TAG

Annual Report 2008

TAG Group in figures

in TEUR	2008	(adjusted) 2007
A. Income statement key figures		
Revenues	101,600	125,240
a) Sale of properties	44,546	80,962
b) Rental income	54,231	38,038
c) Property management and others	2,823	6,240
EBITDA before remeasurement	20,293	21,790
EBIT	-5,740	48,986
EBT	-42,134	28,980
Consolidated net profit/loss from continuing activities	-32,056	18,733
Consolidated net profit/loss from discontinued business	-4,385	555
Consolidated net profit/loss before minorities	-36,441	19,288
Consolidated net profit/loss after minorities	-30,622	16,467
Earnings per share in EUR	-0,98	0,58
Proposed dividend per share	0	0.10
B. Balance sheet key figures		
Total assets	839,297	882,261
Equity	254,180	306,513
Equity ratio	30.3 %	34.7 %
Bank borrowings	538,042	512,957
of which current	130,062	217,377
Real estate volume/current assets	620,942	556,702
Real estate volume/non-current assets	176,667	204,610
NAV per share in EUR	7.37	9.19
C. Employees		
Employees	116	147

Further figures

Market capitalisation in TEUR on 31 December 2008	64,807
Subscribed capital in EUR	32,556,364.00
WKN/ISIN	830350/DE0008303504
Number of shares	32,556,364
Free Float	93 %
Stock exchange	SDAX

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Preface by the Management Board

Dear shareholders, ladies and gentlemen,

For TAG Immobilien AG ("TAG" for short), 2008 was a year of mixed fortunes. In the first half of the year, it additionally extended its residential real estate holdings with the acquisition of the VBL portfolio. In April 2008, Hans-Ulrich Sutter was appointed chief financial officer, while in June the shareholders approved the Management Board's decision to rename the Company "TAG Immobilien AG".

As of the second half of 2008, however, the rate of market growth seen in the previous few years weakened substantially, with real estate transactions effectively coming to a complete standstill. The financial market crisis spread to nearly all sectors and industries in the global economy, triggering a worldwide recession, which the German real estate sector - and ultimately also TAG - was unable to escape. As a result, the Company sustained a loss from continuing activities of EUR 42.1 million before tax, thus reversing the previous year's EBT of EUR 29.0 million. A consolidated post-tax loss from continuing activities of EUR 32.1 million was recorded after post-tax profit of EUR 18.7 million in the previous year. These losses are due to the non-cash impairments on the value of the Company's real estate and associates resulting from fair-value accounting. Despite the increase in rental income, an impairment loss of EUR 24.1 million was incurred on real estate assets primarily as a result of higher notional interest particularly for commercial real estate.

Operating business improved in both the commercial and residential real estate segments, with rental income rising by 43 percent from EUR 38.0 million in 2007 to EUR 54.2 million in 2008. At the same time, net income from ongoing facility management climbed by 52 percent from EUR 22.5 million to EUR 34.3 million.

TAG has adjusted and re-aligned its business volumes and strategy against the backdrop of the changing parameters in the German real estate market. The focus is on residential and commercial real estate in German metropolitan regions such as Hamburg, Berlin, Munich and Leipzig characterised by good inner-city locations and offering growth potential and a favourable long-term outlook in the German residential and commercial real estate market. In this way, TAG has adjusted to the harsher market conditions to remain viable and to successfully make use of opportunities as they arise in the German real estate market. At the same time, it will be seeking to preserve and broaden synergistic effects by means of a lean and efficient corporate structure and to shore up its liquidity.

On the one hand, TAG has extended its real estate leasing activities and, on the other, substantially scaled back new construction and portfolio development activities. The result is a substantial reduction in construction business and building activities within

Andreas Ibel

Hans-Ulrich Sutter

the Group. With the exception of the Stuttgart Südtor project, no new construction projects have been initiated since the beginning of the second half of 2008. The resultant adjustments to the Group structure led to non-recurring expenses of EUR 4.4 million in 2008.

TAG's business model is based on a solid funding structure and balanced ratios. With a loan-to-value (LTV) ratio of 67 percent and an equity ratio of just over 30 percent, the Company has solid balance sheet ratios by sector standards and continues to be funded adequately. Total assets were valued at EUR 839.3 million as of 31 December 2008, down from EUR 882.3 million on 31 December 2007. TAG is not neglecting opportunities for optimising its liability structure. It is currently engaged in negotiations with banks to renew loans or to make use of the favourable interest rates to take out new loans on improved terms. This will have a favourable effect on both cash flow and costs at TAG. Despite the current adverse conditions in the credit markets, TAG assumes that all loans will be renewed upon expiry.

Interest levels, particularly in the 4th quarter of 2008, have opened up scope for TAG, allowing it to benefit from reduced interest expense in 2009.

Against the backdrop of the global economic crisis, impairments arose due to a reduction in the fair value of commercial real estate holdings by 4.4 percent and of residential retail estate by 1.7 percent as a result of the annual impairment test of the real estate holdings by external valuers. These adjustments do not have any effect on the Company's funding structure or cash flow but merely reflect changes in fair value and exert an indirect effect on earnings in accordance with IFRS accounting rules. Given the quality of the portfolio, which comprises real estate in attractive locations in high-growth German metropolitan regions, the impairments are small by industry standards.

