management costs borne by the owner.

The cash outflows primarily comprise the following costs:

	12/31/2011 EUR
Maintenance costs (per sqm p.a.)	2.00–10.00
Management costs (per unit p.a.)	165.00–240.00
Operating costs for vacancies (per vacant sqm p.a.)	1.30–16.00
Rental default risk (percent)	1.0–1.5

The cash surpluses for each period are discounted using a market-oriented discount rate for the property in question as of the measurement date. These rates stood at between 5.00 percent and 8.00 percent in 2011. This results in the present value of the cash surpluses for the period in question. A potential discounted terminal value for the property in question is forecast for the end of the detailed forward period, reflecting the most likely price which can be achieved at the end of this period. For this purpose, the discounted cash surpluses for the tenth year are capitalised at the exit rate to produce the perpetual annuity, which ranged from 4.50 percent to 7.50 percent for the individual properties in 2011. The sum total of the discounted cash surpluses and the discounted potential selling value equals the gross present value of the property in question. The market-specific transaction costs of a potential acquirer of 0.2 percent are then deducted from this gross present value, resulting in the net present value.

Commercial real estate is measured in the same way as residential real estate at a discount rate of 6.50 percent net of transaction costs. The transaction costs are deducted from the sum total of the discounted cash surpluses. The reduction in transaction costs is due to the fact that only estimated standard market transaction costs were taken into account in 2011. By comparison, the transaction cost rate applied in the previous year was based on the general assumptions of the surveyor. Accordingly, the transaction costs differ in terms of both amount and scope.

2. Intangible assets

The table below analyses the movements in intangible assets. Currently, there are no intangible assets with an indefinite useful life other than goodwill. As in the previous year, no impairment was recognised on intangible assets.

Intangible assets **Historical cost**	**Goodwill TEUR**	**Order books TEUR**	**Others TEUR**	**Total TEUR**
Amount on 01/01/2010	**0**	**0**	**552**	**552**
Additions from business combinations 2010	2,364	1,614	225	4,203
Added in 2010	0	0	535	535
Disposals in 2010	0	0	-49	-49
Amount on 12/31/2010	**2,364**	**1,614**	**1,263**	**5,241**
Additions from business combinations 2011	2,243	0	208	2,451
Added in 2011	0	0	481	481
Disposals in 2011	0	0	-58	-58
Amount on 12/31/2011	**4,607**	**1,614**	**1,894**	**8,115**

Cumulative depreciation	**Goodwill TEUR**	**Order books TEUR**	**Others TEUR**	**Total TEUR**
Amount on 01/01/2010	**0**	**0**	**152**	**152**
Added in 2010	0	0	227	227
Disposals in 2010	0	0	-49	-49
Amount on 12/31/2010	**0**	**0**	**330**	**330**
Added in 2011	0	305	287	592
Disposals in 2011	0	0	-127	-127
Amount on 12/31/2011	**0**	**305**	**490**	**795**

Carrying amount on 12/31/2010	**2,364**	**1,614**	**933**	**4,911**
Carrying amount on 12/31/2011	**4,607**	**1,309**	**1,404**	**7,320**

The goodwill reported (TEUR 4,607; previous year: TEUR 2,364) is attributable to the “Asset Management” cash-generating unit, which corresponds to the service business of Polares Real Estate Asset Management GmbH. In connection with the merger of Colonia Real Estate Solutions GmbH (now Polares Real Estate Asset Management GmbH) with LARUS Asset Management GmbH and the centralisation of service business, the values in use attributable to “Resolution” and “Accentro” of Colonia Real Estate Solutions GmbH and the values in use attributable to “Larus” have passed to Polares Real Estate Asset Management GmbH and are continued there as the “Asset Management” cash-generating unit.

In the year under review, an impairment test was performed to determine the recoverable value of the "Asset Management" cash-generating unit on the basis of the calculation of the value in use using cash flow forecasts. The forecasts are based on management's estimates of the market and the company's future performance in accordance with plans prepared for 2012 and 2013 and an estimate of future revenues, staff costs and other costs. Continuous performance in the form of a perpetual annuity is taken into account as of 2014.

The rates used to discount the payment flows were developed using the CAPM model on the basis of current market data and management assessments. The discount rated used for impairment testing stands at 7.7 percent (previous year 8.3 percent). Impairment testing did not identify any evidence of impaired goodwill.

Order books are being written down over a residual useful period of five years.

3. Property, plant and equipment

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

Property, plant and equipment **Historical cost**	**Real estate TEUR**	**Technical equipment TEUR**	**Operating and office equipment TEUR**	**Total TEUR**
Amount on 01/01/2010	**10,599**	**3,432**	**2,931**	**16,962**
Additions from business combinations 2010	0	0	245	245
Added in 2010	2,020	8	50	2,078
Disposals in 2010	-165	-2,151	-794	-3,110
Amount on 12/31/2010	**12,454**	**1,289**	**2,432**	**16,175**
Additions from business combinations 2011	0	0	357	357
Added in 2011	0	0	212	212
Disposals in 2011	0	0	-91	-91
Amount on 12/31/2011	**12,454**	**1,289**	**2,910**	**16,653**

Property, plant and equipment **Cumulative depreciation**	**Real estate TEUR**	**Technical equipment TEUR**	**Operating and office equipment TEUR**	**Total TEUR**
Amount on 01/01/2010	**1,776**	**2,982**	**1,988**	**6,746**
Added in 2010	213	47	283	543
Disposals in 2010	-165	-2,145	-794	-3,104
Amount on 12/31/2010	**1,824**	**884**	**1,477**	**4,185**
Added in 2011	244	47	285	576
Disposals in 2011	0	0	-118	-118
Amount on 12/31/2011	**2,068**	**931**	**1,644**	**4,643**

Carrying amount on 12/31/2010	**10,630**	**405**	**955**	**11,990**
Carrying amount on 12/31/2011	**10,386**	**358**	**1,266**	**12,010**

Within property, plant and equipment, land with a carrying amount of TEUR 10,386 (previous year TEUR 10,630) is secured with real estate liens and the assignment of rental income.

4. Investments in associates

Movements in investments in associates were as follows:

Investments in associates	TEUR
Amount on 01/01/2010	**440**
Additions as a result of acquisition	52,411
Share of profit/losses of associates	6,528
Amount on 12/31/2010	**59,379**
Disposals as a result of first-time consolidation	-52,144
Share of profit/losses of associates	246
Reclassified as non-current assets held for sale	-7,420
Amount on 12/31/2011	**61**

The share of losses of associates is not recorded if the carrying amount of the investment in the associate in question has already reached zero and there is no obligation to absorb any further loss. Accordingly, a share of profit of associates of TEUR 0 (previous year TEUR 12) was not recorded in the year under review. As of the reporting date, the non-recorded share of losses of associates stood at TEUR 0 (previous year TEUR 0).

In the previous year, disposals through first-time consolidation related to the shares in Colonia Real Estate AG, which had been reported as investments in associates. Colonia Real Estate AG was consolidated by TAG for the first time effective 31 January 2011. Further details on the first-time consolidation of Colonia Real Estate AG can be found in the section of these notes on business combinations.

The reclassification of investments in associates as non-current assets held for sale concerns the 20.73 percent share in Estavis AG. The 2,967,712 shares held by TAG AG in Estavis AG were issued shortly after the reporting date as the purchase price payment to the seller for the acquisition of an investment. The shares sold in Estavis AG were measured as of the reporting date on the basis of the fair value of the shares specified in the contract of sale. Estavis shares had a price of EUR 1.95 each as of 31 December 2011.

5. Other financial assets

Other financial assets comprise investments and loans to and loans from affiliated companies and associates not consolidated for materiality reasons. These are analysed in the following table:

Historical cost	TEUR
Amount on 01/01/2010	**3,031**
Added in 2010	1,378
Disposals in 2010	-4,043
Amount on 12/31/2010	**366**
Added in 2011	7,804
Additions from business combinations in 2011	4,760
Disposals in 2011	-644
Amount on 12/31/2011	**12,286**

Cumulative depreciation	TEUR
Amount on 01/01/2010	**2,635**
Added in 2010	0
Disposals in 2010	-2,604
Amount on 12/31/2010	**31**
Added in 2011	105
Disposals in 2011	0
Amount on 12/31/2011	**136**
Carrying amount on 12/31/2010	335
Carrying amount on 12/31/2011	12,150

6. Deferred income tax assets and liabilities

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

Deferred income taxes	12/31/2011 TEUR	12/31/2010 TEUR
Unused tax losses (incl. interest brought forward)	33,325	32,005
Gains/losses from remeasurement of investment properties	-105,573	-45,900
Gains/losses from remeasurement of hedge accounting (negative market values)	9,576	8,332
Gains/losses from remeasurement of hedge accounting (positive market values)	-6	-5
Gains/losses from remeasurement of properties held as inventory	263	44
Gains/losses from remeasurement of liabilities (deferred income tax assets)	807	381
Gains/losses from remeasurement of liabilities (deferred income tax liabilities)	-3,407	-1,578
Gains/losses from remeasurement of convertible bonds	-2,003	-2,384
Others	252	207
Total deferred income tax assets	44,223	40,969
Total deferred income tax liabilities	-110,989	-49,867
Offset	44,105 -44,105	36,973 -36,973
Deffered income taxes recorded on the face of the balance sheet	118 -66,884	3,996 -12,894

A net amount of TEUR 2,029 (previous year TEUR 5,403) is expected to be settled within one year and a net amount of TEUR -68,795 (previous year TEUR -14.301) in more than one year.

