



# TAG

Interim Report on the 3rd quarter 2016

GROWING CASHFLOWS

**TAG**

Immobilien AG

# GROUP FINANCIALS

in TEUR	01/01 – 09/30/2016	01/01 – 09/30/2015 (adjusted)
<b>A. Income statement key figures</b>		
Rental revenues	205,174	193,363
EBITDA (adjusted)	128,313	119,574
Consolidated net profit	174,119	115,241
FFO I per share in EUR	0.52	0.45
FFO I in EUR m	69.9	55.6
FFO II in EUR m	71.7	67.7
AFFO in EUR m	35.0	25.1
<b>B. Balance sheet key figures</b>		
	<b>09/30/2016</b>	<b>12/31/2015</b>
Total assets	4,003,418	3,794,199
Equity	1,341,889	1,120,552
Equity ratio in %	33.5	29.5
LTV in %	56.9	60.7
LTV in % incl. outstanding convertible bonds	56.9	62.7
EPRA NAV per share in EUR	11.34	10.64
EPRA NAV diluted per share in EUR	-	10.45
<b>C. Portfolio data</b>		
	<b>09/30/2016</b>	<b>12/31/2015</b>
Units	78,282	78,015
Real estate volume in TEUR	3,780,525	3,577,899
Vacancy in % (total)	7.0	8.2
Vacancy in % (residential portfolio)	6.7	7.5
L-f-I rental growth y-o-y in %	1.9	1.6
L-f-I rental growth y-o-y in % (incl. vacancy reduction)	3.8	3.3
<b>D. Capital market data</b>		
Market cap at 09/30/2016 in TEUR		1,897,159
Share capital at 09/30/2016 in EUR		146,498,765
WKN/ISIN		830350/DE0008303504
Number of shares at 09/30/2016 (issued)		146,498,765
Number of shares at 09/30/2016 (outstanding, without treasury shares)		142,343,641
Free Float in % (remainder treasury shares)		97.2
Index		MDAX/EPRA

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# FOREWORD

## **Dear Shareholders, Ladies and Gentlemen**

After we had already significantly raised our FFO forecast for the 2016 financial year at the end of the last quarter, our positive earnings trend continued in the third quarter. We increased the funds from operations (FFO I not including net revenues from sales) to EUR 25.0m after EUR 21.6m and EUR 23.3m in the two previous quarters. This development was fuelled by strong operating results. On a like-for-like basis, rental growth in the last twelve months was 1.9% – or 3.8% taking the effects of vacancy reduction into account – up significantly again from the previous year's figures of 1.5% and 2.6% at 30 September 2015. At 6.7%, vacancy in our residential units dropped below the 7% mark in September, meaning that vacancy was reduced by 1.7 percentage points over the past twelve months. Excluding the acquisitions made at the end of 2015/2016, which had higher vacancy than the existing portfolio, the total vacancy rate reduction in the residential units during this period was actually 1.9 percentage points.

Interest rate developments also contributed to our performance. At 30 September 2016, the total cost of debt averaged 3.2%, compared to 3.5% at 31 December 2015. The years ahead will see further interest cost savings, as bank loans totalling EUR 604m become due or can be refinanced by

31 December 2018 when their fixed-interest rate period ends. The average interest rate on these bank loans is 3.6%. Given significantly lower current market rates, a further substantial reduction in the cost of debt can be expected. The same is true for the EUR 310m corporate bond due in the 2018 financial year. It has an effective interest rate of 4.8%, which is high by today's standards.

As in previous years, in financial year 2016 we once again had our entire real estate portfolio revalued by CBRE GmbH as at 30 September. The realised valuation gain of EUR 159.3m is well above the result of the previous year's period of EUR 73.3m. The main reason for this increase is yield compression, i.e. higher market prices compared to the previous year as a result of intense competition for residential property. However, it is noteworthy that most of our valuation gain in 2016 was again attributable to the fact that rents and vacancy rates in our portfolio developed better than expected in the last valuation. So TAG's above-expectation operating performance is also reflected in the valuation result. As a result of the valuation gain, net asset value (NAV) per share, combined with the profit from operating activities, rose to EUR 11.34 at 30 September 2016, compared to EUR 10.40 at the end of the previous quarter.

Due to the early conversion of the last outstanding convertible bond of EUR 74.5m in July and August 2016, we have been able to further reduce our loan-to-value ratio (LTV). Together with the valuation result for the third quarter of 2016, LTV now stands at 56.9% after 62.4% at 30 June 2016. In addition, the early conversion into equity will lead to future annual interest cost savings of EUR 4.1m.

In October 2016, we published our first 'Housing Market Report for Eastern Germany', having commissioned Wüest & Partner, a real estate consulting company, to compile and analyse relevant housing-market parameters for a total of 27 large and mid-size Eastern German cities. The study reviewed data on demographic and economic developments, construction activity, rental and purchase prices, and yields. As a result, the Housing Market Report shows developments in detail and differentiated by region. The development of rents and property prices over time is shaped by a combination of different factors. Urban vs. rural plays just as much of a role as regional affiliation, transport

infrastructure and economic or population growth. Although double-digit price increases have been seen in some cases in recent years, it is still comparatively inexpensive to live in Eastern Germany – and in an environment that is just as attractive and liveable as the West. This advantage has attracted more and more residents, many of whom have moved from Western Germany. And it opens up countless opportunities for investors who, like us, banked on the positive development of the Eastern German residential property markets at an early stage.

With all of this in mind, we remain optimistic about TAG's future economic development. On the operations side, we have achieved strong results, and future refinancing will bring further material savings on interest costs. And as (not only) the Housing Market Report for Eastern Germany shows, the strategy that we have been pursuing for years now, of offering affordable housing in the 'B cities' puts us in a fast-increasing market environment.

Against the backdrop of this performance, we expect to see a further increase in FFO to between EUR 104 m and EUR 106 m (2016: EUR 92 m to EUR 93 m), or EUR 0.74 per share (2016: EUR 0.68 per share). At the same time, we plan to increase the dividend again to EUR 0.59 per share for the 2017 financial year. The dividend forecast for the 2016 financial year remains unchanged at an attractive EUR 0.57 per share.

We thank you, our shareholders, for your continued trust and confidence in us. Further details about our business performance in the third quarter can be found on the following pages.

Yours sincerely,



**Claudia Hoyer**  
COO



**Martin Thiel**  
CFO



**Dr. Harboe Vaagt**  
CLO



Doebeln (Saxony)

# MANAGEMENT REPORT FOR THE FIRST NINE MONTHS OF THE 2016 FINANCIAL YEAR

## **I. Foundations of the Group**

TAG Immobilien AG ('TAG' in the following) is a Hamburg-based property company focused on the German residential real estate sector. The Group's properties are located in various regions of Northern and Eastern Germany and North Rhine-Westphalia. Overall, at 30 September 2016 TAG managed around 78,300 units. TAG shares are listed in the MDAX of the Frankfurt Stock Exchange; TAG's market capitalisation at 30 September 2016 was EUR 1.9 billion.

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



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

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

## II. The Economy

### a) The overall economy

In its 'World Economic Outlook' published in October 2016, the International Monetary Fund (IMF) continued to see significant risks for the global economy and lowered its economic forecast for 2016 and 2017 by 0.1 percentage points each compared to the April forecast. The German Federal Ministry of Economics and Energy also spoke of subdued global growth. After a weak winter, global activity picked up somewhat over the course of the year, but overall, this year's global economic growth will likely be barely higher than in the previous year. For 2016, the IMF expects GDP to grow by 3.1%, and by 3.4% the following year.

Germany, however, had a good start to 2016, according to a press release issued by the Federal Ministry of Economics and Industry in September, and is still on a solid growth course, although growth is expected to be slower in the second half of the year than in the first half, with the still-difficult external environment, including the increased uncertainty caused by the Brexit decision, again affecting the German economy more. But the decisive upward forces of the German economy remain stable: domestic demand continues to provide reliable impetus. The ministry indicated that strong impetus is coming from construction investment as well, and estimates that it will grow by 3.3% in 2016, by 2.7% in 2017 and by 3.5% in 2018, driven primarily by low interest rates, high demand for housing and increasing public investment.

In its autumn forecast issued in October, the German federal government expects GDP to increase in 2016 by 1.8%, on a price-adjusted basis. It also expects a positive development in the German labour market this year. The unemployment rate was 5.9% at the end of September 2016, following 6.1% at the end of the previous year. In September, the consumer price index indicated estimated growth of 0.7% compared to the previous year.



## b) The German residential property market

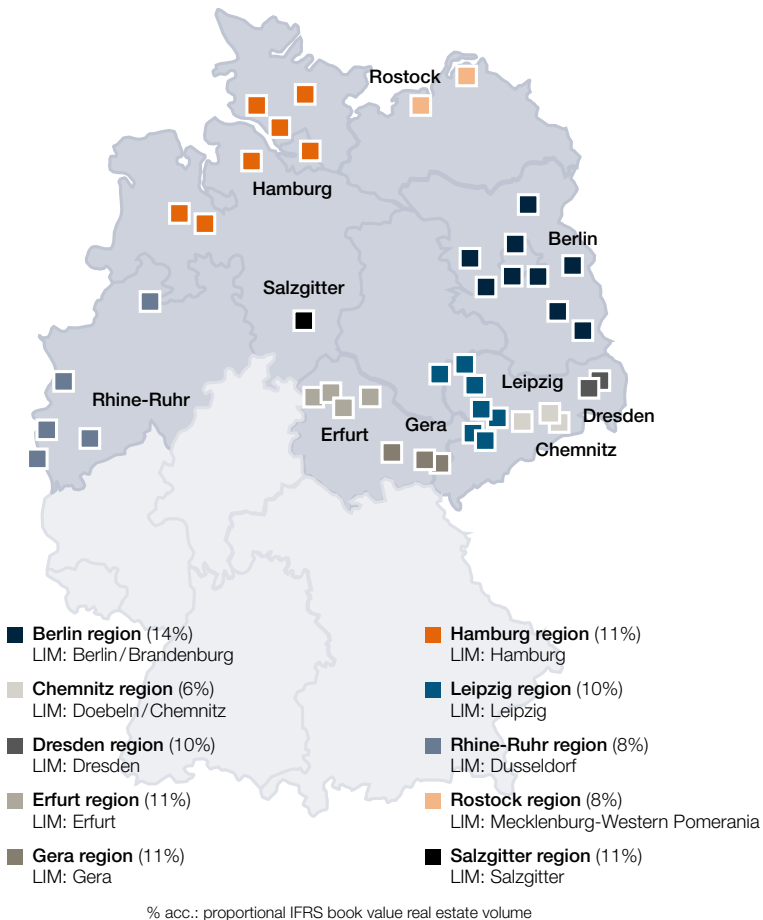
In the first nine months of the current year, approx. EUR 7.2 billion were invested in German residential portfolios. This reflects a more than 60% year-on-year decline in transaction volume, which is attributable primarily to the low number of contracts signed involving more than 5,000 residential units. However, the absolute number of transactions remained largely unchanged. Nearly EUR 2.0 billion were invested in project developments in the current year, while in the same period of the previous year it was only slightly more than half of this, at around EUR 1.1 billion.