Despite the loss sustained in 2008 and the difficult economic conditions, TAG's operating business continues to improve. Thus, real estate lease business was again optimised in the year under review, with vacancies reduced and rental enhancement potential utilised thanks to active rental management.

Herrengraben, Hamburg

Following the sharp decline in the fourth quarter of 2008, TAG stepped up selling activities at the beginning of 2009, signing contracts for a total of 5 multi-family houses as well as apartments and terraced houses worth a total of some EUR 30 million. The positive returns achieved on these sales despite the economic crisis testify to the quality of TAG's portfolio. At the same time, these successful selling activities indicate the rediscovered appreciation by private investors of tangible assets as an investment vehicle. Ultimately, this will lead to a renaissance of real estate as an asset class, at least in the case of real estate in attractive locations generating stable cash flows.

In connection with its sales activities, TAG sought new target groups by specifically addressing small to mid-size private investors interested in local real estate in the German market and will be stepping up these activities in 2009 in particular.

In these difficult times, it is important for TAG to continue enhancing its competitiveness and acting responsibly in the interests of all shareholders and investors. Thanks to its refocused strategy and the savings achieved in the staff and non-staff area, TAG already started acting accordingly at the end of 2008 and will be systematically continuing these activities in 2009. With the improvements achieved in its operating business against the difficult economic backdrop, TAG has established a solid basis for facing the challenges which lie ahead.

At the same time, it is confident of emerging successfully and strengthened from this crisis thanks to the savings achieved, particularly the greater reduction in vacancies, its solid funding structure and the systematic growth in rental income. TAG will be making use of the emerging consolidation of the German real estate markets to broaden its portfolio. In doing so, it can rely on the skills of its employees as well as a proven Group and organisational structure. On this basis together with strict cost management, TAG is confident of being able to additionally strengthen its position in the German real estate market.

Mr. Flint left TAG Immobilien AG's Management Board effective 31 March 2009. The Supervisory Board and the Management Board wish to thank him for his valuable and constructive contribution over the past few years.

Given the aforementioned limited forward economic visibility, a reliable forecast for the current year is difficult. With its solid business model, diversified portfolio of real estate in good urban locations in German metropolitan regions, however, TAG is well positioned. The Company assumes that in 2009 its business activities will concentrate on efforts to boost liquidity as well as ongoing funding negotiations.

Yours sincerely,

Andreas Ibel **Hans-Ulrich Sutter**

Brief profile and Group structure

Focus on the German real estate market

TAG Immobilien AG is an SDAX-listed real estate company with a history spanning more than 125 years which acts as the holding company for the TAG Group. Via its subsidiaries, the Company is engaged in all areas of the real estate market, i.e. residential and commercial real estate and related activities. In particular, it concentrates on investing in real estate in good urban locations in German cities. In addition to its head office in Hamburg, it maintains branches in Berlin and Munich, these being the other two cities in its portfolio.

TAG Gewerbeimmobilien-Aktiengesellschaft (100%)

TAG's commercial real estate portfolio is integrated within TAG Gewerbeimmobilien-Aktiengesellschaft (Pre-REIT status). The core of this portfolio is formed by properties located in metropolitan regions such as Munich and Hamburg as well as the Rhine/Main region. In the current economic situation which is being dominated by the crisis afflicting the financial markets, the flotation of the TAG Gewerbeimmobilien-AG REIT is of secondary importance. That said, TAG remains committed to its REIT plans for this company.

Bau-Verein zu Hamburg Aktien-Gesellschaft (71%)

The Group's residential real estate is pooled under the roof of Bau-Verein zu Hamburg AG. Its core business is to hold and develop residential real estate in established locations in German cities. No new construction projects were commenced in 2008, with existing ones completed on schedule. Bau-Verein is aiming to strengthen its own portfolio of residential real estate on a sustained basis by means of acquisitions and to enhance rental income and optimise costs by means of active portfolio management.

Larus Asset Management GmbH (49%)

Larus Asset Management GmbH offers a full range of real estate services including asset and property management as well as real estate development (project management). A joint venture forged by HSH Real Estate AG and TAG Immobilien AG, Larus Asset Management GmbH was established in December 2007. Its management activities are primarily focused on commercial real estate. Larus Asset Management GmbH is not consolidated by TAG.

Dalbek-Hof, Börnsen near Hamburg

TAG Group structure

TAG Immobilien AG

- Founded in 1882
- Listed in the SDAX
- Holding

100 %

TAG Gewerbeimmobilien-AG

Commercial real estate
- PRE-REIT Status
- 384 EUR m real estate volume

71 %

Bau-Verein zu Hamburg AG

Residential real estate
- Founded in 1892
- Listed in the Prime Standard
- 420 EUR m real estate volume

(including residential real estate of other TAG companies)

49 %

Larus Asset Management GmbH

Services
- Joint Venture with HSH Real Estate AG
- ~1.9 EUR billion assets under management
- deconsolidated

TAG's strategy

Adjustment of the strategy and business model in the light of current market conditions

Over the last few years, TAG has developed and extended its real estate portfolio on a sustained basis by systematically pursuing its strategy. In particular, it benefited from the generally favourable economic conditions and the state of the real estate market in 2007. Looking forward, the business model will continue to play a key role, underpinned by the importance of the stable business segments. However, the focus of the individual business segments must always be adjusted in the light of prevailing market conditions. As a result of the global financial crisis, the Group's building activities have been scaled back. Consequently, no new construction projects were initiated in 2008 with the exception of those for which funding had already been secured. One prime example of this is the Stuttgart Südtor project, which is described in detail in the residential/commercial real estate section of this annual report.