7. Land with unfinished and finished buildings and other inventories

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

Land with unfinished and finished buildings	2011 TEUR	2010 TEUR
Amount on 01/01	**113,973**	**146,618**
Additions	10,198	31,885
Disposals	-19,999	-20,535
Reclassification as investment properties	-66,759	-43,995
Amount on 12/31	**37,413**	**113,973**
Of which secured with real-property liens and assignment of rental income	**37,413**	**113,973**

In the previous year, borrowing costs had been capitalised in cases in which the corresponding conditions for doing so were satisfied. The average borrowing cost rate stood at around 2.2 percent. Capitalised borrowing costs came to TEUR 1,040.

Unfinished and finished buildings reported within current assets also include real estate which will probably only be sold after more than twelve months as of the reporting date. This concerns an estimated amount of around EUR 9 million (previous year EUR 40.0 million).

Other inventories break down as follows:

Other inventories	2011 TEUR	2010 TEUR
Heating and operating costs not yet billed	0	1,044
Others	247	58
Total	**247**	**1,102**

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

Trade receivables break down as follows:

Trade receivables	2011 TEUR	2010 TEUR
Rental receivables	7,660	3,592
Receivables from the sale of properties	2,754	2,820
Others	2,774	242
Total	**13,188**	**6,654**

In the year under review, impairments (adjustments and bad debts) of TEUR 1,957 (previous year TEUR 624) were recognised on trade receivables in the income statement due to the insufficient credit worthiness on the part of customers. These impairments are reported in the income statement under impairments on inventories and receivables. The carrying amounts of the impaired receivables stood at TEUR 8,243 as of 31 December 2011 (previous year TEUR 1,369).

Impairments of trade receivables are analysed in the following table:

Individual adjustments	TEUR
Amount on 01/01/2010	**1,403**
Consumed in 2010	-157
Reversed in 2010	-370
Added in 2010	597
Amount on 12/31/2010	**1,473**
Additions from first-time consolidation in 2011	8,295
Consumed in 2011	-925
Reversed in 2011	-964
Added in 2011	1,957
Amount on 12/31/2011	**9,836**

The income tax refund claims comprise corporate tax refund claims including the solidarity surcharge and trade tax for the consolidated companies.

Other current assets primarily break down as follows:

Other current assets	2011 TEUR	2010 TEUR
Prepaid expenses	751	46
Creditors with a debit balance	750	247
Derivative financial instruments	489	16
Receivables from associates	34	24
Receivables from associated companies	214	806
Receivables from affiliated companies	112	4
Current loans	0	1,250
Deposit	216	0
Others	1,215	1,629
Total	**3,781**	**4,022**

Current loans were acquired in connection with the acquisition of TAG Leipzig-Immobilien GmbH in the previous year and repaid in 2011.

9. Cash and cash equivalents

Cash and cash equivalents include cash in hand at cash at banks. The cash flow statement includes the cash in hand and cash at banks less 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 two items are reconciled in the notes to the cash flow statement.

As of the reporting date, cash and cash equivalents of TEUR 4,328 (previous year TEUR 122,192) were subject to restrictions. The amount reported concerns a bank balance (previous year TEUR 124) temporarily pledged due to the breach of a loan covenant. The bank balances subject to restrictions in the previous year concerned an amount of TEUR 120,000 constituting a cash deposit for the purchase of shares under the takeover bid submitted to the shareholders of Colonia Real Estate AG as well as bank balances of TEUR 2,068 pledged as collateral for bank borrowings.

10. Non-current assets held for sale

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

Non-current assets held for sale	in TEUR
Amount on 01/01/2010	**17,935**
Reclassification of investment properties as non-current assets held for sale	12,158
Reclassification of non-current assets held for sale to investment properties	-5,260
Disposals as result of sale	-8,633
Amount on 12/31/2010	**16,200**
Reclassification of investment properties as non-current assets held for sale	54,490
Reclassification of investments in associates as non-current assets held for sale	7,420
Disposals as result of sale	-39,744
Amount on 12/31/2011	**38,366**

The non-current assets held for sale as of the reporting date comprise investment properties of TEUR 30,946 (previous year TEUR 16,200) as well as the investment in Estavis AG of TEUR 7,420 (previous year TEUR 0), which had been classified as an investment in an associate in the previous year.

The shares of TEUR 7,420 held by TAG AG in Estavis AG were issued shortly after the reporting date as the purchase price paid to the seller for the acquisition of an investment.

Investment properties are sold on the basis of a decision made by the Management Board predominantly for the purpose of obtaining liquidity from the proceeds of the sale. The Group expects to sell the investment properties in the following year.

Of the non-current assets held for sale in the previous year of TEUR 16,200, investment properties of TEUR 11,900 had been sold as of the date on which the balance sheet was prepared. It is highly likely that the property with a carrying amount of TEUR 4,300 which has not yet been sold will be sold in the first half of 2012. No non-current assets held for sale were reclassified as investment properties in 2011 (previous year TEUR 5,260).

The liabilities attributable to the investment properties were reported within liabilities in connection with non-current assets held for sale in the previous year. Investment properties of TEUR 20,176 (previous year TEUR 0) are allocated to the residential real estate segment (Berlin, Hamburg and Munich regions) and investment properties of TEUR 10,465 (previous year TEUR 16,200) to the commercial real estate segment.

11. Subscribed capital

TAG's fully paid up share capital amounted to EUR 74,905,174.00 as of 31 December 2011 (previous year EUR 58,566,364.00) and was divided into 74,905,174.00 (previous year: 58,566,364) no-par-value shares with equal voting rights. They are bearer shares.

In the year under review, the Company's subscribed capital was increased on a cash and non-cash basis several times. A total of 16,338,810 shares (previous year 26,000,000 shares) were issued. In a resolution passed at the extraordinary shareholder meeting of 7 April 2011, the issue of 5,856,635 new shares on a cash basis was approved. In addition, 10,476,924 new shares were issued from the Company's authorised capital. In addition, the Company's share capital increased by 5,251 shares following the conversion of the conversion rights under the 2010/I convertible bond.

The authorised capital, which had been utilised in full as of 31 December 2010, was increased by EUR 25,000,000.00 (authorised capital 2011/I) in a resolution passed at the extraordinary shareholder meeting of 7 April 2011 and by 7,000,000.00 (authorised capital 2011/II) in a resolution passed at the ordinary shareholder meeting on 26 August 2011. As of 31 December 2011, authorised capital 2011/I stood at EUR 14,523,076.00 and authorised capital 2011/II at EUR 7,000,000.00.

Accordingly, the Management Board is authorised subject to the Supervisory Board's approval to increase the share capital once or repeatedly on or before 6 April 2016 on a cash and/or non-cash basis by a maximum amount of EUR 14,523,076.00 by issuing up to 14,523,076 new bearer shares in the Company's capital (authorised capital 2011/I). In addition, the Management Board is authorised subject to the Supervisory Board's approval to increase the Company's share capital once or repeatedly on or before 25 August 2016 through the issue of no-par-value shares on a cash and/or non-cash basis by a maximum amount of EUR 7,000,000.00 by issuing up to 7,000,000 new bearer shares in the Company's capital (authorised capital 2011/II).

In addition, at the annual general meeting held on 27 August 2009, the shareholders authorised the Management Board subject to the Supervisory Board's approval to issue convertible and/or option bonds with a total nominal amount of up to EUR 64.0 million with a term of no more than ten years on or before 26 August 2014. The bearers or creditors of such bonds are granted conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to EUR 8,194,749 in accordance with the terms and conditions determined. The Management Board also made use of this authorisation subject to the Supervisory Board's approval in resolutions passed on 17 December 2009 and 15 April 2010, meaning that it has now also been utilised in full (contingent capital 2009/I).

In a resolution passed at the ordinary shareholder meeting on 25 June 2010, the Company's share capital was increased by EUR 9,000,000.00 through the issue of up to 9,000,000 new bearer shares on a contingent basis. The contingent capital is to be used to grant shares to the holders of convertible and/or option bonds which have been issued by the Company in accordance with the authorisation granted at the shareholder meeting (contingent capital 2010/I).

In addition, a resolution was passed at the annual general meeting on 26 August 2011 granting the Management Board authorisation until 25 March 2016 to issue convertibleand/or option bonds in a total nominal amount of up to EUR 150.0 million and to grant the holders or creditors of such instruments conversion or option rights for new shares in TAG with a proportionate share of its share capital of up to EUR 15.0 million in accordance with the terms and conditions determined.

12. Share premium

The share premium primarily contains the premium on the equity issues executed in the year under review and in earlier years net of withdrawals to equalise the net losses for the year recorded in accordance with German commercial law. In addition, business combinations without a change of status were recognised. Reference should be made to the consolidated statement of changes in equity for an analysis of this item in the year under review.

In the year under review, equity issue costs of TEUR 2,810 (previous year TEUR 2,881) net of the related income tax benefits of TEUR 907 (previous year TEUR 930) were reported within the share premium.