Institutional investors' demand for residential property also continues to be high. Special funds and insurance companies are significantly more active than in previous years. Due to their risk aversion, these sectors are particular beneficiaries the increased construction activities, as this is giving rise to a portfolio of new buildings that matches their risk profile.

## **c) The TAG property portfolio**

### Overview

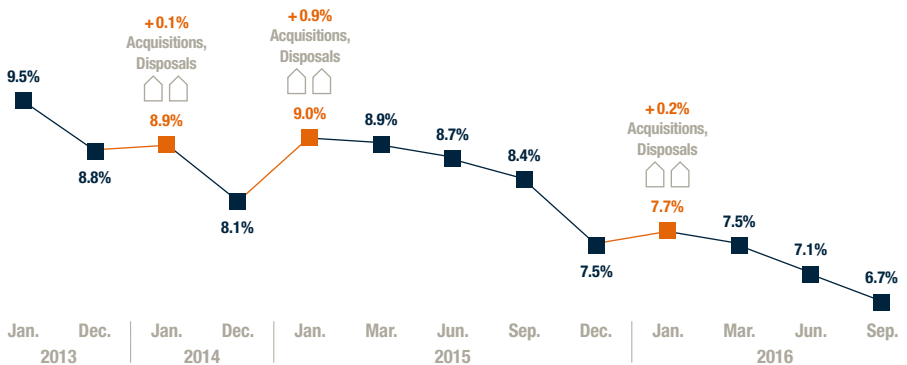
At the end of the third quarter of 2016, the TAG Group's property portfolio comprised approx. 78,300 units, mostly concentrated in regions that have positive economic growth and development data. The focus remains on the management of attractive and simultaneously affordable housing with great awareness of our social responsibility toward our tenants. The regional focus is mainly on Northern and Eastern Germany.



<b>Portfolio</b>	<b>as of 09/30/2016</b>	<b>as of 12/31/2015</b>
Units	78,282	78,015
Rentable area in sqm	4,793,073	4,765,897
Real estate volume in TEUR	3,780,525	3,577,899
Annualised net actual rent in EUR m p.a.	278,698	269,722
Vacancy in % (total)	7.0	8.2
Vacancy in % (residential units)	6.7	7.5
L-f-l rental growth in %	1.9	1.6
L-f-l rental growth in % (incl. vacancy reduction)	3.8	3.3

## Vacancy

We managed to further reduce vacancy in the residential units of the portfolio by the end of Q3 2016. Over the past twelve months, the vacancy rate was brought down 1.7 percentage points, from 8.4% in September 2015 to 6.7% in September 2016. Also taking into account the acquisitions made at the end of 2015/2016, which had a higher vacancy rate compared to the existing portfolio, total vacancy reduction in the residential units actually amounted to 1.9 percentage points during this period and 1.0% percentage points since the beginning of the year. The following chart illustrates the exceedingly positive development in vacancy over the past few financial years:

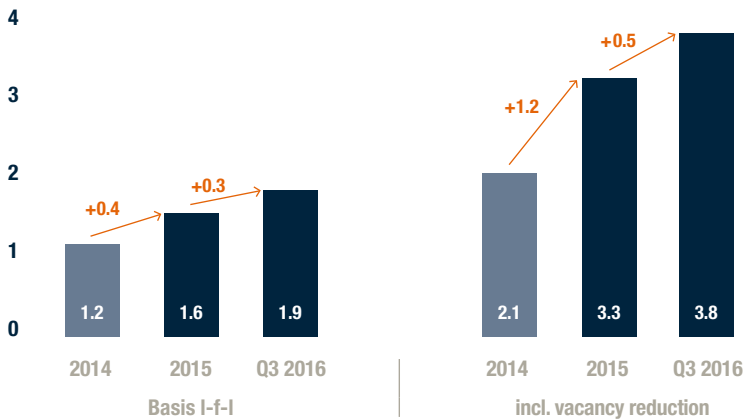


In the overall portfolio, vacancy fell from 8.2% at the beginning of the year to 7.0% at the end of Q3 2016. At the beginning of the 2015 business year, vacancy across the portfolio was still at 9.0%.

## Growth in rents

Growth in rents from the Group's residential units amounted to 1.9% on a like-for-like basis (i. e. not including acquisitions and sales of the previous twelve months) in September 2016. If one includes the effects of the vacancy reduction, the positive trend is seen even more clearly, with overall rental growth on a like-for-like basis at 3.8%. Compared to the two previous financial years, the increase in rents is also significantly higher, as the following chart shows:

in %



## The portfolio in detail

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

Region	Units	Floor area sqm	IFRS carrying amount 09/30/2016 TEUR	In-place yield %	Vacancy 09/30/2016 %	Vacancy 12/31/2015 incl. Acquisitions %
Berlin	9,882	570,853	522,378	6.4	6.7	6.8
Chemnitz	6,519	374,477	226,604	8.1	13.6	15.6
Dresden	6,192	402,091	374,338	6.7	4.0	4.7
Erfurt	8,317	468,854	406,847	6.7	3.1	4.3
Gera	9,598	560,104	381,557	7.5	10.2	10.9
Hamburg	7,263	443,488	388,838	6.9	4.6	5.1
Leipzig	8,501	503,945	372,976	7.6	5.0	6.1
Rhine-Ruhr	4,930	319,110	290,651	6.7	4.0	3.9
Rostock	5,470	325,096	271,770	7.2	4.8	5.4
Salzgitter	9,174	562,955	405,273	7.6	8.8	12.1
<b>Residential units</b>	<b>75,846</b>	<b>4,530,973</b>	<b>3,641,232</b>	<b>7.1</b>	<b>6.7</b>	<b>7.7</b>
Acquisitions	953	55,445	43,393	7.5	2.7	-
Commercial units (within residential portfolio)	1,253	161,107	-	-	17.5	-
<b>Total residential portfolio</b>	<b>78,052</b>	<b>4,747,526</b>	<b>3,684,625</b>	<b>7.4</b>	<b>7.0</b>	<b>-</b>
Others*	230	45,547	95,900	5.6	13.2	-
<b>Grand total</b>	<b>78,282</b>	<b>4,793,073</b>	<b>3,780,525</b>	<b>7.4</b>	<b>7.0</b>	<b>-</b>

\* Includes commercial assets and serviced apartments



Vacancy 12/31/2015 %	Net in-place rent EUR/sqm	Reletting rent EUR/sqm	L-f-I rental growth (y-o-y) %	L-f-I rental growth total** (y-o-y) %	Mainte- nance EUR/sqm	Capex EUR/sqm
5.1	5.23	6.08	2.9	3.5	3.47	8.67
15.8	4.72	5.10	2.5	6.1	1.81	15.54
2.7	5.39	5.55	1.0	1.9	2.56	3.53
4.3	5.02	5.64	1.5	3.8	2.24	6.46
11.1	4.75	5.10	2.0	3.3	3.83	6.61
5.5	5.29	5.63	1.1	2.4	5.56	7.66
5.6	4.95	5.25	1.6	3.4	3.70	3.54
2.2	5.31	5.48	2.3	2.6	8.60	4.00
5.2	5.26	5.48	2.1	3.1	3.34	11.61
12.1	5.00	5.25	2.5	7.9	6.50	9.82
<b>7.5</b>	<b>5.08</b>	<b>5.46</b>	<b>1.9</b>	<b>3.8</b>	<b>4.13</b>	<b>7.65</b>
10.6	5.05	5.09	-	-	2.91	1.79
17.7	7.64	-	-	-		
<b>8.1</b>	<b>5.16</b>	<b>5.45</b>	-	-	<b>3.97</b>	<b>7.33</b>
12.3	11.40				3.96	2.92
<b>8.2</b>	<b>5.21</b>	<b>5.45</b>	-	-	<b>3.97</b>	<b>7.28</b>

\*\*Incl. effects from changes in vacancy

## Annual revaluation of the real estate portfolio as at 30 September 2016

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

<b>in EUR m</b>					
<b>Region</b>	<b>9/30/2016 Fair Value (IFRS)</b>	<b>9/30/2016 Fair Value EUR / sqm</b>	<b>9/30/2016 Implied multiple</b>	<b>Revaluation gain / loss</b>	<b>Share of Yield Compression</b>
Berlin	519.1	859.1	14.6	30.1	21.4
Chemnitz	226.2	577.3	11.9	2.9	0.0
Dresden	374.3	901.8	14.4	26.1	15.1
Erfurt	406.8	828.1	13.9	20.7	9.1
Gera	381.0	648.3	12.8	6.2	0.0
Hamburg	387.4	857.2	13.7	19.1	6.8
Leipzig	370.8	717.8	12.5	11.1	3.2
Rhine-Ruhr	290.7	860.6	13.8	7.5	4.9
Rostock	271.3	822.9	13.6	7.7	1.7
Salzgitter	405.3	717.9	12.9	24.5	1.9
<b>Total residential</b>	<b>3,632.8</b>	<b>774.5</b>	<b>13.5</b>	<b>155.8</b>	<b>64.2</b>
Acquisition	43.4	760.5	12.9	3.3	3.3
<b>Total residential portfolio</b>	<b>3,676.2</b>	<b>774.3</b>	<b>13.5</b>	<b>159.1</b>	<b>67.5</b>
Other	84.5	1,854.9	15.6	4.6	3.0
<b>Grand total</b>	<b>3,760.7</b>	<b>784.6</b>	<b>13.5</b>	<b>163.8</b>	<b>70.5</b>