Thus, TAG has been able to harness existing potential for achieving growth and unlocking value, enhancing the value and earnings potential of the real estate held in its portfolio by means of active portfolio management. At the same time, properties of subordinate strategic importance have been removed from the portfolio to secure gains after the completion of development work or to make use of favourable exit opportunities. The success of this strategy is based on many years of experience and extensive knowledge of the market.

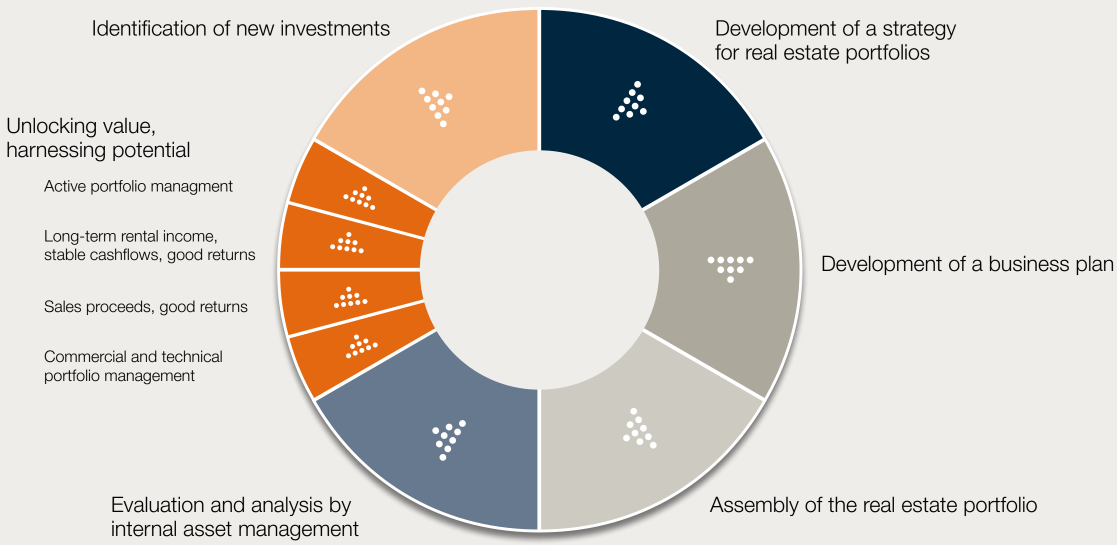
To date, TAG has made use of the opportunities of the German real estate market for extending and diversifying and optimising its business model across several segments. In this way, it is well positioned to weather future challenges even in the face of a crisis.

Oelkersallee, Hamburg

Focus on portfolio and asset management

Last year, the strategic focus remained on real estate in German metropolitan regions such as Hamburg, Berlin and Munich in good inner-city locations offering growth potential and a favourable long-term outlook in the German residential and commercial real estate market. Thanks to active asset management and individual portfolio development activities, TAG harnesses the potential available for boosting rental income. As a matter of principle, the Company's activities concentrate on generating stable cash flows and achieving attractive returns.

Unlocking value – harnessing potential



The German real estate market

Real estate market

The appeal of the German real estate market remains unabated. Despite the financial market crisis and the recession, large cities such as Hamburg and Munich are luring investors from all around Europe to Germany. This is demonstrated by a survey of 500 real estate agents conducted by PricewaterhouseCoopers (PwC) and the Urban Land Institute (ULI). No less than two German cities, namely Munich and Hamburg, are at the top of the European rankings and are thus rated very highly in terms of expected returns and risk. Whereas Munich ranked fourth last year, the current study rates its residential market particularly highly. Meanwhile, Hamburg has advanced from third to second position, while Berlin and Frankfurt rank ninth and tenth. Berlin held on to its position, while Frankfurt dropped from seventh to tenth due to the financial market crisis and the saturated office building market in this particular city. The European top ten also comprises Istanbul in third place, Zurich in fourth place (previous year 17th), London in fifth place (previous year 15th), Moscow, the previous year's winner in sixth place, Helsinki in seventh place and Paris in eighth place (previous year fifth). (Source: PricewaterhouseCoopers/Urban Land Institute, Feb. 09).

This ranking clearly reflects the appeal of the German real estate market and vindicates TAG's investment strategy with its portfolio focusing on three of the most lucrative cities in Germany, namely Hamburg, Munich and Berlin.

William-Zipperer-Straße, Leipzig

German Real Estate Index

Based on macroeconomic data (such as rental and purchase price trends and investment volumes), the Real Estate Index tracks sentiment in the real estate industry in Germany. Within the past year, it dropped by 63 percent, hitting a low for the year of 40.7 points in December 2008. With a current index of 25 points, office buildings have suffered the worst as a result of the adverse economic conditions, which are translating into rising vacancies and insolvencies. However, residential real estate has proved to be stable thanks to higher cash flows and improved possibilities for funding. The change in market conditions is being accompanied by the emergence of new funding parameters on the investor side, with heavily leveraged short-term investment giving way to a more cautious strategy with a greater equity component, a long-term horizon and less speculative goals. Given the difficult conditions, the importance of real estate as a secure and readily understandable form of investment will grow as rising rentals together with widening margins are virtually assured given the scaled-back construction volumes. (Source King Sturge 27 January 2008)

In times of crisis, these are, in turn, positive signals for a new appreciation of real estate as a secure and tangible investment. TAG is also convinced of the merits of real estate as an investment and as a means of generating stable cash flows. In addition, greater importance is being attached to rental and asset management, both areas which TAG optimised in the year under review and will be focusing on in 2009.