13. Other reserves

Other reserves break down as follows:

Other reserves	2011 TEUR	2010 TEUR
Legal reserve	46	46
Miscellaneous retained earnings	480	481
Hedge accounting reserve	-16,817	-10,034
Currency translation reserve	31	0
Total	**-16,260**	**-9,507**

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

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

Hedge accounting reserve	2011 TEUR	2010 TEUR
Amount on 01/01	**-10,034**	**-12,393**
Unrealised gains and losses	-12,947	2,377
Recorded in profit and loss	4,057	1,025
Net amount	-8,890	3,402
Deferred tax effect	2,107	-1,043
Other comprehensive income after tax	-6,783	2,359
Amount on 12/31	**-16,817**	**-10,034**

The amounts recorded within interest income/expense in the income statement include both „ineffectivities“ and amounts taken from the hedge accounting reserve, which are recycled to profit and loss as a result of the occurrence of the forecast transaction.

The foreign currency translation reserve contains differences arising from the translation of the foreign Group members‘ financial statements to the Group‘s functional currency.

14. Unappropriated surplus

The consolidated statement of changes in equity analyses the movements in this item in the year under review.

15. Non-controlling interests

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

16. Bank borrowings

Bank borrowings chiefly consist of liabilities arising in connection with the acquisition of investment properties or the acquisition and development of available-for-sale properties. 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. As in the previous year, repayments are generally between 1 percent and 2 percent p.a. The bank borrowings are secured in an amount of TEUR 1,206,517 (previous year TEUR 639,518). For the most part, collateral takes the form of real property liens, the assignment of rental income and pledges on investments in affiliated companies.

17. Retirement benefit provisions

The retirement benefit provisions relate to the commitments made in earlier years to former members of the Management Board and employees of the subsidiaries Bau-Verein zu Hamburg Aktien-Gesellschaft and POLARES Real Estate Asset Management GmbH and their family members. Movements in these were as follows:

Retirement benefit provisions	in TEUR
Opening amount on 01/01/2010	**1,881**
Utilised	-215
Reversed	-29
Added (interest costs, included in personnel costs)	164
Amount on 12/31/2010	**1,801**
Additions as a result of business combinations	40
Utilised	-217
Reversed	-70
Added (interest costs, included in personnel costs)	206
Amount on 12/31/2011	**1,760**

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

	12/31/2011	12/31/2010
Interest rate	5.00	5.00
Rate of salary increase	1.50	1.50
Retirement age	In accordance with social code VI	

As in earlier years, changes in the actuarial assumptions, which however were of only minor importance, were recognised in profit and loss within personnel costs. Of the retirement benefit provisions, an amount of TEUR 228 (previous year TEUR 222) is due for payment within one year. These amounts together with other pension obligations are reported within non-current liabilities.

The table below sets out movements in the net liabilities recognised:

	2011 TEUR	2010 TEUR
Recognised on the face of the balance sheet as of 01/01	**1,801**	**1,881**
Additions from first-time consolidation 2011	40	0
Staff costs	136	135
Pension payments	-217	-215
Recognised on the face of the balance sheet as of 12/31	**1,760**	**1,801**

As in the previous year, the present value of the defined-benefit obligation corresponds to the liability shown in the consolidated balance sheet. A reconciliation statement has therefore been dispensed with. The present value of the defined-benefit obligation stood at TEUR 1,801 as of 31 December 2010, TEUR 1,880 as of 31 December 2009, TEUR 1,920 as of 31 December 2008 and TEUR 1,962 as of 31 December 2007.

18. Other non-current liabilities

Other non-current liabilities break down as follows:

Other non-current liabilities	12/31/2011 TEUR	12/31/2010 TEUR
Convertible bond	93,868	101,712
Negative fair value of interest swaps (non-current part)	28,222	15,752
Purchase price liabilities for business combinations	0	2.618
Others	153	4
Total	**122,243**	**120,086**

The Company issued a total of 125,000 convertible bonds in a nominal amount of EUR 100.00 each on 21 December 2009 and repurchased them in full in 2010. The new bearer bonds were issued in a nominal amount of TEUR 12,500 in December 2010.The convertible bond has a coupon of 4.5 percent p.a. and matures on 31 December 2012. The initial conversion price for the Company's bearer shares is EUR 5.15. This convertible bond was bought back on 28 May 2010, resulting in a gain of TEUR 1,121. The bond was issued again on unchanged terms on 17 August 2010.

On 13 May 2010, the Company issued a further 300,000 convertible bonds with a nominal amount of EUR 100.00 each. The nominal amount of the bearer bonds stands at TEUR 30,000. The convertible bond has a coupon of 6.375 percent p.a. and expires on 13 May 2015. The initial conversion price for the Company's bearer shares is EUR 5.47.

A further 9,000,000 convertible bonds with a nominal amount of EUR 7.40 were issued on 10 December 2010. The nominal amount of the bearer bonds stands at TEUR 66,600. The convertible bond has a coupon of 6.5 percent p.a. and matures on 10 December 2015. The initial conversion price for the Company's bearer shares is EUR 7.40.

As of 31 December 2011, convertible bonds also included an instrument of TEUR 2,634 which had been issued by Colonia Real Estate AG. Colonia Real Estate AG had issued this bond on 11 May 2010 at a nominal amount of TEUR 11,441 and a coupon of 5.875 percent. The initial conversion price stands at EUR 6.01 per Colonia Real Estate share. Following the acquisition of the majority of the voting rights in Colonia Real Estate AG by TAG AG on 15 February 2011, Colonia Real Estate AG disclosed the change of control and the resultant right of termination accruing to the holders of the convertible bond which it had issued. Thereupon, convertible bonds with a nominal value of TEUR 8,089 were prematurely converted and those with a nominal value of TEUR 231 prematurely repaid.

The convertible bonds are measured at amortised cost using the effective interest rate method.

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

19. Other provisions

Other provisions break down as follows:

Other provisions in TEUR	Amount 01/01/2011	Utilised	Reversed	Interest expense / discount	Added	Amount on 12/31/2011
Subsequent purchase price payments	3,000	0	0	0	0	3,000
Outstanding services in connection with sold land	2,887	682	515	0	464	2,154
Outstanding construction costs	2,161	1,706	169	0	1,114	1,400
Repairs	1,920	415	38	0	200	1,667
Outstanding invoices	1,395	777	94	0	3,133	3,657
Legal, consulting and auditing costs	891	788	98	0	1,306	1,311
Others	3,283	1,432	1,408	23	4,198	4,618
Total	**15,537**	**5,800**	**2,322**	**23**	**10,415**	**17,807**

The provisions for additional purchase price payments contain possible obligations in connection with real estate purchases in earlier years.

The provisions for outstanding services in connection with sold land primarily concern construction activities still to be performed in connection with sold properties and claims for damages in connection with real estate already sold.

The provisions for outstanding construction costs relate to expected obligations with respect to construction services which have not yet been invoiced.

The provisions for repairs relate to obligations to remedy any faults exhibited by sold real estate.

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

20. Income tax liabilities

Income tax liabilities include current income tax liabilities for corporate tax (including the solidarity surcharge) and trade tax.

21. Trade payables

Trade payables comprise liabilities from the purchase of land and other trade payables.

22. Other current liabilities

Other current liabilities break down as follows:

Other current liabilities	12/31/2011 TEUR	12/31/2010 TEUR
Negative market values of interest swaps (current part)	11,379	9,537
Current liabilities from convertible bonds	13,901	1,786
Value added tax	1,239	889
Prepayments received	2,675	801
Deferred income	577	20
Liabilities to associates	11	11
Others	7,043	4,754
Total	**36,825**	**17,798**

23. Liabilities in connection with assets held for sale

In the previous year, the liabilities comprised bank borrowings in connection with investment properties held for sale.

Notes on the income statement

24. Revenues

The Group's revenues comprise rental income, revenue from the sale of real estate and service income. Rental income breaks down into income from investment properties and other rented properties held as inventories.

Rental income	2011 TEUR	2010 TEUR
Rental income on investment properties	109,034	45,915
Rental income on properties held for sale	6,343	5,887
Total	**115,377**	**51,802**

25. Other operating income

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

Other operating income	2011 TEUR	2010 TEUR
Gains from business combinations	56,758	8,407
Income from the reversal of provisions	2,322	4,288
Other off-period income	3,517	1,127
Gain on repurchased convertible bond	0	1,123
Others	4,206	751
Total	**66,803**	**15,696**

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

This item comprises gains and losses from the fair-value measurement of investment properties as of the reporting date, broken down by net fair value gains and losses from the first-time consolidation of property companies and from the remeasurement of the other investment properties. Reference should be made to Note 1 for further details of the Group's investment properties.

27. Expenses from the rental and sale of real estate and the cost of providing services

Rental expenses also include the increase/decrease in as yet unbilled rechargeable heating and operating costs in the year under review as well as billed heating and operating costs in the previous year (change in inventories). Reimbursements by tenants for operating and ancillary costs are netted with rental expenses.

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

The cost of providing services includes the personnel costs directly attributable to the revenues generated from the provision of services.

28. Personnel costs

Personnel costs breaks down as follows:

Staff costs	2011 TEUR	2010 TEUR
Wages, salaries and bonuses	10,750	7,578
Social security	1,750	896
Post-retirement benefit costs	247	305
Total	**12,747**	**8,779**

Including the personnel costs directly attributable to the revenues generated from the provision of services, total personnel costs came to TEUR 18,099 in the year under review (previous year TEUR 10,012). Roughly half of the social security expense includes payments to the statutory pension fund.