Share of operational performance/ other Market developments	Capex	Acquisitions, disposals and other movements	12/31/2015 Fair Value (IFRS)	12/31/2015 Fair Value EUR / sqm	12/31/2015 Implied multiple
8.7	5.0	42.9	441.1	834.4	14.0
2.9	5.8	3.0	214.5	554.6	12.0
10.9	1.4	45.9	300.9	941.0	14.2
11.6	3.0	22.9	360.2	796.0	13.6
6.2	3.7	-0.9	372.0	631.0	12.7
12.2	3.4	56.5	308.5	810.6	13.3
7.9	1.8	26.8	331.1	687.2	12.3
2.6	1.3	40.1	241.8	931.7	14.1
6.0	3.8	9.3	250.5	786.2	13.2
22.6	5.5	0.0	375.2	664.5	12.6
<b>91.7</b>	<b>34.7</b>	<b>246.5</b>	<b>3,195.8</b>	<b>746.3</b>	<b>13.2</b>
0.0	0.1	-239.8	279.8	626.9	11.9
<b>91.7</b>	<b>34.8</b>	<b>6.6</b>	<b>3,475.6</b>	<b>735.0</b>	<b>13.1</b>
1.6	0.1	0.5	79.2	2,130.6	19.7
<b>93.3</b>	<b>34.9</b>	<b>7.2</b>	<b>3,554.8</b>	<b>745.9</b>	<b>13.2</b>

Compared to the previous year's period through 30 September 2015 (EUR 94.1 m), a significantly higher valuation gain was achieved at the reporting date at EUR 163.8m. As in the previous year, a substantial gain of EUR 93.3m was generated from increased assumptions about future rents and future vacancy reduction, partly on account of market conditions (sustainable market rent increases), and partly due to an operative (over-) performance. As of the balance sheet date, for the first time a significant valuation gain of EUR 70.5m was also attributable to 'yield compression' (i. e. ascribed to reduced valuation interest rates year-on-year).

As a result, the portfolio's valuation multiplier (ratio of the IFRS carrying amount to the actual rent) rose from 13.2 at the end of 2015 to 13.5 as of 30 September 2016. In price per sqm, the total portfolio is now valued at EUR 784.60, following EUR 745.90 as of 31 December 2015.



## TAG publishes its first Housing Market Report Eastern Germany

As a housing company with a focus on Eastern Germany, TAG has a particular interest in developments all across the former GDR. New infrastructure, programs to boost the local economy, redevelopment of housing stock – since the fall of the Berlin Wall, the federal states in Eastern Germany in particular have changed considerably. The measures of the ‘Aufbau Ost’ (Rebuild the East) programme were wide-ranging, designed to prevent mass emigration to Western Germany. In the first few years after reunification, these measures were only moderately successful. The situation is very different today. Eastern Germany has long since achieved its turnaround. Nowadays, many people are moving from the West to the East as well.

What opportunities are there for landlords and investors in Eastern Germany’s medium-sized and major cities? In order to provide answers to these questions, we asked the real estate services company Wüest & Partner to compile and analyse a full range of relevant housing market parameters in selected housing markets in Eastern Germany.

The analysis, which was published in mid-October of this year, took a look at 27 Eastern German cities. It reviewed data on demographic and economic developments, construction activity, rental and purchase prices, and yields. As a result, the Housing Market Report for the first time shows detailed and geographically differentiated developments. The development of rents and property prices over time is shaped by a combination of different factors. Urban vs. rural plays just as much of a role as regional affiliation, transport infrastructure and economic or population growth. Although double-digit price increases have been seen in some areas in recent years, it is still comparatively cheap to live in Eastern Germany – and in an environment that is just as attractive and comfortable as the West. This advantage has attracted more and more residents, many of whom have moved from Western Germany. And it opens up countless opportunities for investors.

The urbanisation trend is having a positive impact in Eastern Germany as well. Major cities like Berlin, Leipzig, Jena and Dresden have seen their populations surge over the last few years. The same is true for a number of state capitals, such as Potsdam, Erfurt and Magdeburg. Smaller university towns like Freiberg and Greifswald are attracting many young people who want an urban lifestyle but cannot afford the cost of living in a big city. All of these cities have been above-average beneficiaries of the demand for housing.

The smaller, commuter-belt towns around Berlin that are included in this report are also doing well – especially if they have convenient road and rail links to Germany's capital. The more expensive and densely populated Berlin (and Potsdam) become, the greater the growth prospects for smaller, more peripheral localities. For example, Strausberg, which is about 50 km from Berlin and Potsdam and has a population of 26,000, has seen residential investment properties change hands at prices of up to 25 times their annual net rent – a higher price-to-rent ratio than in any other town or city in Brandenburg. Part of the reason for these figures is the town's rail line (S-Bahn) to Berlin. A significant proportion of Strausberg's residents are commuters, and can be at Berlin's central train station in less than 45 minutes.

The towns and cities along Germany's Baltic coast are in a league of their own – and this is equally true as far as the relationship between rental and property prices is concerned. In parts of Greifswald, Stralsund and Rostock, house and apartment prices have risen dramatically. In just ten years, the price per square metre in Rostock has surged by an average of almost 60%, and in Greifswald by around 35%. The town's average rent, at EUR 8.00/sqm, is also by far the highest in all of Mecklenburg-Western Pomerania. In contrast, tenants in Schwerin, Stralsund, Rostock and Waren an der Müritz pay an average of between EUR 5.00 and just over EUR 6.00/sqm.

In the vast majority of Eastern Germany's towns and cities, rental prices have developed largely in parallel to property prices. In the 'somewhat weaker' towns and cities, such as Chemnitz, Eisenach, Gera or Dessau-Roßlau, where rental and property prices are more moderate, prices have actually fallen substantially over the last decade – despite their low starting position, prices in some locations have dropped below the EUR 1,000/sqm threshold. Rental prices, however, have gained some ground over the same ten-year period. This is largely due to the fact that relatively few new rental apartments have been built in many locations, while much of the region's older, and often quite dilapidated, housing stock has been demolished. As a result, the double-digit vacancy rates of the 1990s have since been reduced to below 10%.

An interesting phenomenon is the current rate of population growth in places that previously tended to suffer from population decline. For instance, older people are increasingly abandoning their home villages and moving to the nearest town in search of better infrastructure and senior-friendly housing.

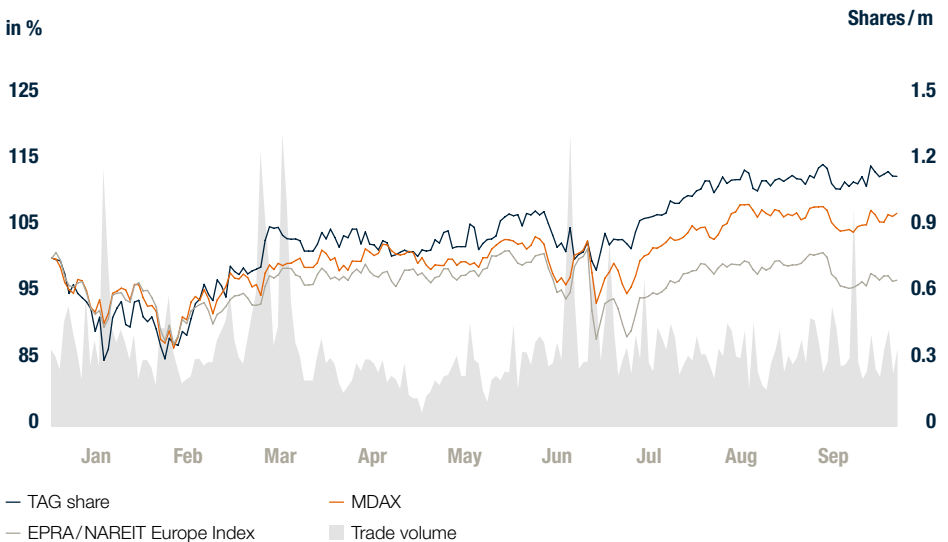
Further results and the complete 'Housing Market Report for Eastern Germany' are available free of charge on our company homepage [www.tag-ag.com](http://www.tag-ag.com) in the 'Service/Downloads' section.

## d) The TAG share and the capital market

### Share price

At the end of Q3 2016, the MDAX-listed TAG share traded at EUR 12.95, reflecting a marked share price increase of 13% vs. the share price of EUR 11.50 at the beginning of the year. If one also takes into account the dividend of EUR 0.55 per share paid out in June 2016, the Group's overall share performance was +17% for the first nine months of the 2016 financial year.

This put the share well above the benchmark indices: while the MDAX also developed positively at +7% since the beginning of the year, the EPRA index, comprised of various European real estate companies listed on international stock exchanges, showed a slightly negative trend at -3%.

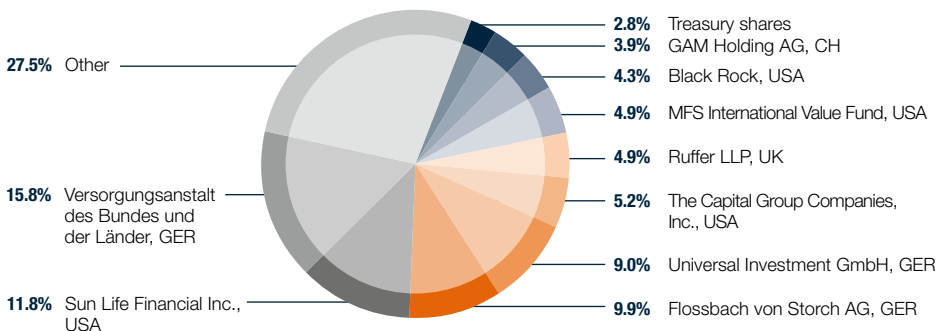




TAG's market capitalisation was EUR 1.9 billion as of 30 September 2016, compared to EUR 1.6 billion as at 31 December 2015. In addition to the higher share price, this increase also resulted from an increase in the number of shares as at the reporting date as a result of the early conversion of TAG's last outstanding convertible bond.

The share capital and number of shares at 30 September 2016 stood at EUR 146,498,765 and 146,498,765, respectively following EUR 136,596,330 and 136,596,330 at 30 June 2016. Due to the early conversion of a convertible bond issued by TAG in 2012 that was originally to mature in 2019, share capital increased by EUR 9,902,435 in Q3 2016.

Free float at the reporting date was 97% of the share capital, with nearly 3% of the share capital (4.15 m shares) held by TAG as treasury shares. As before, national and international investors with a predominantly long-term investment strategy make up the majority of TAG shareholders.