Portfolio 2008

Overall portfolio

TAG Immobilien AG holds its real estate portfolio in good urban locations in German cities. Portfolio diversification ensures stable rental income from residential real estate on the one hand and greater cash flows from commercial real estate on the other. The main parameters of the entire portfolio are set out on the following pages.

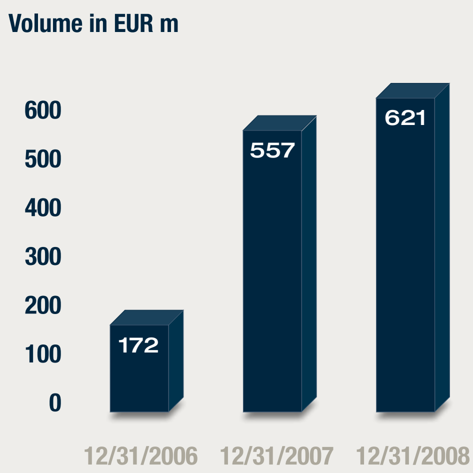
Overall portfolio

	12/31/2008	12/31/2007
Total		
Units	5,586	4,811
Floor area sqm	716,914	598,073
Real estate volume according to balance sheet in EUR m	804	761
Real estate volume according to balance sheet in EUR/sqm	1,121	1,274
Residential		
Units	5,555	4,779
Floor area sqm	382,675	306,162
Real estate volume according to balance sheet in EUR m	404	344
Real estate volume according to balance sheet in EUR/sqm	1,056	1,125
Commercial		
Units	31	32
Floor area sqm	334,239	291,911
Real estate volume according to balance sheet in EUR m	384	400
Real estate volume according to balance sheet in EUR/sqm	1,149	1,370
Properties		
Floor area sqm	268,190	245,835
Real estate volume according to balance sheet in EUR m	16	17
Real estate volume according to balance sheet in EUR/sqm	59	70

Changes in real estate volume*

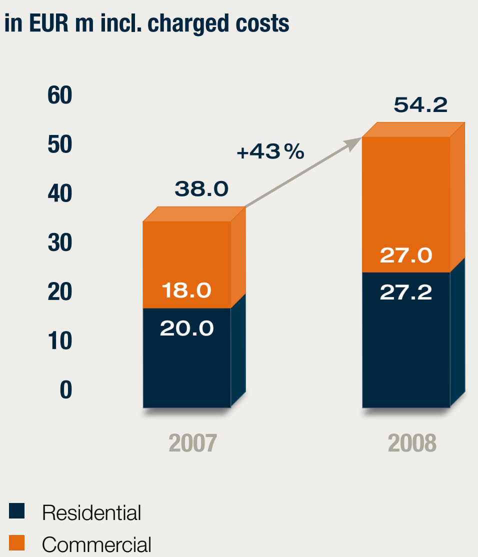
* Book value: Investment properties, land holding finished/unfinished buildings and assets available for sale of EUR 5.6 million

Changes in investment properties*

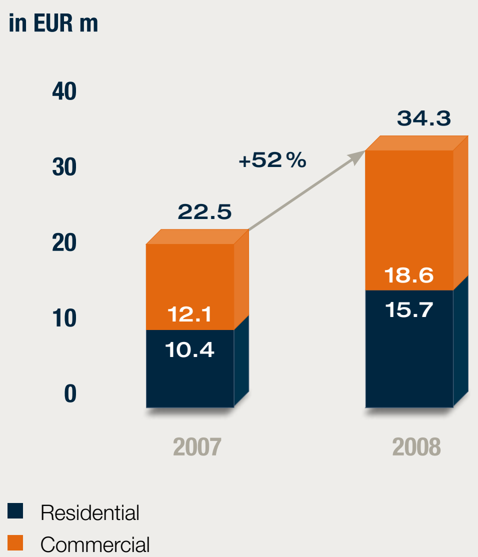


* Market value acc. independent appraisors

Rental income per segment



Rental profit per segment



Rambachstraße, Hamburg

Residential real estate segment

Residential real estate market in Germany

As is the case with the market as a whole, the residential real estate market has not been left unscathed by the financial crisis. The real estate consulting company Cushman & Wakefield has calculated that transaction volumes contracted by 57 percent in 2008, accompanied by a 44 percent decline in the number of residential units traded. Expressed in absolute figures, this is equivalent to 150,000 residential units sold with a volume of EUR 6.1 billion. Like the office real estate markets, the residential segment was dominated by small-scale sales entailing maximum volumes of 2,500 residential units due to the more difficult financing conditions.