29. Depreciation/amortisation

Depreciation/amortisation breaks down as follows:

Depreciation/amortisation	2011 TEUR	2010 TEUR
Amortisation of intangible assets	592	227
Depreciation of property, plant and equipment	576	543
Total	**1,168**	**770**

30. Impairments on receivables and inventories

This item breaks down as follows:

Impairments	2011 TEUR	2010 TEUR
Impairments on receivables	1,957	624
Impairments on inventories	1,542	0
Total	**3,499**	**624**

31. Other operating expenses

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

Other operating expenses	2011 TEUR	2010 TEUR
Legal, consulting and auditing costs	4,788	3,467
Other off-period expenses	1,443	1,003
Restructuring costs for Colonia	1,323	0
Cost of premises	1,242	803
Costs of repairs to sold real estate	1,148	3,595
Loan arrangement fees	1,082	1,044
Project start-up costs	824	168
Travel expenses (including motor vehicles)	795	509
IT costs	729	1,102
Transaction costs	518	430
Supervisory Board costs	429	227
Costs of the annual general meeting	411	234
Investor Relations	230	224
Rental guarantees	3	35
Losses from the disposal of joint ventures	0	747
Others	5,517	2,367
Total	**20,482**	**15,955**

In the year under review, other operating expenses included payments under operating leases of TEUR 1,577 (previous year TEUR 1,467) for copiers, motor vehicles and office space.

32. Share of profit of investees

This item includes the investment income of TEUR 72 generated in the year under review (previous year TEUR 0).

33. Share of profit of associates

The share of profit of associates breaks down as follows:

Share of profits/losses of associates	2011 TEUR	2010 TEUR
Recognition of proportionate net assets valued at their fair value from acquisition	0	6,724
Share of profits/losses	53	176
Net gains/losses from fair-value remeasurement of shares in Estavis	-1,975	0
Profit from translation to full consolidation (previous year loss)	2,168	-372
Share of profit/losses of associates	**246**	**6,528**

34. Impairments of financial assets

This item entails an impairment of TEUR 105 (previous year TEUR 0) recognised by Colonia Real Estate AG on its investments.

35. Net borrowing costs

Net borrowing costs consist of the following items:

Net borrowing costs	2011 TEUR	2010 TEUR
Interest income	10,141	3,228
Borrowing costs	-71,687	-34,413
Total	**-61,546**	**-31,185**

Interest income comprises interest on financial assets of TEUR 2,155 (previous year TEUR 875) and interest derivatives used for hedging purposes of TEUR 7,986 (previous year TEUR 2,352).

Interest and similar expenses comprise interest on financial liabilities of TEUR 53,136 (previous year TEUR 20,301) and interest derivatives used for hedging purposes of TEUR 18,551 (previous year TEUR 14,112).

36. Income taxes

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

Income taxes	2011 TEUR	2010 TEUR
Actual income tax expense	-779	-253
Deferred income taxes	-16,482	-2,581
Total	**-17,261**	**-2,834**

Deferred income taxes break down as follows:

Deferred income taxes charged/credited to the income statement	2011 TEUR	2010 TEUR
Recognition/impairment of unused tax losses	-8,497	6,998
Gains/losses from remeasurement of hedge accounting	-2,973	0
Gains/losses from remeasurement of investment properties	-6,867	-9,816
Gains/losses from remeasurement of provisions and liabilities	1,567	532
Gains/losses from remeasurement of convertible bonds	456	-688
Gains/losses from remeasurement of financial assets	-256	0
Gains/losses from remeasurement of properties held as inventory	0	299
Others	88	94
Total	**-16,482**	**-2,581**

Expected and actual net tax expense is reconciled as follows:

Actual net tax expense	2011 TEUR	2010 TEUR
Earnings before income taxes (EBT after other taxes)	83,165	22,025
Expected net tax expense	-26,841	-7,109
Reconciled with tax effects from:		
Income and expenses from earlier years	722	1.763
Adjustments to deferred income taxes	-10,292	-2,506
Tax-free returns and non-deductible expenses	-4,563	-1,843
Trade tax exemption for current earnings amd first-time application	9,002	0
Net gains/losses from first-time consolidation	15,615	4,028
Share of profits/losses of associates	79	2,107
Others	-983	726
Total	**-17,261**	**-2,834**

The theoretical tax rate is calculated as follows:

Theoretical tax rate	12/31/2011 %	12/31/2010 %
Corporate tax	15.000	15.000
Solidarity surcharge	0.825	0.825
Trade tax	16.450	16.450
Total	**32.275**	**32.275**

The notional Group tax rate for the year under review stands at 20.8 percent (previous year 12.9 percent). Deferred income tax liabilities of TEUR 715 (previous year TEUR 1,186) were recognised within equity in the year under review.

Deferred income tax assets excluded unused corporate tax losses of around EUR 80 million (previous year approx. EUR 75 million) and unused trade tax losses of around EUR 114 million (previous year approx. EUR 83 million) as well as interest carried forward of EUR 9 million (previous year approx. EUR 3 million) as utilisation currently does not appear to be likely.

The sum total of unrecognised deferred income taxes in connection with shares in subsidiaries, associates and joint ventures stands at around EUR 0.8 million (previous year around EUR 0.6 million). These would be recognised upon the sale of companies on account of the only 95 percent exemption from tax on the proceeds of the sale. The Group does not expect any strain from this as there are currently no plans for a sale.

37. Other taxes

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

38. Earnings per share

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

	2011	**2010**
Consolidated net profit after non-controlling interests in TEUR	66,882	18,501
Number of shares outstanding	63.897.977	38,589,600
Earnings per share (basic)	1.05	0.48
Dilution effect in TEUR	5,381	1,605
Diluted consolidated net profit in TEUR	72,263	20,106
Number of shares outstanding (diluted)	80,808,284	44,455,513
Earnings per share (diluted) in EUR	**0.89**	**0.45**

The aforementioned dilution effect results from the coupon on the convertible bonds plus the related income tax effects.

The number of shares outstanding breaks down as follows for the year under review:

Period	Days	Shares Additions	Number of shares Actual	Weighted Number of shares (restated)
01/01–05/04/2011	124	0	58,566,364	19,896,518
05/05–09/25/2011	144	5,856,635	64,422,999	25,416,197
09/26–10/31/2011	36	5,084	64,428,083	6,354,551
11/01–11/21/2011	21	5,476,924	69,905,007	4,021,932
11/22–12/05/2011	14	5,000,000	74,905,007	2,873,069
12/06–12/31/2011	26	167	74,905,174	5,335,711
	365	16,338,810		63,897,977
Consolidated net profit after non-controlling interests 2011:				**66,882 TEUR**
Earnings per share in 2011 (basic):				**1.05 €**

The following table analyses the shares issued in the year under review with respect to the calculation of diluted earnings per share:

Period	Days	Number of shares Actual	Weighted Number of shares (restated)
01/01–05/04/2011	124	58,566,364	19,896,518
05/05–09/25/2011	144	64,422,999	25,416,197
09/26–10/31/2011	36	64,428,083	6,354,551
11/01–11/21/2011	21	69,905,007	4,021,932
11/22–12/05/2011	14	74,905,007	2,873,069
12/06–12/31/2011	26	74,905,174	5,335,711
01/01–12/31/2011	365	2,427,184	2,427,184
01/01–09/25/2011	268	5,484,461	4,026,947
09/26–12/05/2011	71	5,479,470	1,065,870
12/06–12/31/2011	26	5,479,305	390,307
01/01–12/31/2011	365	9,000,000	9,000,000
	365		80,808,284
Consolidated net profit after non-controlling interests 2011:			**72,263 TEUR**
Earnings per share in 2011 (diluted):			**0.89 €**

The number of shares outstanding in the previous year breaks down as follows:

Period	Days	Shares Added	Number of shares Actual	Weighted Number of shares (restated)
01/01–03/10/2010	69	32,566,364	32,566,364	6,156,381
03/11–08/01/2010	144	2,418,182	34,984,546	13,802,122
08/02–10/25/2010	85	5,581,818	40,566,364	9,446,961
10/26–11/25/2010	31	4,050,000	44,616,364	3,789,335
11/26–12/07/2010	12	2,342,751	46,959,115	1,543,861
12/08–12/31/2010	24	11,607,249	58,566,364	3,850,939
	365	58,566,364		38,589,600
Consolidated net profit after non-controlling interests 2010:				**18,501 TEUR**
Earnings per share in 2010 (basic):				**0.48 €**

The following table analyses the shares issued in 2010 with respect to the calculation of diluted earnings per share:

Period	Days	Number of shares Actual	Weighted Number of shares (restated)
01/01–03/10/2010	69	32,566,364	6,156,381
03/11–08/01/2010	144	34,984,546	13,802,122
08/02–10/25/2010	85	40,566,364	9,446,961
10/26–11/25/2010	31	44,616,364	3,789,335
11/26–12/07/2010	12	46,959,115	1,543,861
12/08–12/31/2010	24	58,566,364	3,850,939
01/01–05/28/2010	148	2,427,184	984,173
08/17–12/31/2010	137	2,427,184	911,025
05/14–12/31/2010	231	5,484,461	3,470,988
12/12–12/31/2010	20	9,000,000	493,151
	365		44,448,937
Consolidated net profit after non-controlling interests 2010:			**20,106 TEUR**
Earnings per share in 2011 (diluted):			**0.45 €**

Notes on the cash flow statement

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

Cash and cash equivalents as reported in the cash flow statement	12/31/2011 TEUR	12/31/2010 TEUR
Cash and cash equivalents as reported in the balance sheet	31,714	129,417
Overdraft facilities with banks	-10,115	-7,641
Total	**21,599**	**121,776**

Further cash flows included in cash flow from operating activities in the cash flow statement include the following components:

Cash flows	2011 TEUR	2010 TEUR
Interest paid	-71,687	-32,626
Interest received	10,141	3,228
Dividends received	72	0
Taxes paid	-814	-601
Taxes received	35	348

In addition to the investments included in the cash flow from investing activities in the cash flow statement, major investments also took the form of business combinations of TEUR 35,807 in the year under review which are not included in the cash flow statement due to the related issue of new shares.