### Placement of 5 million treasury shares in March 2016

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

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

### Dividend payment in June 2016

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



### Early conversion of convertible bonds in July and August 2016

Due to the early conversion, in July 2016, of the last outstanding convertible bonds (2012/2019 convertible bonds), which had a coupon of 5.5% per annum, TAG was able to reduce its LTV by around 1.7 percentage points in the third quarter 2016. In addition, there were future annual interest cost savings of EUR 4.1 m. 94% of the convertible bond holders accepted the early conversion offer (nominal volume of EUR 70.1 m). The remaining EUR 4.4 m nominal value of the bond was converted with the clean-up call, and most of it (EUR 3.9 m) converted into shares in August 2016. The remaining balance (nominal volume of EUR 0.5 m) was repaid.

## Controlling and profit-and-loss transfer agreement with Colonia Real Estate AG, Cash compensation offer to its external shareholders, and Delisting of the Colonia share

On 15 July 2016, a controlling and profit-and-loss transfer agreement was concluded between Colonia Real Estate AG (Colonia) – in which TAG owns 88.8% and an institutional investor owns 5.1% of the voting rights – and TAG Beteiligungs- und Immobilienverwaltungs GmbH (TAG BI), a wholly owned subsidiary of TAG. This agreement came into effect upon its entry into Colonia's commercial register on 13 September 2016.

In this connection, on 15 September 2016 TAG BI made an offer to Colonia's outside shareholders (remaining 6.1% of the voting rights) to acquire their shares for cash compensation of EUR 7.19 per Colonia share. Alternatively, shareholders who do not make use of this offer were assured of compensation in the form of a guaranteed annual dividend of EUR 0.20 per Colonia share for the duration of the controlling and profit-and-loss transfer agreement. The deadline for accepting the cash compensation offer is on 14 November 2016. Also, Colonia's existing Entry Standard (over-the-counter) listing of shares on the Frankfurt Stock Exchange was terminated on 27 October 2016.

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

## e) Results of operations, financial position and net asset position

### Results of operations

In the first nine months of the 2016 financial year, the Group increased its rental income by 6% year-on-year, from EUR 193.4 m to EUR 205.2 m. The main reasons for the increase in rental income were the newly acquired portfolios at the turn of 2015/2016, and the ongoing operational growth in rents. The like-for-like rental growth for the last twelve months amounted to 1.9% p.a. at 30 September 2016. If one adds in the effects of vacancy reduction, like-for-like rental growth came to 3.8% p.a. Third-quarter rental income in 2016 was EUR 69.2 m, compared to EUR 64.5 m in the third quarter of the previous year.

Rental profit, i. e. rental income net of expenses for property management, amounted to EUR 164.9 m (previous year: EUR 151.9 m). This corresponds to a margin of 80% for the first nine months of the 2016 financial year (previous year: 79%). Rental income for Q3 2016 amounted to EUR 56.5 (previous year: EUR 50.8 m), which also corresponds to a improved margin of 82% (previous year: 79%).

The Group generated revenues of EUR 40.8 m (previous year: EUR 81,1 m) from property sales during the reporting period. Sales proceeds for the first nine months of 2016 amounted to EUR 1.8 m following proceeds from sales of EUR 12.1 m, mainly due to the disposals in Berlin, in the same period of the previous year.

The valuation result for the first nine months of the 2016 financial year was EUR 163.8 m (previous year: EUR 94.1 m), of which EUR 1.9 m was due to initial valuations as part of new acquisitions (previous year: EUR 31.8 m).

Personnel expenses increased to EUR 28.2 m during the reporting period (previous year: EUR 26.1 m), particularly in connection with the continued expansion of in-house caretaker and maintenance services.

Other operating expenses amounted to EUR 13.4 m for the first nine months of the business year after EUR 15.8 m in the same period last year. The main reason for the reduction was the lower IT project costs year-on-year.

This leads to the following adjusted EBITDA (not including results of sales) / EBITDA margin for income from rental activities for the third quarter of 2016 and first nine months of financial year 2016:

in EUR m	Q3 2016	Q3 2015	9M 2016	9M 2015
<b>EBIT</b>	<b>202.0</b>	<b>111.4</b>	<b>290.7</b>	<b>218.2</b>
Valuation result	-159.3	-73.3	-163.8	-94.1
Depreciation	0.7	0.7	2.1	2.4
Impairment losses on property held as inventory	0.1	0.2	0.1	0.2
Personnel and project cost special effects	0.1	0.9	0.9	5.0
Net revenue from sales	-0.1	-0.7	-1.8	-12.1
<b>EBITDA (adjusted)</b>	<b>43.5</b>	<b>39.1</b>	<b>128.3</b>	<b>119.6</b>
Rental revenues	69.2	64.5	205.2	193.4
<b>EBITDA margin (adjusted)</b>	<b>62.9%</b>	<b>60.6%</b>	<b>62.5%</b>	<b>61.8%</b>

Interest income, i.e. the net result of interest income minus interest expenses, improved from EUR -74.6m at 30 September 2015 to EUR -70.8m for the first nine months of the 2016 financial year. The reduction of financing costs during the course of financial year 2015 and 2016 had a particularly big year-on-year effect in the first nine months of the 2016 financial year.

The cash-relevant interest income, adjusted for special items, which is used in determining FFO, improved to EUR 57.8m at 30 September 2016 compared to EUR 63.8m in the same period of the previous year. The FFO-relevant interest rate for the third quarter of 2016 improved to EUR -18.0m following EUR -20.1m in the third quarter of the previous year.

Overall, TAG generated earnings before taxes (EBT) of EUR 220.0m in the first nine months of the 2016 financial year (previous year: EUR 143.8m) and after – mostly deferred – income taxes of EUR 45.9m (previous year: EUR 28.6m), its total net income was EUR 174.1 m (previous year: EUR 115.2m).

The following table shows the calculation of FFO I, AFFO (Adjusted Funds From Operations excl. Capex) and FFO II (FFO I incl. net revenue from sales) in the third quarter of 2016 and the nine-month period ended 30 September 2016 in comparison to the same periods in the previous year:

<b>in EUR m</b>	<b>Q3 2016</b>	<b>Q3 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>
<b>Net income</b>	<b>134.0</b>	<b>67.0</b>	<b>174.1</b>	<b>115.2</b>
Taxes	40.6	18.5	45.9	28.6
Net financial result	27.4	25.9	70.7	74.4
<b>EBIT</b>	<b>202.0</b>	<b>111.4</b>	<b>290.7</b>	<b>218.2</b>
Net financial result (cash, after special effects)	-18.0	-20.1	-57.8	-63.8
Income taxes paid	-0.5	0.0	-0.6	-0.1
Adjustments				
Valuation result	-159.3	-73.3	-163.8	-94.1
Depreciation	0.7	0.7	2.1	2.4
Impairment losses on property held as inventory	0.1	0.1	0.1	0.1
Personnel and project cost special effects	0.1	0.9	0.9	5.0
Net revenue from sales	-0.1	-0.7	-1.8	-12.1
<b>FFO I</b>	<b>25.0</b>	<b>19.0</b>	<b>69.9</b>	<b>55.6</b>
CAPEX	-13.6	-13.7	-34.9	-30.5
<b>AFFO</b>	<b>11.4</b>	<b>5.3</b>	<b>35.0</b>	<b>25.1</b>
Net revenue from sales	0.1	0.7	1.8	12.1
<b>FFO II (FFO I + net revenue from sales)</b>	<b>25.1</b>	<b>19.7</b>	<b>71.7</b>	<b>67.7</b>
Weighted average number of shares outstanding in thousands	140,853	124,844	133,423	122,326
<b>FFO I per share in EUR</b>	<b>0.18</b>	<b>0.15</b>	<b>0.52</b>	<b>0.45</b>

So there were significant improvements compared to the previous periods, both in the third quarter of 2016 and the nine-month period up to 30 September 2016. The main reason for this development was the increased adjusted EBITDA and reduced financing costs.

## Assets and financial position

Total assets at 30 September 2016 was EUR 4,003.4m, up from EUR 3,794.2m at 31 December 2015. At 30 September 2016, the carrying amount of the total real estate volume was EUR 3,780.5m (31 December 2015: EUR 3,577.9m), of which EUR 3,742.6m (31 December 2015: EUR 3,531.1m) were investment properties.

In the first nine months of 2016, the equity capital was increased by a total of EUR 58.3m, mainly through the placement of 5m treasury shares. In June, dividends of EUR 72.9m were paid out for the 2015 financial year. Due to the early termination of the convertible bonds and the conversions completed in the third quarter of 2016, equity increased by EUR 71.0m so that at 30 September 2016, equity capital totalled EUR 1,341.9m (31 December 2015: EUR 1,120.6m). The equity ratio at the balance sheet date was 33.5% (29.5% at 31 December 2015).

The following table shows the calculation of Net Asset Value (NAV) in accordance with EPRA recommendations. Despite the dividend payout of EUR 0.55 per share in June, it has increased by 7% compared to the beginning of the year, which is mostly due to the good valuation result:

<b>in EUR m</b>	<b>09/30/2016</b>	<b>12/31/2015</b>
<b>Consolidated equity (before non-controlling interests)</b>	<b>1,324.7</b>	<b>1,085.1</b>
Deferred taxes on investment properties	287.8	245.1
Fair values of derivative financial instruments	2.0	5.4
<b>NAV</b>	<b>1,614.5</b>	<b>1,335.6</b>
Number of relevant shares (outstanding, without treasury shares)	<b>142,344</b>	<b>125,469</b>
<b>NAV per share in EUR</b>	<b>11.34</b>	<b>10.64</b>

As of September 30, 2016, there is no further potential dilutive effect due to the early termination of the still outstanding convertible bond. At 31 December, 2015, the fully diluted NAV per share amounted to EUR 10.45.



## Financing structure

The loan-to-value (LTV) ratio at 30 September 2016 was calculated as follows:

in EUR m	09/30/2016	12/31/2015
Non-current and current liabilities to banks	1,855.7	1,834.9
Non-current and current liabilities from corporate bonds	438.6	443.7
Non-current and current liabilities from convertible bonds	0	70.9
Cash and cash equivalents	-143.2	-103.8
Cash and cash equivalents on notarial accounts from real estate sales (reported under other current assets)	0	-16.2
<b>Net financial debt</b>	<b>2,151.1</b>	<b>2,229.5</b>
Carrying amount of investment properties	3,742.6	3,531.1
Carrying amount of property reported under tangible assets	10.1	10.3
Carrying amount of property held as inventory	9.8	12.8
Carrying amount of property reported under non-current assets held for sale	18.0	23.7
Real estate volume	3,780.5	3,577.9
Carrying amount of property for which purchase prices have already been paid in advance	-2.9	-21.4
Relevant real estate volume for LTV calculation	3,777.6	3,556.5
<b>LTV</b>	<b>56.9%</b>	<b>62.7%</b>

The major reasons for the considerable 5.8 percentage-point reduction in the LTV ratio during the first nine months of 2016 were the early conversion of the convertible bond into equity, the placement of the 5 m treasury shares, and the result from the annual property valuation.