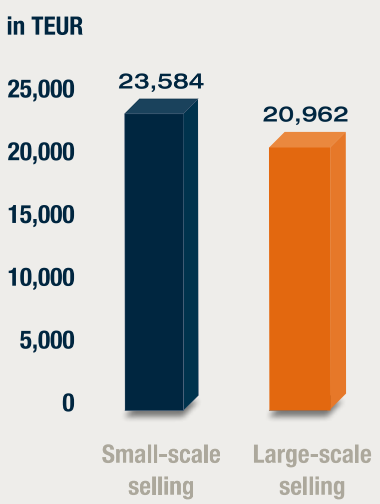
The Cushman & Wakefield experts are reserved in their forecast for 2009. At the moment, there are many offers in the market for small to mid-size portfolios as the future outlook for investment markets hinges on when banks start lending again and how borrowing costs develop over the next few months. (Source: Haufe online, 13 January 2009)

Sales – change in target group

Matching the shift in transaction volumes towards smaller projects in the low millions, there has also been a change in active buyers. Actual and potential buyers now tend to be regional private investors, who acquire residential property for their own use or on a buy-to-lease basis as part of their pension savings plans. Despite the crisis, TAG benefited from this change in buyer type even though sales proceeds in 2008 were well down on the successful transactions in 2007. The Company generated proceeds of EUR 34.5 million from sales of residential real estate in 2008. 212 units in Berlin, Hamburg and Munich with a total floor area of 26,445 square metres were sold at an average price of EUR 1,307 per square metre.

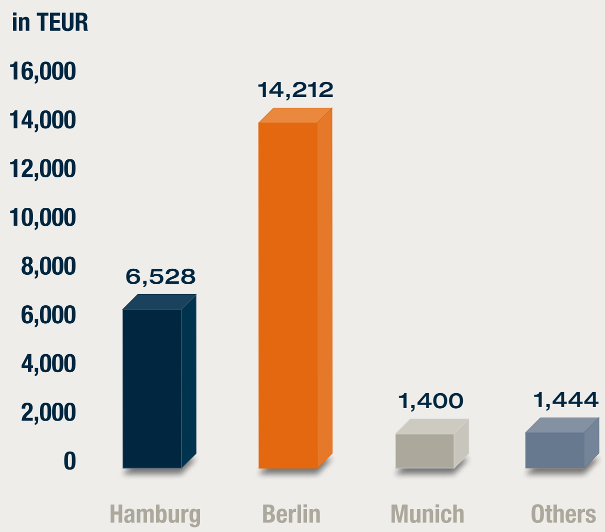
TAG continued its selling activities at the beginning of 2009, signing contracts for five multi-family houses, several apartments and terraced houses worth a total of EUR 30 million. The favourable returns on the sales achieved in the face of the adverse economic conditions testify to the quality of TAG's portfolio and its successful asset and property management.

Income from residential real estate sales 2008



- Price of sale: 2,077 EUR/sqm
- Price of sale: 1,153 EUR/sqm

Income from residential real estate sales 2008 Small-scale selling by region



- Price of sale: 1,777 EUR/sqm
- Price of sale for medium class: 1,316 EUR/sqm, Price of sale for premium class: 2,845 EUR/sqm
- Price of sale: 2,850 EUR/sqm
- Price of sale: 1,088 EUR/sqm

Gross and net rental income from residential real estate

Rental income rose by 43 percent in 2008 to EUR 54.2 million (previous year EUR 38.0 million). Of this, EUR 27.2 million was earned from residential real estate. Rental income net of facility management costs came to EUR 15.7 million in the residential segment, also an increase of over 50 percent over 2007 (EUR 10.4 million). This favourable performance testifies to the Company's successful property and asset management activities. Further optimisation aimed at steadily enhancing net rental income was completed last year and is to generate long-term gains in 2009. These measures include rental hikes in line with the statutory maximums, specific minor portfolio development activities resulting in increased real estate values as well as higher rentals and lower vacancies. As a result of active portfolio management, it was possible to raise the average annualised net rental (without utilities) from EUR 5.47 per square metre in 2007 to EUR 5.98 per square metre in 2008.

Lucrative residential portfolio acquired in June 2008

In June 2008, TAG acquired via Bau-Verein a lucrative portfolio of 1,250 residential units with a total rental area of 82,000 square metres from public-sector institute Versorgungsanstalt des Bundes und der Länder (VBL). The total of 20 properties are located in Hamburg, Berlin, the Rhine/Main region and in Southern Germany. The portfolio is characterised by attractive cash flows and was placed on TAG's balance sheet at the end of the second quarter.

In 2008, TAG sold a number of items from the VBL portfolio in order to optimise the portfolio. Thus, it sold residential real estate in Freiburg, Rastatt and Essen as well as one property in Karlsruhe, generating average proceeds of EUR 880 per square metre, i.e. well in excess of the purchase price of around EUR 730 per square metre paid in June 2008.

As of 31 December 2008, TAG's residential portfolio comprised 5,600 units in good urban locations primarily in Hamburg, Berlin and Munich. The share of residential real estate in the TAG Group's entire portfolio was increased to EUR 420 million in 2008, up from EUR 361 million at the end of 2007.

In addition, the Company handles property and asset management for roughly 5,400 third-party residential and commercial units. TAG's portfolio is based in markets characterised by a promising outlook for future growth and rising population numbers. As a result, it benefits from the continued growth in good urban locations even in times of crisis. The Company is still aiming to strengthen its own portfolio on a sustained basis by means of acquisitions and to optimise it by means of sales or to generate liquidity.