Reference should be made to the section on business combinations for details of the prices paid for the business combinations and the assets and liabilities acquired.

Notes on segment reporting

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

The figures disclosed in the segment report are based solely on the IFRS accounting rules. The segments presented are Residential and Commercial, which comprise the Company's real estate assets and the income and earnings derived from them. The Residential segment is additionally divided into categories based on the regional distribution of the properties. A further segment – Services – has also been defined.

Within the Residential portfolio, a regional distinction is drawn between Hamburg (including other Northern German regions), Berlin (including the Leipzig region), North Rhine-Westphalia (NRW) Salzgitter and Munich, where most of the Company's real estate is located as well as branches. Further residential properties in other parts of Germany are assigned to the Other Residential Real Estate segment. The Services segment entails the management of the Company's own as well as third-party real estate.

The Salzgitter segment was established for the first time in 2011 in view of the importance of the real estate at that location following the acquisition of Colonia. Comprising 8,700 residential units, the Salzgitter portfolio accounts for roughly 28 percent of TAG's entire portfolio.

The net segment profit/loss for the Residential and Commercial segments corresponds to the contributions to net profit/loss made by the applicable properties. Rental expenses and the cost of selling land are deducted from the income from rental and sales, while total net fair value gains and losses on investment properties are added. In the commercial real estate segment, the largest customer accounted for revenues of around EUR 10.1 million in 2011 (previous year approx. EUR 13.7 million). Net profit/loss in the Service segment matches the income generated in this segment net of the personnel costs directly attributable to this segment.

The Other Activities column primarily comprises income from the lease of the railway infrastructure in Tegernseer Tal. The Consolidation column chiefly entails the elimination of internal Group rental income for the head office and internal Group income from the management of the Group's own properties. Segment assets comprise the carrying amounts of the real estate allocated to the individual segments and recorded in the balance sheet.

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

Disclosures on financial instruments

Risks as a result of financial instruments

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

Material accounting and measurement methods

Details of the material accounting polices applied including recognition criteria, the basis of measurements and the basis for recognising income and expenses are described in the section entitled “Significant accounting principles – details of recognition and measurement principles”.

Capital risk management

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

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

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

The equity ratio as of the end of the year is as follows:

	12/31/2011 TEUR	12/31/2010 TEUR
Equity (before non-controlling interests)	547,392	356,461
Total equity and liabilities	2,047,683	1,190,507
Equity ratio in %	**27**	**30**

Categorisation of financial instruments in accordance with IFRS 7

The following tables reconcile the carrying amounts of the financial instruments with the categories specified in IAS 39 and disclose the fair values of the financial instruments for each category together with the source of measurement:

31 December 2011	Carrying amount TEUR	Of which coming with the scope of IFRS 7 TEUR	Category[1]	Fair value TEUR
Other financial assets	12,150	12,150		N/A
Trade receivables	13,188	13,188	LaR	13,188
Other current assets	3,781	3,030	LaR	3,781
Cash and cash equivalents	31,714	31,714	LaR	31,714
Non-current liabilities to banks	1,016,825	1,016,825	AmC	1,027,216
Other non-current liabilities	122,243	122,243		122,243
of which hedges	28,222	28,222	N/A	28,222
Others	94,021	94,021	AmC	94,021
Current liabilities to banks	172,568	172,568	AmC	172,568
Trade payables	16,830	16,830	AmC	16,830
Other current liabilities	36,825	36,825		36,825
of which hedges	10,495	10,495	N/A	10,495
Others	25,446	20,955	AmC	20,955

31 December 2010	Carrying amount TEUR	Of which coming with the scope of IFRS 7	Category[1]	Fair value TEUR
Other financial assets	335	335	AfS	N/A
Trade receivables payables	6,654	6,654	LaR	6,654
Other current assets	4,022	3,976	LaR	3,976
Cash and cash equivalents	129,417	129,417	LaR	129,417
Non-current liabilities to banks	523,512	523,512	AmC	486,042
Other non-current liabilities	120,086	120,086		119,412
of which hedges	15,752	15,752	N/A	15,752
Others	104,334	104,334	AmC	103,660
Current liabilities to banks	110,490	110,490	AmC	110,490
Trade payables	7,762	7,762	AmC	7,762
Other current liabilities	17,798	16,088		16,088
of which hedges	9,537	9,537	N/A	9,537
Others	8,261	6,551	AmC	6,551
Liabilities in connection with non-current assets held for sale	13,653	13,653	AmC	13,653

[1)] AfS: Available-for-sale financial assets; LaR: loans and receivables; AmC: Amortised cost; FLHfT: financial liabilities held for trading

Fair value of financial instruments

Financial instruments at fair value through profit and loss can be classified and allocated to the appropriate hierarchical level according to the importance of the measurement input used. This is done on the basis of the significance of the input factors for the overall measurement. Specifically, the lowest level applicable to the measurement as a whole is applied. The hierarchical levels are determined on the basis of the input factors:

Level 1: Prices quoted in active markets for identical assets or liabilities (such as share prices).

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level: Valuation techniques for which any significant input is not based on observable market data (non-observable inputs)

The financial instruments recorded at fair value in the consolidated financial statement (and the disclosures on the fair values of the financial instruments) are all based on Level 2 information and input factors.

Other financial assets are recognised at cost less any impairments as it is not possible to reliably determine their fair values due to the absence of active markets for these assets. These investments are predominantly subsidiaries engaged in the real estate sector with only minor business activities. At the moment, there is no specific intention for these investments to be sold.

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

Net gains and losses from financial instruments

In addition to the aforementioned impairments on trade receivables (see Note 8; part of loans and receivables) and receivables from associates (see Note 33, part of loans and receivables), the following net gains and losses were recorded on financial instruments:

- In the year under review, a gain of TEUR 105 (previous year TEUR 0) was recognised from the measurement of derivative financial instruments and reported with impairments on financial assets.

- The sale of available-for-sale financial assets and the derecognition of financial liabilities at amortised cost resulted in a total gain of TEUR 0 (previous year EUR 1,468) referred to in Note 25, which is recorded within other operating income.

- Fee and commission expenses not included in the calculation of the effective interest rate and resulting from financial liabilities not recognised at fair value through profit and loss came to TEUR 81 (previous year TEUR 288).

- In the year under review, income fromthe measurement of interest-rate swaps, which had previously not come within hedge accounting, of TEUR 1,993 (previous year TEUR 0) were reported within other operating income. In addition, expense of TEUR 200 (previous year TEUR 0) from an ineffective hedge was included within interest expense.

Interest income from financial assets, which is attributable in full to the available-for-sale financial assets, and interest expense on financial liabilities, which is attributable in full to financial liabilities measured at amortised cost in accordance with the effective interest method, is included within net borrowing costs (Note 34).

Purposes of financial risk management

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

Interest risk

The Group's activities expose it to risks arising from changes in interest rates. It uses derivative financial instruments to a necessary extent to manage existing interest risks. These include interest swaps, albeit only in a small volume, as well as caps to minimise the risk of changing interest rates and sensitivity in the event of rising interest rates. The Group does not enter into or trade in any financial instruments including derivative financial instruments for speculative purposes.

The TAG Group uses derivatives based on hedged assets to actively manage and reduce interest risks. As of 31 December 2011, the subsidiaries Bau-Verein zu Hamburg Aktien-Gesellschaft, TAG Gewerbeimmobilien-Aktiengesellschaft, TAG NRW-Immobilien GmbH, TAG Sachsenimmobilien GmbH, TAG Leipzig-Immobilien GmbH, Colonia Real Estate AG, Domus Grundstücksverwaltungsgesellschaft mbH, Emersion Grundstücksverwaltungsgesellschaft mbH, TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, TAG SH-Immobilien GmbH, TAG Magdeburg-Immobilien GmbH, TAG Grebensteiner-Immobilien GmbH, TAG Klosterplatz-Immobilien GmbH and TAG Wolfsburg-Immobilien GmbH had entered into conservative interest derivatives (primarily payer swaps) with a nominal volume of EUR 671.9 million (previous year EUR 313.3 million). Payer swaps constitute synthetic fixed-rate agreements in connection with a variable underlying. In this way, the Group is able to reduce its exposure to changes in the money market and also heighten the plannability of debt servicing with respect to the hedged repayments. The Group's interest management works actively with credit management and Group planning. As a result, it is possible to structure derivatives in such a way that they generate the greatest possible benefits and maximum stability for the Group's current and future status.