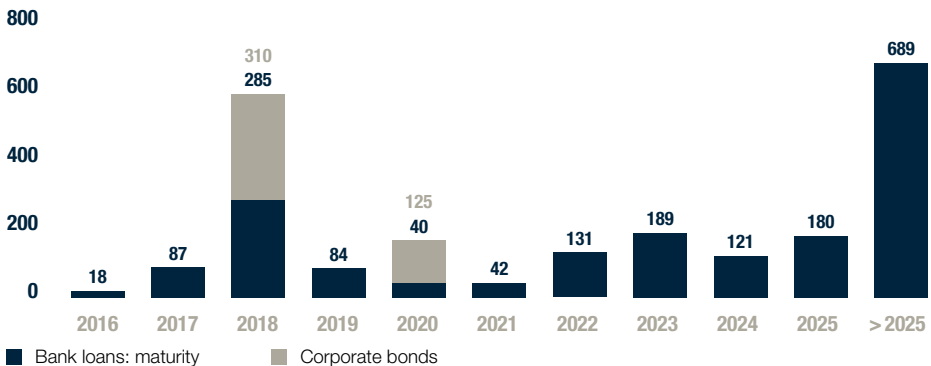
The average interest rate on bank loans amounted to 2.9% at 30 September 2016 following 3.1% at 31 December 2015. Total cost of debt, i.e. taking into account the interest rates on corporate and convertible bonds, amounted to 3.2% at 30 September 2016 following 3.5% at 31 December 2015.

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

<b>WKN A1TNFU</b>	<b>WKN A12T10</b>
Volume: EUR 310 m	Volume: EUR 125 m
Division into shares: EUR 1,000.00 per share	Division into shares: EUR 1,000.00 per share
Nominal value per bond: EUR 1,000.00	Nominal value per bond: EUR 1,000.00
Maturity: 5 years until 08/07/2018	Maturity: 6 years until 06/25/2020
Interest rate (effective): 5.125% (200 m)/4.3% (110 m)	Interest rate: 3.75%
Issue price: at par (200 m)/ to 103% (110 m)	Issue price: at par

The following table shows the maturity of all liabilities as of 30 September 2016:

in EUR m



By 31 December 2018, a total of EUR 604 m (2016: EUR 51 m; 2017: EUR 133 m; 2018: EUR 420 m) of fixed-income bank loans will come due, or can be refinanced with no breakage fees upon maturity because the interest rate fix stipulated in the contract ends. The average interest rate of these bank loans, valued at EUR 604 m, is 3.6%. The effective interest rate for the EUR 310.0 m incorporate bonds maturing in 2018 amounts to 4.8%. Given the current significantly lower market interest rates both for bank loans and corporate bonds, a substantial reduction in financing costs is to be expected in the following years.

## f) Personnel report (number of employees)

The number of TAG employees at 30 September 2016 is shown in the following table:

	09/30/2016	12/31/2015
Operational staff	492	462
Administration and central services	102	103
Caretakers	215	201
Maintenance	28	15
<b>Total</b>	<b>837</b>	<b>781</b>

## g) Other financial and non-financial performance indicators

In addition to the above-described financial indicators Funds from Operations (FFO), Net Asset Value (NAV) and loan-to-value (LTV) ratio, TAG especially and continually monitors the vacancy rate and the rental income generated. For their development over time, please refer to the 'Business Report – The TAG property portfolio' section above.

## III. Material events after the reporting date

In early November 2016, the acquisition of a residential property portfolio of 352 units was registered. The main locations of the portfolio are Erfurt and Altenburg in Thuringia. The purchase price amounted to EUR 11.0m, current annual net rent is around EUR 0.94m, and vacancy is currently around 11.0%. The transaction is expected to close on 31 December 2016.

## IV. Outlook, opportunities and risks

Through its activities, TAG is exposed to various operational and economic opportunities and risks. Please refer to the detailed disclosure in the 'Opportunities and Risk Report' section of the Group Management Report for the 2015 financial year. Since 1 January 2016, no significant developments have occurred or become apparent that would lead to a different assessment.

Last November, we had issued an FFO forecast (FFO I) of between EUR 84 m and EUR 85 m or EUR 0.67 per share, following FFO of EUR 76.3m or EUR 0.62 per share in financial year 2015. Based on the very positive operating performance in the first half of financial year 2016 and the successfully accomplished early conversion of a convertible bond in June 2016, in August 2016 we were able to increase this FFO forecast to between EUR 92 m and EUR 93 m or EUR 0.68 per share.

In view of the continued strong operating results, we now expect the FFO to be between EUR 104 m and EUR 106 m or EUR 0.74 per share as the new forecast for the 2017 financial year. We also plan to pay an increased dividend of EUR 0.59 per share for the 2017 financial year. The dividend forecast for the 2016 financial year remains unchanged at attractive EUR 0.57 per share.

The following table shows the actual or expected performance of the FFO, the FFO per share, and the dividend per share:

	FFO in EUR m	FFO per share in EUR	Dividend per share in EUR
FY 2014 (Actual)	74.5	0.58	0.50
FY 2015 (Actual)	76.3	0.62	0.55
FY 2016 (Forecast)	92 to 93	0.68	0.57
FY 2017 (Forecast)	104 to 106	0.74	0.59

Hamburg, 10 November 2016



**Claudia Hoyer**  
COO



**Martin Thiel**  
CFO



**Dr Harboe Vaagt**  
CLO

## CONSOLIDATED BALANCE SHEET

<b>Assets in TEUR</b>	<b>09/30/2016</b>	<b>12/31/2015</b>
<b>Non-current assets</b>		
Investment properties	3,742,621	3,531,108
Intangible assets	2,168	2,959
Property, plant and equipment	14,586	14,668
Investments in associates	111	114
Other financial assets	7,626	12,956
Deferred taxes	37,797	43,627
	<b>3,804,909</b>	<b>3,605,432</b>
<b>Current assets</b>		
Property held as inventory	9,748	12,809
Other inventories	264	348
Trade receivables	9,657	29,859
Income tax receivables	3,370	5,000
Derivative financial instruments	2	14
Other current assets	14,198	13,194
Cash and cash equivalents	143,238	103,833
	<b>180,477</b>	<b>165,057</b>
<b>Non-current assets held for sale</b>	<b>18,032</b>	<b>23,710</b>
	<b>4,003,418</b>	<b>3,794,199</b>

<b>Equity and liabilities in TEUR</b>	<b>09/30/2016</b>	<b>12/31/2015</b>
<b>Equity</b>		
Subscribed capital	142,344	125,469
Share premium	744,164	618,317
Other reserves	-167	-2,400
Retained earnings	438,395	343,735
Attributable to the equity holders of the parent company	1,324,736	1,085,121
Attributable to non-controlling interests	17,153	35,431
	<b>1,341,889</b>	<b>1,120,552</b>
<b>Non-current liabilities</b>		
Liabilities to banks	1,720,855	1,630,787
Liabilities from corporate bonds	434,963	434,967
Liabilities from convertible bonds	0	70,942
Derivative financial instruments	529	1,390
Retirement benefit provisions	5,749	6,020
Other non-current liabilities	8,871	3,354
Deferred taxes	271,680	231,589
	<b>2,442,647</b>	<b>2,379,049</b>
<b>Current liabilities</b>		
Other provisions	16,472	17,285
Income tax liabilities	6,839	6,162
Liabilities to banks	134,816	204,088
Trade payables	20,794	14,629
Derivative financial instruments	1,474	4,044
Liabilities from corporate bonds	3,620	8,764
Liabilities from convertible bonds	0	34
Other current liabilities	34,867	39,592
	<b>218,882</b>	<b>294,598</b>
	<b>4,003,418</b>	<b>3,794,199</b>

# CONSOLIDATED INCOME STATEMENT

in TEUR	01 / 01 – 09 / 30 / 2016	01 / 01 – 09 / 30 / 2015 (adjusted)	07 / 01 – 09 / 30 / 2016	07 / 01 – 09 / 30 / 2015 (adjusted)
Rental revenues	205,174	193,363	69,158	64,445
Rental expenses	-40,295	-41,443	-12,702	-13,670
<b>Net rental income</b>	<b>164,879</b>	<b>151,920</b>	<b>56,456</b>	<b>50,775</b>
Revenues from the sale of real estate	40,846	81,054	3,827	7,509
Expenses on the sale of real estate	-39,058	-68,977	-3,702	-6,769
<b>Sales result</b>	<b>1,788</b>	<b>12,077</b>	<b>125</b>	<b>740</b>
Other operating income	3,938	4,278	830	1,506
Valuation gains/losses on investment properties	163,754	94,123	159,334	73,291
Personnel expenses	-28,182	-26,054	-9,533	-8,767
Depreciation / amortisation	-2,131	-2,381	-692	-724
Other operating expenses	-13,363	-15,781	-4,549	-5,467
<b>EBIT</b>	<b>290,683</b>	<b>218,182</b>	<b>201,971</b>	<b>111,354</b>
Net profit from investments	169	258	56	68
Share of profit or loss of associates	-3	-28	-1	0
Interest income	2,287	2,915	721	1,158
Interest expenses	-73,128	-77,515	-28,176	-27,109
<b>EBT</b>	<b>220,008</b>	<b>143,812</b>	<b>174,571</b>	<b>85,471</b>
Income taxes	-45,889	-28,571	-40,566	-18,504
<b>Consolidated net profit</b>	<b>174,119</b>	<b>115,241</b>	<b>134,005</b>	<b>66,967</b>
attributable to non-controlling interests	6,584	7,002	5,469	3,466
attributable to equity holders of the parent company	167,535	108,239	128,536	63,501
<b>Earnings per share (in EUR)</b>				
Basic earnings per share	1.26	0.88	0.91	0.15
Diluted earnings per share	1.26	0.84	0.91	0.14