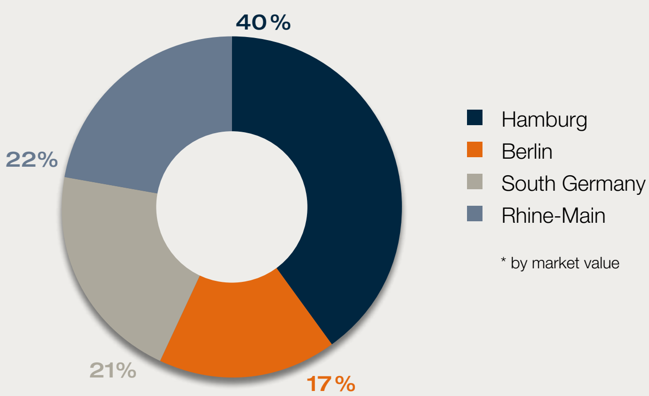
Lindengarten, Leipzig

Key figures of the VBL-package

	Acquisition in June 2008	Sales in 2008
Number of buildings	20	4
Residential units	1,250	119
Floor area in sqm	81,676	8,191
Net rental excluding utilities (annualised) in TEUR	5,203	516
Net rental (annualised) in EUR/sqm	5.31	5.25
Purchase/sales price (including transaction costs) in TEUR	59,680	7,225
Purchase/sales price (including transaction costs) in EUR/sqm	731	882
Factor	11.5	14.0

In the 1st quarter of 2009, a further three buildings comprising 189 units and with a volume of TEUR 8,265 were sold.

VBL-package – Breakdown by region*



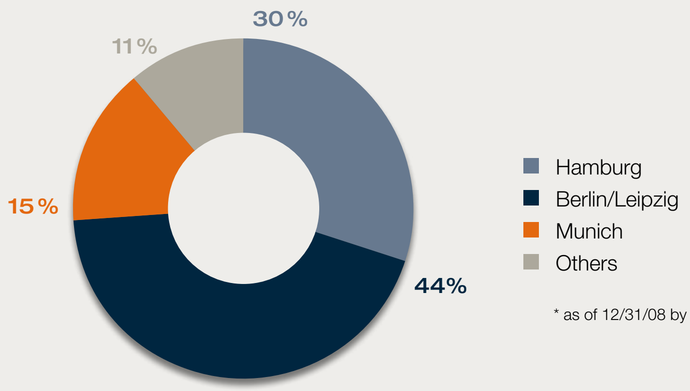
* by market value

Residential

	Hamburg	Berlin/Leipzig	Munich	Others	Total
Units and floor areas					
Units	1,757	2,518[1]	501	779	5,555
Floor area in sqm	101,446	159, 734	33,298	58,047	352,525
Floor area under development in sqm		7,119		23,031	30,150
Total floor area	101,446	166,852	33,298	81,078	382,675
Average size per unit in sqm	57.74	63.44	66.46	74.52	63.46
Assets					
Carrying amount of the real estate in TEUR	121,154	179,908	62,193	40,754	404,009
Carrying amount of the real estate in EUR per sqm	1,194	1,078	1,868	503	1,056
Fair value of the assets in TEUR	126,870	187,185	64,321	46,570	424,946
Fair value real estate in EUR per sqm	1,251	1,122	1,932	574	1,110
Rentals and vacancies					
Rented floor area in sqm	95,795	121,562	29,907	52,557	299,821
Vacancy for rental in sqm	3,752	16,012	2,984	1,238	23,986
Vacancies (percentage of total vacancies)	1.0 %	4.2 %	0.8 %	0.3 %	6.3 %
Vacancy for sale in sqm	1,899	22,161	407	4,252	28,718
Vacancies (percentage of total vacancies)	0.5 %	5.8 %	0.1 %	1.1 %	7.5 %
Vacancies for investment purposes in sqm		7,119		23,031	30,150
Vacancies (percentage of total vacancies)		1.9 %		6.0 %	7.9 %
Vacancies for investment purposes have arise as a result of development activities of this, the Stuttgart Südtor accounts for 23,031 sqm. Completion of the mixed residential/commercial property scheduled for the end of 2010. Over 70 percent of the commercial floor area already leased Further revitalisation activities for residential building in Berlin/Leipzig with a floor area of 7,119 sqm will be completed in the 2nd quarter of 2009. Rental status approx. 80 percent. (As of 03/31/2009)					
Annualised net actual rental in TEUR[2]	7,485	7,849	3,661	2,519	21,514
Net actual in EUR per sqm	6.51	5.38	10.20	3.99	5.98

[1] Of which 387 units were in Leipzig.
[2] Annualised actual rental calculated on the basis of the portfolio as of 12/31/2008.