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

Interest sensitivity	12/31/2011 TEUR	12/31/2010 TEUR
Net borrowing costs in the year under review	-61,546	-31,185
Average interest rate on non-current loans in %	3.2	4.7
Average interest rate on current loans in %	3.7	2.3
Change in net interest expense in the event of a 0.5% increase in interest levels	-3,779	-2,411
Change in net interest expense in the event of a 0.5% decrease in interest levels	3,779	2,411

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

The Group entered into the interest swaps set out in the following table to hedge the interest risk. Under these contracts, fixed interest rates calculated on the basis of agreed nominal amounts are swapped.

Interest hedge	Nominal volume		Interest rate %	Duration in years	Market value	
	2011 EUR	2010 EUR			2011 EUR	2010 EUR
Payer-Swap	20,000,000	20,000,000	4.410	5.4	-2,779,804	-2,002,059
Payer-Swap	20,000,000	20,000,000	4.800	5.4	-3,192,487	-2,474,242
Payer-Swap	20,000,000	20,000,000	4.805	2.7	-1,691,205	-1,981,512
Payer-Swap	30,000,000	30,000,000	4.545	5.4	-3,983,320	-3,046,432
Payer-Swap	9,051,988	9,276,249	4.450	3.7	-937,682	-827,412
Payer-Swap	10,339,844	10,624,101	4.818	5.0	-1,468,139	-1,215,946
Payer-Swap	22,562,208	23,247,838	4.000	0.5	-267,523	-891,130
Payer-Swap	0	2,432,092	4.000	0.5	0	-88,508
Payer-Swap	7,842,100	7,988,300	4.745	0.4	-108,786	-382,171
Payer-Swap	20,000,000	20,000,000	5.210	0.5	-358,960	-1,143,205
Payer-Swap	15,289,166	16,625,337	5.100	2.5	-1,281,633	-1,559,871
Payer-Swap	4,800,000	9,000,000	2.830	1.9	-141,927	-259,141
Payer-Swap	21,625,193	28,407,500	4.430	0.7	-427,903	-1,456,271
Cap	1,000,000	1,000,000	4.430	0.7	38	0
Payer-Swap	10,118,200	10,322,200	4.235	5.1	-1,203,747	-881,847
Payer-Swap	17,000,000	17,000,000	4.780	1.0	-485,433	-1,100,994
Cap	3,700,000	3,820,000	1.000	0.2	3,402	15,847
Payer-Swap	5,000,000	0	1.720	3.8	-46,196	0
Payer-Swap	7,020,860	7,093,240	4.540	5.5	-1,007,349.00	-754,836.39
Payer-Swap	875,910	884,940	4.870	5.5	-140,687.00	-111,456.51
Payer-Swap	6,670,390	6,754,240	4.045	5.8	-884,155.00	-517,000.42
Payer-Swap	3,870,043	3,915,857	4.830	3.5	-445,108.00	-418,560.20
Payer-Swap	6,669,760	6,753,880	4.395	2.5	-549,711.00	-563,828.80
Payer-Swap	3,318,530	3,915,857	4.890	7.0	-607,018.00	-523,595.64
Payer-Swap	6,450,072	6,526,429	4.790	2.0	-445,009.00	-560,169.08
Payer-Swap	6,450,072	6,526,429	4.830	4.0	-823,674.00	-716,199.56
Payer-Swap	3,756,343	3,795,202	4.470	5.7	-534,213	-389,858
Payer-Swap	1,999,480	2,020,200	4.580	5.7	-296,084	-220,956
Payer-Swap	2,257,650	2,281,005	4.220	3.1	-195,462	-182,200

Payer-Swap	1,692,000	1,709,503	4.170	1.5	-71,787	-104,077
Payer-Swap	1,760,880	1,779,096	4.350	1.5	-79,410	-116,095
Payer-Swap	7,692,500	7,862,500	4.230	0.2	-54,491	-280,463
Payer-Swap	0	0	4.650	5.3	-1,024,005	-534,995
Payer-Swap	1,746,000	1,782,000	2.520	5.3	-67,282	16,016
Payer-Swap	8,058,165	0	3.960	0.7	-115,100	0
Payer-Swap	177,080,000	0	3.972	1.6	-7,694,803	0
Payer-Swap	40,097,250	0	3.972	1.6	-1,743,515	0
Payer-Swap	45,500,000	0	2.820	4.5	-2,775,050	0
Cap	1,500,000	0	2.820	4.5	17,044	0
Payer-Swap	22,223,819	0	2.040	5.0	-262,653	0
Payer-Swap	17,336,368	0	2.040	5.0	-292,580	0
Payer-Swap	23,562,997	0	2.040	5.0	-145,821	0
Payer-Swap	10,618,071	0	2.040	5.0	-179,198	0
Payer-Swap	25,360,746	0	2.040	5.0	-323,864	0
Total	**671,896,604**	**313,343,995**	**3.83**	**3.0**	**-39,112,290**	**-25,273,172**

With the exception of two derivative financial instruments with a nominal volume of TEUR 8,170 (previous year TEUR 0) and a market value of TEUR -867 (previous year TEUR 0), which are not used for hedging purposes, the table also includes the periods in which the hedged payment flows arise in essentially identical parts. The Group assumes that the payment flows will also be included in netprofit/loss for this period.

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

	12/31/2011 TEUR	12/31/2010 TEUR
Change in market value in the event of a 0.5 pp increase in interest levels	13,436	6,204
Change in market value in the event of a 0.5 pp decrease in interest levels	-13,808	-6,204

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

Credit risk

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

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

As of the reporting date, loans and receivables (trade receivables) overdue by more than three months but not impaired stand at TEUR 2,160 (previous year TEUR 1,058). Financial assets overdue by more than one year whose value has not been adjusted are valued at TEUR 2,885 (previous year TEUR 3,395).

The Group is for the most part not exposed to any payment default risks on the part of a counterparty or group of counterparties with similar characteristics. The Group defines counterparties as those with similar characteristics if they are related parties. Only TAG Gewerbeimmobilien-Aktiengesellschaft is exposed to payment default risk clustering. Rental income from a single tenant – including prepaid operating and ancillary costs – currently stands at around EUR 11.0 million (previous year around EUR 13.7 million) p.a. Given the tenant's credit rating, no payment defaults are expected.

With the exception of a guarantee of TEUR 505 (previous year TEUR 505), the carrying amount of the financial assets recognised in the consolidated financial statements less any value adjustments constitutes the Group's maximum credit risk. This does not include any collateral received.

Liquidity risk

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

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

Residual maturity of financial liabilities	12/31/2011 TEUR	12/31/2010 TEUR
Due for settlement in less than 1 year	210,353	138,456
1 to 5 years	771,954	401,551
more than 5 years	338,892	226,295
Total	**1,321,199**	**766,302**

In addition, there are estimated future payment outflows from interest on financial liabilities due for settlement in less than one year of around EUR 43 million (previous year around EUR 17 million), in more than one but less than five years of around EUR 96 million (previous year around EUR 42 million) and in more than five years of around EUR 120 million (previous year around EUR 20 million).

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

Residual maturity of financial assets	12/31/2011 TEUR	12/31/2010 TEUR
Due for settlement in less than 1 year	47,932	140,047
more than 5 years	12,150	335
Total	**60,082**	**140,382**

The Group is able to utilise overdraft facilities. The total amount not utilised as of the reporting date stands at TEUR 3,827 (previous year TEUR 2,612). The Group expects to be able to settle its liabilities from operating cash flow, the inflow of financial assets due for settlement and existing credit facilities at all times.

Finance risk

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

Similarly, the convertible bond of EUR 12.5 million issued in December 2009 and the convertible bonds issued in May and December 2010 of EUR 30.0 million and EUR 66.6 million, respectively, are subject to certain terms and conditions which, if breached, may constitute a liquidity risk. In the event of any breach of the terms of issue, e.g. a change of control, these convertible bonds may be subject to a right of premature termination.

Certain consolidated TAG companies have loan contracts with banks including a change-of-control clauses. In the event of any change in the shareholder structure, the bank's approval is required or the loans may be terminated. This entails loans to TAG NRW-Immobilien GmbH of around EUR 11.6 million and EUR 8.1 million, TAG Sachsenimmobilien GmbH of around EUR 11.6 million, TAG Marzahn Immobilien GmbH of EUR 19 million, TAGLeipzig-Immobilien of around EUR 9.6 million, Colonia Bremen GmbH & Co. KG of around EUR 3.1 million and Colonia Real Estate AG of around EUR 32 million.

In addition, there are loan contracts for real estate portfolios of EUR 99.6 million and for EUR 11.6 million with a change-of-control clause of 50 percent of the voting rights in the borrower and for EUR 9.6 million with a change-of-control clause for 30 percent of the voting rights in the borrower.

In addition, there are loan contracts within the TAG Group of a total of EUR 923 million (previous year EUR 258 million) for which financial covenants with respect to capital service ratios and equity/debt ratios have been imposed by the banks. If any of these covenants are breached, premature loan repayments may be necessary. In 2011, these covenants were breached in three cases. In the first case involving a loan for around EUR 6.5 million, the capital service ratio stipulated in the loan contract was not achieved. Compliance with the covenant was achieved in February 2012 through the removal of one property from the scope of the finance. In addition, the capital service covenants stipulated in two other contracts accounting for around EUR 14 million were breached. The Group rectified this by submitting collateral of a total of TEUR 95 to the bank. In addition, non-scheduled repayments of TEUR 595 were made to ensure compliance with the capital service covenants as of 31 December 2011, resulting in the release of the collateral provided.