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	01 / 01 – 09 / 30 / 2016	01 / 01 – 09 / 30 / 2015	07 / 01 – 09 / 30 / 2016	07 / 01 – 09 / 30 / 2015
<b>Net profit as shown in the income statement</b>	<b>174,119</b>	<b>48,274</b>	<b>134,005</b>	<b>76,954</b>
Unrealised gains and losses from hedge accounting	2,721	2,337	310	527
Deferred taxes on unrealised gains and losses	-488	-548	-74	-93
Other comprehensive income after taxes	2,233	1,789	236	434
<b>Total comprehensive income</b>	<b>176,352</b>	<b>50,063</b>	<b>134,241</b>	<b>77,388</b>
attributable to non-controlling interests	6,584	3,536	5,469	4,143
attributable to equity holders of the parent company	169,768	46,527	128,772	73,245

# CONSOLIDATED CASHFLOW STATEMENT

in TEUR	01 / 01 – 09 / 30 / 2016	01 / 01 – 09 / 30 / 2015 (adjusted)
Consolidated net profit	174,119	115,241
Net interest income/expense through profit and loss	70,841	74,600
Current income taxes through profit and loss	629	111
Depreciation amortisation on intangible assets and property, plant and equipment	2,131	2,381
Share of profit or loss from affiliated companies and other financial assets	-166	-230
Valuation profit/losses from investment properties	-163,754	-94,123
Gains/losses from the disposal of investment properties	-556	-11,061
Impairments on inventories and receivables	3,655	3,949
Changes to deferred taxes	45,260	28,704
Changes in provisions	-1,176	-2,273
Interest received	2,223	1,297
Interest paid	-60,199	-65,361
Income tax refunds and paid	1,693	-749
Changes in receivables and other assets	2,949	8,617
Changes in payables and other liabilities	7,972	-4,559
<b>Cashflow from operating activities</b>	<b>85,621</b>	<b>56,544</b>
Payments received from the disposal of minority interests	14,513	0
Payments received from the disposal of investment properties (less selling costs)	32,144	122,372
Payments made for investments in investment properties	-76,585	-186,254
Payments made for investments in intangible assets and property, plant and equipment	-1,257	-1,635
Payments received from other financial assets	5,499	1,209
<b>Cashflow from investing activities</b>	<b>-25,686</b>	<b>-64,308</b>
Issuance of treasury shares	58,250	0
Costs associated with the issuance of treasury shares	-1,369	0
Purchase of treasury shares	-780	0
Dividends paid	-72,875	-60,293
Distribution to minority shareholders	0	-550
Payments received from new bank loans	102,482	75,764
Payments made for repaying liabilities to banks	-96,551	-126,940
Payments made for repaying convertible bonds	-9,438	-4,324
<b>Cashflow from financing activities</b>	<b>-20,281</b>	<b>-116,343</b>
Net change in cash and cash equivalents	39,654	-124,107
Cash and cash equivalents at the beginning of the period	95,910	171,433
Currency translation	0	-16
<b>Cash and cash equivalents at the end of the period</b>	<b>135,564</b>	<b>47,310</b>

# STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

in TEUR	Attributable to the parent's shareholders							Non-controlling interests	Total equity
	Subscribed capital	Share premium	Other reserves			Retained earnings	Total		
			Retained earnings	Hedge accounting reserve	Currency translation				
<b>Amount on 01/01/2016</b>	<b>125,469</b>	<b>618,317</b>	<b>46</b>	<b>-2,446</b>	<b>0</b>	<b>343,735</b>	<b>1,085,121</b>	<b>35,431</b>	<b>1,120,552</b>
Consolidated net profit	0	0	0	0	0	167,535	167,535	6,584	174,119
Other comprehensive income	0	0	0	2,233	0	0	2,233	0	2,233
Total comprehensive income	0	0	0	2,233	0	167,535	169,768	6,584	176,352
Disposal of minority interests	0	838	0	0	0	0	838	9,308	10,146
Compensation offer Colonia	0	-1,295	0	0	0	0	-1,295	-18,234	-19,529
Issuance of treasury shares against Colonia shares	2,032	14,055	0	0	0	0	16,087	-16,088	-1
Purchase of treasury shares	-60	-720	0	0	0	0	-780	0	-780
Issuance of treasury shares	5,000	53,250	0	0	0	0	58,250	0	58,250
Costs associated with the issuance of treasury shares	0	-1,369	0	0	0	0	-1,369	0	-1,369
Conversion of bonds	9,903	61,088	0	0	0	0	70,991	0	70,991
Dividends paid	0	0	0	0	0	-72,875	-72,875	0	-72,875
Initial consolidation of real estate asset companies	0	0	0	0	0	0	0	152	152
<b>Amount on 09/30/2016</b>	<b>142,344</b>	<b>744,164</b>	<b>46</b>	<b>-213</b>	<b>0</b>	<b>438,395</b>	<b>1,324,736</b>	<b>17,153</b>	<b>1,341,889</b>
<b>Amount on 01/01/2015</b>	<b>118,586</b>	<b>582,002</b>	<b>46</b>	<b>-5,727</b>	<b>16</b>	<b>258,728</b>	<b>953,651</b>	<b>51,402</b>	<b>1,005,053</b>
Consolidated net profit	0	0	0	0	0	108,239	108,239	7,002	115,241
Other comprehensive income	0	0	0	2,223	0	0	2,223	0	2,223
Total comprehensive income	0	0	0	2,223	0	108,239	110,462	7,002	117,464
Issuance of treasury shares against Colonia shares	2,000	17,294	0	0	0	0	19,294	-19,294	0
Sale of subsidiaries	0	0	0	0	0	0	0	-161	-161
Conversion of bonds	4,883	26,852	0	0	0	0	31,735	12	31,747
Payments to minority shareholders	0	0	0	0	0	0	0	-550	-550
Dividends paid	0	0	0	0	0	-60,293	-60,293	0	-60,293
Initial consolidation of real estate asset companies	0	29	0	0	0	0	29	2,242	2,271
Currency translation	0	0	0	0	-16	0	-16	0	-16
<b>Amount on 09/30/2015</b>	<b>125,469</b>	<b>626,177</b>	<b>46</b>	<b>-3,504</b>	<b>0</b>	<b>306,674</b>	<b>1,054,862</b>	<b>40,653</b>	<b>1,095,515</b>

# CONSOLIDATED SEGMENT REPORT

For the time period from 1 January to 30 September 2016

in TEUR		Segment by LIM Region					
		Berlin	Chemnitz	Dresden	Erfurt	Gera	Hamburg
Segment revenues (Rental revenues)	Q3 2016	26,516	16,121	19,313	21,652	22,161	21,700
	Q3 2015	24,286	13,221	18,550	20,871	21,581	20,629
Segment expenses	Q3 2016	-4,622	-5,535	-3,234	-4,356	-5,723	-3,771
	Q3 2015	-4,448	-4,861	-3,641	-5,851	-8,155	-5,260
Rental expenses	Q3 2016	-719	-592	-738	-896	-1,577	-680
	Q3 2015	-789	-415	-680	-1,053	-1,393	-1,200
Investment costs	Q3 2016	-3,781	-4,792	-2,422	-3,122	-4,045	-2,808
	Q3 2015	-3,178	-4,243	-2,871	-4,242	-6,579	-3,116
Impairment losses on receivables	Q3 2016	-212	-172	-161	-434	-131	-255
	Q3 2015	-530	-236	-136	-591	-239	-985
Other income/ expenses	Q3 2016	90	21	87	96	30	-28
	Q3 2015	49	33	46	35	56	41
Segment result I	Q3 2016	21,894	10,586	16,079	17,296	16,438	17,929
	Q3 2015	19,838	8,360	14,909	15,020	13,426	15,369
Personnel expenses (LIM region)	Q3 2016	-1,521	-1,076	-796	-900	-1,624	-940
	Q3 2015	-1,716	-1,031	-706	-835	-1,607	-863
Other operating expenses (LIM region)	Q3 2016	-260	-162	-183	-177	-86	-171
	Q3 2015	-248	-177	-129	-249	-209	-166
Segment result II	Q3 2016	20,113	9,348	15,100	16,219	14,728	16,818
	Q3 2015	17,874	7,152	14,074	13,936	11,610	14,340
Segment assets	09/30/2016	522,378	266,993	374,338	406,891	381,811	412,445
	12/31/2015	490,516	218,581	349,860	384,077	372,940	391,189

This Group segment report is an integral part of the notes

Leipzig	Rhine-Ruhr	Rostock	Salzgitter	Other activities	Consolidation	Total
22,631	15,621	14,822	22,979	2,344	-686	205,174
20,777	14,051	13,819	21,430	4,786	-638	193,363
-4,127	-5,240	-3,213	-8,266	-594	596	-48,085
-4,039	-3,577	-3,456	-10,423	-893	985	-53,619
-784	-1,106	-567	-940	-397	488	-8,508
-901	-942	-747	-1,198	-522	279	-9,561
-3,387	-3,632	-2,301	-6,650	-121	511	-36,550
-3,063	-2,140	-2,540	-9,140	-304	796	-40,620
-132	-498	-361	-695	-99	-400	-3,550
-146	-546	-189	-94	-71	0	-3,763
176	-4	16	19	23	-3	523
71	51	20	9	4	-90	325
<b>18,504</b>	<b>10,381</b>	<b>11,609</b>	<b>14,713</b>	<b>1,750</b>	<b>-90</b>	<b>157,089</b>
16,738	10,474	10,363	11,007	3,893	347	139,744
-1,244	-570	-775	-1,418	-339	0	-11,203
-1,157	-569	-695	-1,317	-318	0	-10,814
-187	-172	-151	-197	-48	344	-1,450
-231	-257	-161	-241	-139	786	-1,421
<b>17,073</b>	<b>9,639</b>	<b>10,683</b>	<b>13,098</b>	<b>1,363</b>	<b>254</b>	<b>144,436</b>
15,350	9,648	9,507	9,449	3,436	1,133	127,509
<b>385,376</b>	<b>290,888</b>	<b>271,770</b>	<b>405,273</b>	<b>62,362</b>	<b>0</b>	<b>3,780,525</b>
373,296	302,309	260,238	375,247	59,646	0	3,577,899

# SELECTED EXPLANATORY NOTES ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 SEPTEMBER 2016

## General information

These abridged consolidated interim financial statements of TAG Immobilien AG (hereinafter referred to as the 'Company' or 'TAG') have been prepared in accordance with the provisions contained in Section 51a (6) of the Regulations of the Frankfurt Stock Exchange and Section 37w of the German Securities Trading Act pertaining to interim financial reporting. The period under review comprises the first nine months of 2016. The comparison figures refer to 31 December 2015 with respect to the consolidated balance sheet and otherwise to the first nine months of 2015. In addition, the consolidated income statement and the consolidated statement of comprehensive income contain figures pertaining to the third quarter of 2016 together with the corresponding comparison figures for the same period of the previous year.

The consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) in the version endorsed for application in the EU concerning interim reporting (IAS 34 – Interim Reporting) subject to mandatory application as of the reporting date. The figures reported in the consolidated interim financial statements are mostly denominated in TEUR (thousands of euros). This may result in rounding differences between the individual parts of the financial statements.

The amendments subject to mandatory first-time application made to IFRS 11 Accounting for acquisitions of interests in joint operations, IAS 1 Disclosures in the notes, IAS 16 and 38 Clarification of the permissible depreciation method, IAS 16 and IAS 41 Agriculture: bearer plants, IAS 27 Equity method of accounting in separate financial statements, as well as amendments to other standards in connection with the IFRS 2012-2014 annual improvement cycles did not have any material effect on the consolidated interim financial statements.

Other than this, the recognition and measurement principles as well as the notes and explanations on the consolidated interim financial statements are based on the recognition and measurement principles applied to the consolidated financial statements for the year ending 31 December 2015. For more details concerning the recognition and measurement principles applied, please refer to the consolidated financial statements for the year ending 31 December 2015 prepared in accordance with IFRS, which pursuant to IAS 34 form the material basis for these interim financial statements.

## **Consolidation group**

The consolidation group as of 30 September 2016 includes the parent company TAG and all companies which are controlled by TAG. Under IFRS 10, the Group is deemed to control a subsidiary if it has power over it, exposure or rights to variable returns from its involvement with the subsidiary and the ability to use its power over the subsidiary to affect the amount of the Group's returns. The subsidiary assets and liabilities are consolidated for the duration of such control.

Changes to the consolidation group compared with 31 December 2015 arose following the first-time consolidation from 31 January 2016 of three real estate asset companies domiciled in Denmark that are owners of a real estate portfolio composed of around 1,000 flats in Saxony. This acquisition caused an increase in the carrying amount of the investment properties of EUR 39.5m and in liabilities to banks of EUR 27.0m. As of the date of acquisition, this real estate portfolio was generating rental income of EUR 3.4m p.a.

## Presentation changes in the consolidated income statement

Changes to the presentation of items in the consolidated income statement were made for the first time in 2016 to bring their structure into line with standard industry practices and to enhance the clarity of presentation. The changes do not have any impact on consolidated net profit/loss or funds from operations (FFO) as a performance indicator. Specifically, the following adjustments were made and the corresponding figures for the comparison periods duly restated.

- Reflecting the fact that services provided by external third parties (e. g. external facility or management services for communities of owners) have not had any significance for a number of years, income from services is longer reported separately but included in other operating income. Expenses arising from services, which for the most part comprise non-recoverable ancillary expenses resulting from janitorial and handyman services, are now reported within rental expenses. The disclosure of net service income will be dispensed with immediately.

<b>in TEUR</b>	<b>01 / 01 – 09 / 30 / 2015</b>	<b>07 / 01 – 09 / 30 / 2015</b>
Other operating income (historical)	2,955	1,044
Property management income	1,323	462
Other operating income (adjusted)	4,278	1,506
Rental expenses (historical)	-36,864	-12,158
Property management expenses	-815	-320
Rental expenses (adjusted)	-37,679	-12,478



- Impairments on inventories and receivables, which were previously presented separately, have been eliminated. Impairments of rental receivables are now reported within rental expenses. Impairments of inventory real estate are recognised within other operating expenses.

<b>in TEUR</b>	<b>01/01–09/30/2015</b>	<b>07/01–09/30/2015</b>
Rental expenses (acc. described changes)	-37,679	-12,478
Impairments on inventories and receivables	-3,764	-1,192
Rental expenses (adjusted)	-41,443	-13,670
Other operating expenses (historical)	-15,569	-5,282
Impairments on inventory real estate	-185	-185
Other operating expenses (adjusted)	-15,754	-5,467

- Income and expenses from the sale of real estate will be presented uniformly and combined in the consolidated income statement in the future. Income and expenses from the sale of investment properties and inventory real estate will only be disaggregated in the notes to the consolidated financial statements.

<b>in TEUR</b>	<b>01/01–09/30/2015</b>	<b>07/01–09/30/2015</b>
<b>Historical</b>		
Revenues from the sale of portfolio real estate	6,341	1,448
Expenses on the sale of portfolio real estate	-5,325	-1,134
Net revenues from the sale of portfolio real estate	1,016	314
Revenues from the sale of investment properties	74,713	6,061
Expenses on the sale of investment properties	-63,652	-5,635
Net revenues from the sale of investment properties	11,061	426
<b>Adjusted</b>		
Revenues from the sale of real estate	81,054	7,509
Expenses on the sale of real estate	-68,977	-6,769
Net income from sales	12,077	740

- Net fair value gains and losses from the valuation of investment properties will now only be broken down into net fair value gains and losses from the measurement of newly acquired investment properties and net fair value gains and losses from the remeasurement of existing investment properties in the notes to the consolidated financial statements. A combined net figure will be included in the consolidated income statement.

<b>in TEUR</b>	<b>01/01–09/30/2015</b>	<b>07/01–09/30/2015</b>
<b>Historical</b>		
Fair value revaluation of investment properties	62,325	62,720
Valuation gains/losses on newly acquired investment properties	31,798	10,571
<b>Adjusted</b>		
Valuation gains/losses on investment properties	94,123	73,291

- Other taxes, e. g. vehicles taxes, VAT backpayments for earlier years, which were previously reported separately in the income statement, are now reported within other operating expenses.

<b>in TEUR</b>	<b>01/01–09/30/2015</b>	<b>07/01–09/30/2015</b>
Other operating expenses (historical)	-15,754	-5,467
Other taxes	-27	0
Other operating expenses (adjusted)	-15,781	-5,467

- Total revenues comprising income from rental activities, sales and the provision of services and 'gross profit' comprising net rental income, net sales income, other operating income and net revaluation gains/losses are now no longer disclosed in line with standard sector communications practices.



Eisenach (Thuringia)

## Disclosures on individual items of the consolidated balance sheet and income statement

### Investment properties

The table below sets out the changes in the value of the portfolio of investment properties during the period under review:

<b>Investment properties in TEUR</b>	<b>2016</b>	<b>2015</b>
Amount on 1 January	3,531,108	3,331,600
Additions as a result of acquisitions	39,500	153,514
Capex and other trailing transaction costs	37,086	31,972
Transferred to available-for-sale assets	-18,005	-112,343
Sales	-10,822	-57,168
Change in market value	163,754	94,123
<b>Amount on 30 September</b>	<b>3,742,621</b>	<b>3,441,698</b>

The fair value of all of the Group's real estate assets is determined effective 30 September of each year by CBRE GmbH as an independent expert. The fair value of the real estate is calculated using the discounted cash flow method in line with the International Valuation Standards. For this purpose, the expected future cash flow surpluses for each period are discounted using a market-oriented discount rate for the property in question as of the measurement date. Whereas the cash inflows are normally comprised of net rentals, the cash outflows chiefly include the management costs borne by the owner. The assumptions underlying the measurement of the fair value of the real estate were made by the independent valuer on the basis of his professional experience and are therefore subject to uncertainty. The gross present value calculated on this basis is converted to a net present value by deducting the costs incurred by a potential buyer in an orderly transaction.

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

The relevant market was deemed to be constituted by the submarkets of the German states. On the basis of information provided by the relevant valuer committees on asset deals on the one hand and freely available information on share deals on the other, it was not possible to unambiguously identify any main market for the Eastern German states with the exception of Berlin or Lower Saxony. Accordingly, the market for share deals was assumed to be the most appropriate one for measuring the fair value of real estate holdings in these German states.

The deductible market-specific transaction costs of a potential buyer under a share deal were assumed to equal 0.2%. No other discounts or premiums were taken into account in determining the fair value for share deals. With respect to real estate holdings in the other German states, i. e. Berlin and the Western German states with the exception of Lower Saxony, the market for asset deals was assumed to be the main market in the absence of any evidence to the contrary. The transaction costs recognised as of 30 September 2016 averaged 8.3% (31 December 2015: 8.1%).

The definition of the relevant submarkets is unchanged over the previous year. If the market for asset deals was deemed to be the main market for all German states, the fair value of the real estate would be roughly EUR 221 m (31 December 2015: roughly EUR 208m) lower. If no main market were identifiable for all of the German states and the market for share deals were therefore deemed to be the most appropriate market for measuring fair value, the fair value of the real estate would rise by around EUR 56 m (31 December 2015: around EUR 52m).

## Cash and cash equivalents

The cash and cash equivalents shown in the cash flow statement break down as follows:

<b>Cash and cash equivalents in TEUR</b>	<b>09/30/2016</b>	<b>12/31/2015</b>
Cash and cash equivalents as reported on the balance sheet	143,238	103,833
Cash at banks subject to drawing restrictions	-7,674	-7,923
<b>Cash and cash equivalents</b>	<b>135,564</b>	<b>95,910</b>

## Deferred income tax assets and liabilities

Deferred income tax assets break down as follows:

<b>Deferred tax assets in TEUR</b>	<b>09/30/2016</b>	<b>12/31/2015</b>
Tax losses carried forward	51,319	53,014
Derivative financial instruments	573	1,218
Other (including offsetting)	-14,095	-10,605
	<b>37,797</b>	<b>43,627</b>

The following table sets out the deferred income tax liabilities:

<b>Deferred tax liabilities in TEUR</b>	<b>09/30/2016</b>	<b>12/31/2015</b>
Investment properties	288,340	243,913
Other (including offsetting)	-16,660	-12,324
	<b>271,680</b>	<b>231,589</b>

## Dividend

A dividend of EUR 0.55 per share was paid in June 2016.

## Non-controlling interests

In July 2016, 5.1% of the shares in Colonia Real Estate AG were sold to an institutional investor. At the same time, a guaranteed dividend was agreed with this investor, and the liability with a cash value of EUR 4.4m resulting from this was reallocated from shares owned by non-controlling shareholders to other non-current liabilities. Most of the EUR 9.3m increase in shares held by non-controlling shareholders resulted from this.

A cash settlement offer of EUR 7.19 per Colonia share was submitted to the minority shareholders of Colonia in September 2016. The potential obligation arising from this offer was valued at EUR 19.5m. Of this, an amount of EUR 18.2m was deducted from non-controlling interests and reclassified as a current liability.