Residential real estate portfolio by region*



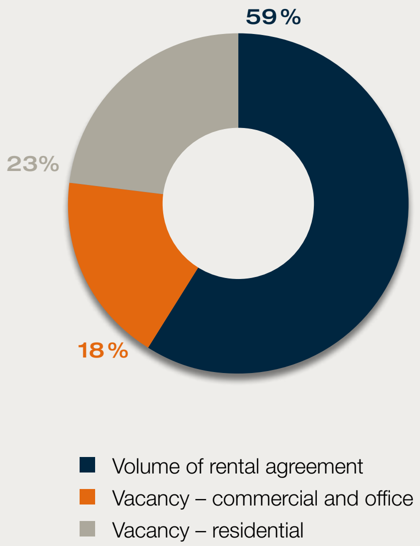
* as of 12/31/08 by market value

Stuttgart “Südtor” – View of courtyard

Stuttgart Südtor – premium project in the Stuttgart CBD

Work on building an architecturally sophisticated building complex directly adjacent to Marienplatz in the Stuttgart central business district is currently ongoing. With project funding secure, the building permits were received and construction commenced in October 2008. Scheduled for completion in mid 2010, the multi-purpose town houses with a total rental area of around 23,000 square metres are being built on a plot measuring some 6,700 square metres. The project includes an international hotel, two retail stores, an office building and premium-quality urban residential units. Long-term leases had already been signed for 70 percent of the commercial floor area prior to the commencement of building. The project is uniquely characterised by the attractive parameters of this multi-purpose model and the limited availability of land for construction in the Stuttgart CBD. This means that long-term value growth is effectively assured in this prosperous city. The project entails a financing volume of some EUR 50 million, with finance secure throughout the entire construction period right up to planned completion at the end of 2010.

Diversification of rental income*



* Basis for calculation: Net rent exclusive of heating and ancillary costs including underground garage.

Activities for leasing the apartments are commenced 6 months prior to completion of construction. Numerous inquiries have already been received from interested parties.

Commercial Portfolio optimisation

Commercial real estate market in Germany

Office space rental volumes in the main German cities such as Berlin, Düsseldorf, Essen, Frankfurt, Hamburg, Cologne, Leipzig, Munich and Stuttgart declined by 5.2 percent to 3.5 million square metres in 2008 according to Atisreal. In contrast to earlier years, the fourth quarter in particular was very weak. Volumes in 2009 are expected to contract to 2005 levels. With the exception of Berlin, Frankfurt and Leipzig, top rentals rose by 4 percent. That said, it must now be assumed that rentals have peaked and may retreat as of the second half of 2009 (Source: IZ 7 January 2009). Despite this muted outlook, German office centres are still relatively stable and are less affected by the emerging European-wide recession than their European neighbours. Thus, a study by Deutsche Bank subsidiary Rreef projects a double-digit decline in top office rentals in London, Madrid and Dublin relative to 2007 levels by 2010, whereas rentals in the German cities of Hamburg, Frankfurt and Munich will probably only drop by 5 percent (Source: IZ 7 January 2009).

In the year under review, there was a considerable decline in transaction volumes in the commercial real estate segment relative to the record year in 2007. According to real estate consulting company, revenues from commercial real estate came to EUR 20.7 billion in Germany, a decline of 65 percent over 2007. Transaction volumes in the main German office centres of Berlin, Düsseldorf, Frankfurt, Cologne and Munich came to EUR 9.2 billion, a decline of around 70 percent over 2007. This sharp decline was caused by the financial crisis with all its fallout - particularly in the form of funding difficulties for investors and the resultant “wait-and-see” strategy. Given the very difficult financing situation, experts do not expect to see any swift improvement in the current situation, meaning that there will be little in the way of large transactions. Sales with a transaction volume of up to EUR 5 million will continue to dominate. This is reflected in a muted forecast for 2009, which points to transaction volumes slightly below the previous year, with investors not expected to start actively responding to price adjustments until the second half of the year. Transaction volumes are not expected to materially improve until 2010. (Source: Financial Times Deutschland, 8 January 2009 /IZ, 13/14 January 2009)

With respect to commercial real estate prices, it can be assumed that top properties in good locations in office centres with first-class fittings will acquit themselves well. By contrast, second-class real estate in B locations, which will additionally have to be sold in the next few years in response to bank pressure, is set to face discounts of up to 50 percent on 2007 price levels. In addition, the number of forced sales may rise significantly. (Source: Welt online, 15 January 2009; Handelsblatt, 10 January 2009)

Businesspark B², Bartholomäusstraße, Nuremberg

Office buildings in attractive urban locations in Germany

TAG focuses on office buildings with long-term leases located in highly sought-after business centres in Germany such as Hamburg, Munich and the Rhine/Main region. In addition to favourable locations, its portfolio is characterised by predominantly high-quality fittings, lucrative returns, readily available development potential and, above all, stable cash flows from long-term leases.

To date, TAG has successfully made use of the opportunities of the German real estate market for establishing and diversifying its portfolio and continued to optimise it last year by means of active rental and asset management. In this way, the Company is well positioned to weather future challenges in the face of the economic crisis.

Lucrative properties with varying lease periods and investment-grade tenants.

The TAG Group's commercial real estate portfolio comprises lucrative properties with varying lease periods and investment-grade tenants. The Top 5 tenants in the commercial real estate segment are Siemens AG followed by the state of Lower Saxony, the city of Wuppertal, Linde GmbH & Co. KG and Kratzer Automation

Top 5 commercial tenants*

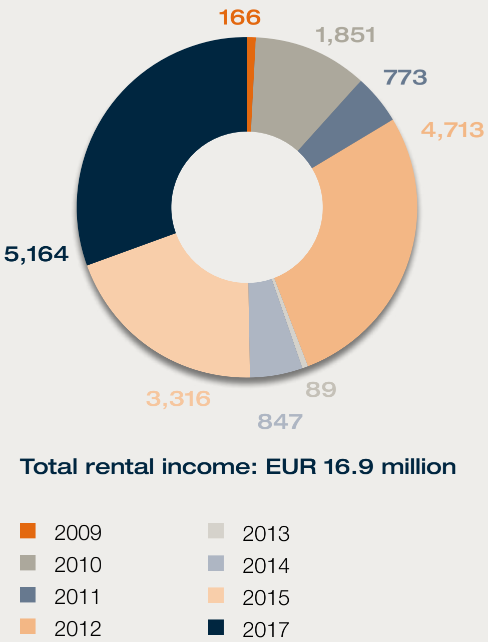
Tenants	Rental p.a. in TEUR	as a percentage of annualised rental in 2008	as a percentage of the floor area of the real estate
Siemens AG	13,565	56	59
State / City authorities	2,066	8	10
Federal employment office	367	2	1
Linde	464	2	2
Kratzer GmbH & Co. KG	458	2	1
Total	**16,920**	**70**	**73**