Collateral

As in the previous year, the Group holds collateral in the form of financial assets (on-demand accounts and savings accounts) from tenants with a fair value of around EUR 15.8 million (previous year EUR 5.7 million). The relevant contracts provide for collateral equalling three monthly rental installments to be provided. The Group grants creditors collateral in the form of cash of around EUR 0 million (previous year around EUR 0.8 million) to secure outstanding construction activities.

Other disclosures

Contingent liabilities and other financial obligations

As of the reporting date, these broke down as follows:

Other financial obligations	12/31/2011 TEUR	12/31/2010 TEUR
Rentals for business premises	7,485	956
Others (e.g. manager contracts, leases, rental guarantees)	1,761	2,131
Total	**9,246**	**3,087**

One part of the other financial obligations of TEUR 2,106 (previous year TEUR 1,454) is due for settlement in less than one year, a further part of TEUR 4,633 (previous year TEUR 1,495) between one and less than five years and a further part of TEUR 2,507 (previous year TEUR 138) in more than five years.

Minimum lease payments under operating leases

As of the reporting date, there are fixed future claims to minimum lease payments, which relate to operating leases primarily entailing commercial real estate, of around EUR 98 million (previous year around EUR 125 million), of which around EUR 33 million (previous year around EUR 26 million) is due for settlement in less than one year, around EUR 33 million (previous year around EUR 63 million) in more than one year but in less than five years and around EUR 31 million (around EUR 36 million) in more than five years.

Leases for commercial real estate generally have fixed minimum terms of up to ten years. In some cases, the tenants are offered renewal options. In such cases, rental adjustment clauses reduce the market risk of long-term fixed prices.

Material transactions with related persons

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

Business relations with associates

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

- In the year under review, Colonia Real Estate AG sold the assets and liabilities of a business unit of the fully consolidated company Colonia Real Estate Solutions GmbH to Estavis 2. Vermögensverwaltungs GmbH, Berlin, and technical equipment and office furniture to Estavis AG, Berlin, of whose supervisory board Mr. Rolf Elgeti is a member.

- In addition, Colonia Real Estate AG sold its shares in Colonia Residential Sales GmbH to Estavis 32. GmbH & Co. KG, Berlin, and Estavis Beteiligungs GmbH & Co. KG, Berlin, for a price of EUR 2.3 million and EUR 0.2 million, respectively, in a notarised contract dated 4 May 2011. The buyers are both subsidiaries of Estavis AG, Berlin.

Business relations with other related parties

- Dr. Lutz R. Ristow, Chairman of TAG’s Supervisory Board, received fees of TEUR 92 in the year under review (previous year: TEUR 98) for additional services over and above his office on the Supervisory Board.

- Banque Havilland S.A., Luxembourg, in whose supervisory board Dr. Lutz R. Ristow was a member until 19 April 2011, granted TAG a loan for TEUR 10,000 in December 2009. The loan has a term of three years and is subject to an interest rate of 5 percent p.a. It is secured through the assignment of shares in and receivables fromaffiliated companies. As of 31 December 2011, a net amount of TEUR 10,000 was outstanding under the loan.

- Nörr LLP, Munich, and Nörr Stiefenhofer Lutz Partnerschaft, Frankfurt am Main, with which Prof. Dr. R. Frohne, a member of the Supervisory Board, is related, received payments of TEUR 567 in the year under review (previous year TEUR 607) for the provision of legal advice. Net outstanding invoices were valued at TEUR 21 as of 31 December 2011.

- WH Vermögensverwaltungs GmbH, Dusseldorf, with which Supervisory Board member Rolf Hauschildt is related, provided additional collateral free of charge as security for a bank loan in an outstanding amount of TEUR 15,925 (previous year TEUR 20,379) as of the reporting date. TAG primarily provided collateral of its own to secure the loan.

- As of the reporting date, there are ongoing receivables of TEUR 9,382 (previous year TEUR 5,766) due from TAG Beteiligungs GmbH & Co. KG, in which members of TAG’s Management Board hold shares indirectly via the general partner, subject to interest of 6 percent p.a.

Fees payable to statutory auditors

The fee payable to the statutory auditors for the entire Group of TEUR 832 (previous year TEUR 871) includes fees (plus value added tax) for the audit of the financial statements of TEUR 651 (previous year TEUR 418), fees for other auditing activities of TEUR 98 (previous year TEUR 268), fees for other activities of TEUR 74 (previous year TEUR 138) and an amount of TEUR 9 (previous year TEUR 47) for tax consulting activities. The other auditing activities chiefly comprise fees arising in connection with the equity issues and review of the interim financial statements. In addition, insurance premiums of TEUR 37 (previous year TEUR 74) were recharged in this connection.

Headcount

The Group had a total headcount of 281 as at 31 December 2011 (previous year 168). The annual average stood at 262 (previous year 128). In addition, an average of 27 (previous year 22) people were employed as janitors.

Supervisory board

The members of the Supervisory Board and the offices held by them in other supervisory boards or comparable domestic and international corporate governance bodies in 2011 are listed below:

Dr. Lutz R. Ristow, businessman, Hamburg (Chairman)
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (Chairman, until 21 June 2011)
- TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg (Chairman)
- Colonia Real Estate AG, Cologne (Chairman, from 15 February 2011)
- Banque Havilland S.A., Luxembourg (until 19 April 2011)

Prof. Dr. Ronald Frohne, New York, attorney and public auditor (Deputy Chairman)
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (Chairman)
- Würzburger Versicherungs-AG, Würzburg
- TELLUX-Beteiligungsgesellschaft mbH, Munich
- AGICOA, Geneva, Switzerland
- CAB, Copenhagen, Denmark
- Englefield Capital LLP, London (member of the advisory board)

Rolf Hauschildt, bank clerk, Dusseldorf
- Germania-Epe AG, Gronau-Epe (Chairman)
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (until 21 June 2011)
- ProAktiva Vermögensverwaltung AG, Hamburg (Chairman)
- Allerthal Werke AG, Grasleben
- Solventis AG, Frankfurt/Main (Deputy Chairman)
- Scherzer & Co. AG, Cologne

Andrés Cramer, businessman, Hamburg
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (Deputy Chairman, from 21 June 2011)
- Nalmer S.A., Uruguay
- Urupay S.A., Paraguay (Chairman)

Andrea Mäckler, Hamburg, staff representative

Wencke Röckendorf, Hamburg, staff representative

The remuneration paid to the Supervisory Board in the year under review came to TEUR 163 (previous year TEUR 114).

Management Board

The members of the Management Board and the offices which they held in other supervisory boards or comparable domestic and non-domestic supervisory bodies in 2011 are set out below:

Rolf Elgeti, Chairman of the Management Board responsible for business development, sales and marketing, asset management, property management, commercial real estate, Potsdam
- treveria plc, Isle of Man, United Kingdom (Chairman)
- Estavis AG, Berlin (from 18 July 2011)
- Sirius Real Estate Limited, Guernsey, UK (from 26 July 2011)
- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Hamburg (Chairman, until 2 September 2011)
- FranconoWest AG, Dusseldorf (Chairman, until 30 November 2011)

Hans-Ulrich Sutter, Chief Financial Officer, Berlin
- TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg (Deputy Chairman, from 27 June 2011)
- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Hamburg (until 2 September 2011)

Dr. Harboe Vaagt, Board member responsible for legal matters and organisation, Halstenbek
- TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg (from 27 June 2011)

Total remuneration to the Management Board came to TEUR 1,637 in the year under review (previous year TEUR 1,332) and breaks down as follows:

	Fixed remuneration*	Variable remuneration
Rolf Elgeti	TEUR 458 (previous year TEUR 308)	TEUR 466 (previous year TEUR 500)
Hans-Ulrich Sutter	TEUR 300 (previous year TEUR 274)	TEUR 133 (previous year TEUR 250)
Dr. Harboe Vaagt	TEUR 230 (previous year TEUR 0)	TEUR 50 (previous year TEUR 0)

* including taxable benefits

The variable remuneration payable to Mr. Rolf Elgeti includes a special bonus of TEUR 200 (previous year TEUR 0).

Corporate Governance Code declaration 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, Colonia Real Estate 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.