## Rental expenses

Rental expenses break down as follows:

<b>Rental expenses in TEUR</b>	<b>01/01–09/30/2016</b>	<b>01/01–09/30/2015</b> (adjusted)
Maintenance expenses	19,048	19,247
Non-recoverable charges	7,939	8,725
Operating costs for vacant real estate	9,758	9,707
Impairments of rental receivables	3,550	3,764
<b>Total</b>	<b>40,295</b>	<b>41,443</b>

## Net income from sales

Net income from sales breaks down as follows:

<b>Net income from sales in TEUR</b>	<b>01/01–09/30/2016</b>	<b>01/01–09/30/2015</b>
Revenues from the sale of investment properties	35,866	74,713
Expenses on the sale of investment properties	-35,310	-63,652
<b>Net revenues from the sale of investment properties</b>	<b>556</b>	<b>11,061</b>
Revenues from the sale of portfolio real estate	4,980	6,341
Expenses on the sale of portfolio real estate	-3,748	-5,325
<b>Net revenues from the sale of portfolio real estate</b>	<b>1,232</b>	<b>1,016</b>
<b>Total</b>	<b>1,788</b>	<b>12,077</b>

## Net revaluation gains and losses on investment properties

Fair-value revaluation gains and losses on existing and newly acquired investment properties break down as follows:

<b>in TEUR</b>	<b>01/01–09/30/2016</b>	<b>01/01–09/30/2015</b>
Fair value revaluation of investment properties	161,854	62,325
Valuation gains/losses on newly acquired investment properties	1,900	31,798
<b>Total valuation gains/losses on investment properties</b>	<b>163,754</b>	<b>94,123</b>



## Other operating income

The main elements of other operating income break down as follows:

<b>Other operating income in TEUR</b>	<b>01/01–09/30/2016</b>	<b>01/01–09/30/2015</b> (adjusted)
Revenues from property management	1,462	1,323
Income from the release of accrued liabilities	785	509
Other out-of-period income (e. g. income from impaired receivables)	1,263	1,496
Others	428	950
<b>Total</b>	<b>3,938</b>	<b>4,278</b>

## Finance income and expenses

The following table adjusts net finance income and expenses for non-cash interest and non-recurring effects:

<b>Net financial result in TEUR</b>	<b>01/01–09/30/2016</b>	<b>01/01–09/30/2015</b>
Net profit from investments	169	258
Share of profit or loss of associates	-3	-28
Interest income	2,287	2,915
Interest expenses	-73,128	-77,515
<b>Net financial result</b>	<b>-70,675</b>	<b>-74,370</b>
Non-cash interest on convertible bonds	514	1,356
Non-cash interest on corporate bonds	546	546
Non-cash interest on derivative financial instruments	469	2,705
One off (e. g. premature termination compensation) and other non-cash interest	11,336	5,929
<b>Cash financial result (without special effects)</b>	<b>-57,810</b>	<b>-63,834</b>

## Income taxes

The table below analyses income taxes:

<b>Income taxes in TEUR</b>	<b>01/01–09/30/2016</b>	<b>01/01–09/30/2015</b>
Actual income taxes in the current year	1,075	82
Actual income taxes in prior years	-446	29
Deferred income tax liabilities	45,260	28,460
<b>Total</b>	<b>45,889</b>	<b>28,571</b>

## Notes on segment reporting

Reflecting the acquisition-driven growth in the real estate portfolio, the 'Dresden' segment (old) was subdivided into the 'Dresden' segment (new) and the 'Chemnitz' segment at the beginning of 2016. The figures for previous years were adjusted accordingly.

In the second quarter of 2016, the presentation of these figures was broadened by calculating segment earnings II on the basis of segment earnings I in light of the staff costs and other operating costs directly attributable to the LIM regions.

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

<b>Segment earnings in TEUR</b>	<b>01/01–09/30/2016</b>	<b>01/01–09/30/2015</b> (adjusted)
<b>Segment earnings II</b>	<b>144,436</b>	<b>127,509</b>
Capitalized investment costs not deducted from segment earnings	16,285	20,075
Non-allocated vacancy expenses	-9,758	-9,707
Net gains/losses from sales	1,788	12,077
Net valuation gains/losses on investment properties	163,754	94,123
Non-allocated staff costs	-16,979	-15,240
Depreciation and amortisation	-2,131	-2,381
Other non-allocated income and expenses	-6,712	-8,274
Net finance expense	-70,675	-74,370
<b>EBT</b>	<b>220,008</b>	<b>143,812</b>



## Disclosures on fair values and financial instruments

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

Fair value in TEUR	Fair value hierarchy	09/30/2016	12/31/2015
<b>Assets</b>			
Investment properties	Level 3	3,742,621	3,531,108
Derivatives with no hedging relationship	Level 2	2	14
<b>Equity and liabilities</b>			
Derivatives with no hedging relationship	Level 2	272	584
Derivatives with a hedging relationship	Level 2	1,731	4,850

In addition, the following financial instruments are measured at amortised cost in the consolidated balance sheet:

<b>30 September 2016</b>	<b>Carrying amount TEUR</b>	<b>IAS 39 Category*</b>	<b>Fair value TEUR</b>	<b>Fair value hierarchy</b>
<b>Assets</b>				
Other financial assets				
Investments	7,345	AfS	n/a	n/a
Other financial assets	281	LaR	281	Level 2
Trade receivables	9,657	LaR	9,657	Level 2
Other current assets	14,198	LaR	14,198	Level 2
Cash and cash equivalents	143,238	LaR	143,238	Level 2
<b>Equity and liabilities</b>				
Liabilities to banks	1,855,671	AmC	1,885,083	Level 2
Liabilities from corporate bonds	438,583	AmC	462,617	Level 2
Other non-current liabilities	8,871	AmC	8,871	Level 2
Trade payables	20,794	AmC	20,794	Level 2
Other current liabilities	34,867	AmC	34,867	Level 2
<b>31 December 2015</b>				
<b>Assets</b>				
Other financial assets				
Investments	7,345	AfS	n/a	n/a
Other financial assets	5,611	LaR	5,611	Level 2
Trade receivables	29,859	LaR	29,859	Level 2
Other current assets	13,194	LaR	13,194	Level 2
Cash and cash equivalents	103,833	LaR	103,833	Level 2
<b>Equity and liabilities</b>				
Liabilities to banks	1,834,875	AmC	1,889,821	Level 2
Liabilities from convertible bonds	70,976	AmC	75,703	Level 2
Liabilities from corporate bonds	443,731	AmC	459,385	Level 2
Other non-current liabilities	3,354	AmC	3,354	Level 2
Trade payables	14,629	AmC	14,629	Level 2
Other current liabilities	39,592	AmC	39,592	Level 2

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

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

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

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

Derivative financial instruments are measured using established methods (e. g. discounted cash flow method), the inputs for which are derived from active markets. The fair values of investment properties are remeasured by external valuers as of 30 September of each year.

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

The fair value of the other financial assets corresponds to the present value of the expected cash flows in light of their duration and risk-adjusted market interest rates. Non-current liabilities to banks and other non-current liabilities are measured accordingly. Trade receivables, other current assets and cash and cash equivalents have short settlement periods. Accordingly, their carrying amount as of the balance sheet date comes close to their fair value. This also applies to current liabilities to banks, trade payables, other current liabilities and liabilities in connection with non-current available-for-sale assets (if coming within the scope of IFRS 7). The fair value of non-current liabilities to banks and other non-current liabilities is calculated using the discounted cash flow method. The discount rate is based on an appropriate market interest rate.

There were no material changes in the Group's financial risks (interest, default, liquidity and finance risk) in the period under review compared with 31 December 2015.

### **Material events after the end of the period covered by this interim report**

The acquisition of a residential property portfolio of 352 units was registered in early November 2016. The main locations of the portfolio are Erfurt and Altenburg in Thuringia. The purchase price amounts to EUR 11.0m, current annual net rent is around EUR 0.94m, and vacancy is currently around 11.0%. The transaction is expected to close on 31 December 2016.

## Basis of reporting

The preparation of the abridged consolidated interim financial statements pursuant to IFRS requires the management boards and management staff of the consolidated companies to make assumptions and estimates influencing the assets and liabilities carried on the balance sheet, the disclosure of contingent liabilities on the balance sheet date and the expenses and income reported during the periods under review. The actual amounts arising in future periods may differ from these estimates. Moreover, the abridged consolidated interim financial report includes statements which do not entail reported financial data or any other type of historical information. These forward-looking statements are subject to risk and uncertainty and as a result, the actual figures may deviate substantially from those stated in such forward-looking statements. Many of these risks and uncertainties are related to factors which the Company can neither control, influence nor precisely estimate. This concerns, for example, future market and economic conditions, other market participants' behaviour, the ability to successfully integrate companies after acquisition and tap expected synergistic benefits as well as changes to tax legislation. Readers are reminded not to place any undue confidence in these forward-looking statements, which apply only on the date on which they are given.

Hamburg, 10 November 2016



**Claudia Hoyer**  
COO



**Martin Thiel**  
CFO



**Dr Harboe Vaagt**  
CLO



**Dessau (Saxony-Anhalt)**

## TAG FINANCIAL CALENDAR

10 November 2016	Publication of Q3 2016 Interim Report
23 February 2017	Publication of Preliminary Results 2016
23 March 2017	Publication of Annual Report 2016
4 May 2017	Publication of Q1 2017 Interim Report
16 May 2017	Annual General Meeting, Hamburg
10 August 2017	Publication of Q2 2017 Interim Report
7 November 2017	Publication of Q3 2017 Interim Report



# CONTACT

**TAG Immobilien AG**

Steckelhoern 5

20457 Hamburg

Telephone + 49 40 380 32 - 0

Telefax + 49 40 380 32 - 388

[info@tag-ag.com](mailto:info@tag-ag.com)

[www.tag-ag.com/en](http://www.tag-ag.com/en)

**Dominique Mann**

Head of Investor & Public Relations

**Julia Mirow**

Investor & Public Relations

Telephone + 49 40 380 32 – 300

Telefax + 49 40 380 32 – 388

[ir@tag-ag.com](mailto:ir@tag-ag.com)

The English version of the Interim Report Q3 2016 is a translation of the German version.  
The German version is legally binding.

# NOTES



# **TAG**

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## **Immobilien AG**

Steckelhoern 5

20457 Hamburg

Telephone + 49 40 380 32-0

Telefax + 49 40 380 32-388

[info@tag-ag.com](mailto:info@tag-ag.com)

[www.tag-ag.com/en](http://www.tag-ag.com/en)