Utilisation of Sections 264 (3) and 264b of the German Commercial Code

The following domestic subsidiaries made use of the exemption provisions under Sections 264 (3) and 264b of the German Commercial Code in 2011:

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

- Kraftverkehr Tegernsee-Immobilien GmbH, Tegernsee
- TAG NRW-Immobilien GmbH (formerly FranconoWest AG), Dusseldorf, Hamburg
- 1. FranconoInWest GmbH, Dusseldorf
- 2. FranconoInWest GmbH, Dusseldorf
- Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg
- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg
- Bau-Verein zu Hamburg „Junges Wohnen“ GmbH, Hamburg
- BV Hamburger Wohnimmobilien GmbH, Hamburg
- Wohnanlage Ottobrunn GmbH, Hamburg
- POLARES Real Estate Asset Management GmbH, Hamburg

Exemption in accordance with Section 264b of the German Commercial Code

- Colonia Portfolio Bremen GmbH & Co. KG, Cologne
- Colonia Portfolio Hamburg GmbH & Co. KG, Cologne
- Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin
- TAG Logistik Immobilien GmbH & Co. KG, Hamburg
- TAG Wohnimmobilien Beteiligungs AG & Co. KG, Hamburg
- TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, Hamburg
- Patrona Saxoniae GmbH & Co. KG, Hamburg
- TAG Dresdner Straße GmbH & Co. KG, Hamburg

Material events after the reporting date

Acquisition of a real estate portfolio in Chemnitz

The TAG Group acquired a real estate portfolio in Chemnitz in a share deal effective 1 February 2012. The purchase price for the real estate portfolio came to around EUR 23.75 million. The portfolio comprises around 430 residential units with a lettable floor space of around 32,000 square metres and current net rental income of around TEUR 1,800. To finance the acquisition of the portfolio, TAG AG issued 859,339 new shares worth EUR 859,339.00 on a non-cash basis. In addition, a cash component of around TEUR 260 was paid. The company will be consolidated for the first time in the 1st quarter of 2012.

Acquisition of a real estate portfolio in the greater Berlin region

The TAG Group additionally acquired a real estate portfolio in Eberwalde near Berlin in a share deal effective 1 February 2012. The purchase price for the real estate portfolio came to around EUR 30 million. The portfolio comprises around 1,057 residential and 11 commercial units with a lettable floor space of around 60,000 square metres and current net rental income of around TEUR 2,700. In payment of the transaction, the 2,967,712 shares held by TAG AG in Estavis AG were transferred to the seller in addition to a cash component of TEUR 3,500.

Offer for the acquisition of 100 percent of the capital of DKB Immobilien AG, Berlin

TAG AG is seeking to acquire DKB Immobilien AG, Berlin, (hereinafter referred to as “DKBI”) and is therefore participating in the bidding process for the acquisition of DKBI being organised by Deutsche Kreditbank AG. On 29 February 2012, TAG submitted a binding offer expiring on 31 March 2012 to acquire 100 percent of the shares in DKBI for a price of EUR 160 million.

DKBI has around 25,000 residential units and around 500 commercial units with a lettable floor area of a total of some 1.5 million square metres and generates total net rental income of around EUR 73.2 million. Nearly all of the company's properties are located in the eastern German states, primarily Thuringia, the greater Berlin region and Saxony. The portfolio is in good condition and is fully or partially refurbished. It is valued at around EUR 1,060 million as of 31 December 2011. According to information provided, the vacancy rate for the entire portfolio stands at 10.9 percent as of 31 December 2011. The DKBI Group has bank borrowings of around EUR 800 million, which are also to be acquired in the transaction.

In its bid, TAG has undertaken to observe all existing social clauses not affected by the transaction. The DKBI Group has around 275 employees.

To finance the acquisition of DKBI, the Management Board acting with the approval of the Supervisory Board passed a resolution on 28 November 2012 to execute a cash equity issue entailing the utilisation of the existing authorised capital to issue up to around 20.6 million new shares.

Issue of new equity

To finance the acquisition of DKBI, the Management Board acting with the approval of the Supervisory Board passed a resolution on 28 February 2012 to execute a cash equity issue entailing the utilisation of the existing authorised capital to issue up to around 20.6 million new TAG shares. The new shares were offered to the shareholders on a 3-for-11 basis in a subscription period between 2 and 16 March 2012. Subscription rights were excluded for fractional amounts. In addition, the new shares have been offered to institutional and private investors in Germany in a public offer and in selected other countries in the form of a private placement. The new shares were placed in full at a subscription price of EUR 6.15 each. The proceeds from the equity issue thus came to EUR 127 million. The issue of a total of EUR 20,663,737 was entered in the commercial register on 19 March 2012. Accordingly, the Company's share capital now stands at EUR 96,428,250.00. The new shares, which are dividend-entitled from 1 January 2011, were admitted to trading in the regulated market (Prime Standard) of the Frankfurt Stock Exchange on 20 March 2012.

Other events

There have been further changes in the investments held by TAG since the reporting date. Following the offer to the remaining outstanding shareholders of Bau-Verein zu Hamburg during a period from 10 February until 9 March 2012, TAG's share in Bau-Verein rose from 93.21 percent as of 31 December 2011 to 96.09 percent as of 10 March 2012.

The Management Board plans to pay a dividend of EUR 0.20 per share for 2011 subject to the approval of the Supervisory Board and the shareholders.

Hamburg, 23 March 2012

Rolf Elgeti **Hans-Ulrich Sutter** **Dr. Harboe Vaagt**

Responsibility statement

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

Hamburg, 23 March 2012

Rolf Elgeti **Hans-Ulrich Sutter** **Dr. Harboe Vaagt**

Independent Auditors' Report

We have audited the consolidated financial statements prepared by TAG Immobilien AG, Hamburg, comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows, and the notes to the financial statements, together with the Group management report for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent Company's legal representatives. 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 in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

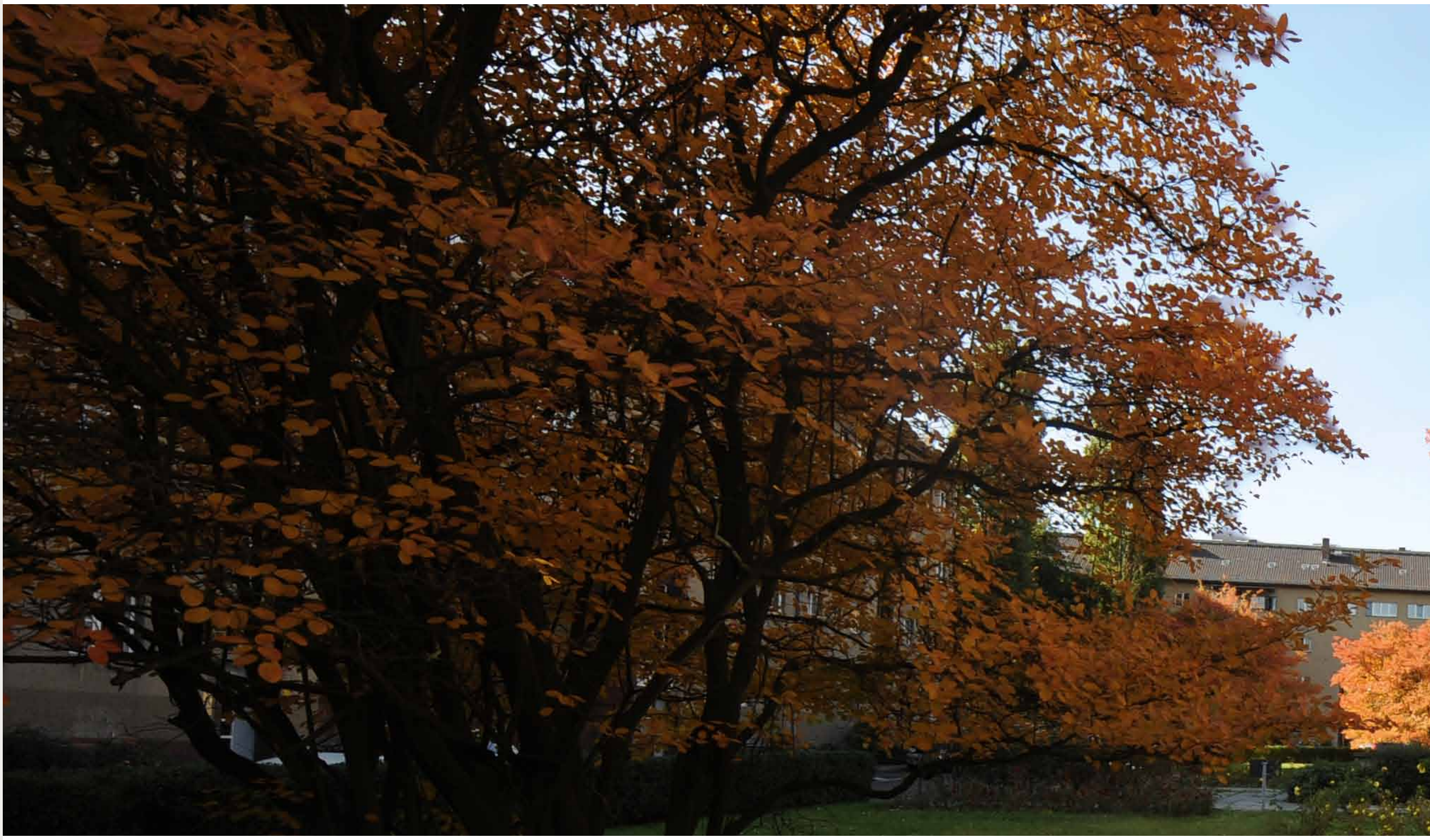
Hamburg, 30 March 2011

Nörenberg • Schröder
GmbH Wirtschaftsprüfungsgesellschaft

Cronemeyer
Wirtschaftsprüfer
(German Public Auditor)

Michels
Wirtschaftsprüfer
(German Public Auditor)

Notes



TAG´s Financial Calender

10 May	Interim Report – 1st quarter of 2012
14 June	Shareholder´s meeting 2012, Hamburg
09 August	Interim Report – 2nd quarter of 2012
08 November	Interim Report – 3rd quarter of 2012

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

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