* Commercial real estate – annualised rental 2008 24,489 TEUR

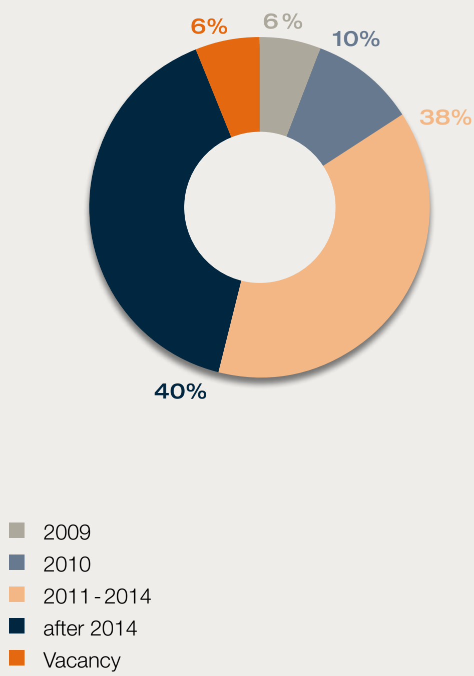
TAG generates 70 percent of its commercial real estate rentals from its Top 5 tenants. The investment-grade tenants within the commercial real estate portfolio are also planning to focus more keenly on the German market in the future, meaning that the counterparty risk is small in the commercial real estate segment.

In addition, TAG's cash flow-heavy commercial real estate portfolio is characterised by long lease periods. Of the leases expiring in 2009, 50 percent have so far been renewed at slightly higher rentals. TAG generated 50 percent of its gross rental income and 54 percent of its net rental income from its commercial real estate portfolio.

Rental income and terms for commercial leases with the Top 5 tenants (in TEUR)

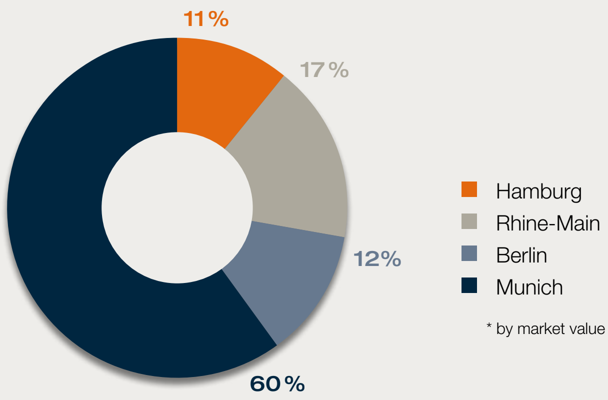


Duration commercial rental agreements*



* as of 12/31/2008 per rent

Commercial real estate portfolio by region*



* by market value as of 12/31/2008

Commercial real estate portfolio

	Total
Units and floor areas	
Numbers of buildings	31
Floor area in sqm	334,239
Assets	
Carrying amount of the real estate in TEUR	383,951
Carrying amount of the real estate in EUR/sqm	1,149
Fair value of the assets in TEUR	385,538
Fair value of the assets in EUR/sqm	1,153
Rentals and vacancies	
Rented floor area in sqm	313,156
Vacancy for rental in sqm	12,877
Vacancies (percentage of total vacancies)	3.8 %
Vacancies for sale in sqm	8,206
Vacancies (percentage of total vacancies)	2.5 %
Annualised net actual rental in TEUR*	24,741
Net actual in EUR per sqm	6.58

* Annualised actual rental calculated on the basis of the portfolio as of 12/31/2008.

Commercial: Real estates for leasing

Investments	Postcode/City/Street	Areas in sqm	Of which vacant in sqm	Vacancy	Annualised net actual rental[1] TEUR p.a.	EUR/sqm
Oststraße	22844 Norderstedt Oststr. 73 c	12,356	898	7.3 %	543	3.95
Neue Eilerstr.[2]	51145 Köln Neue Eilerstr. 50-52	4,551	1,980	43.5 %	152	4.93
Titotstraße 7-11	74072 Heilbronn Titotstraße 7-11	5,033	1,482	29.4 %	375	8.80
Innere Kanalstraße 69	50823 Köln Innere Kanalstraße 69	4,159	1,423	34.2 %	356	10.48
Vahrenwalder Straße 12-14[3]	30165 Hannover Vahrenwalder Str. 12-14	1,570	488	31.1 %	73	5.62
Koblenzer Str.[4]	40593 Düsseldorf Koblenzer Str.	821	509	61.9 %	30	8.00
Werth[5]	42275 Wuppertal Werth 78	958	453	47.3 %	61	10.06
Boschstr. 1[6]	82178 Puchheim Boschstr. 1	2,716	1,320	48.6 %	196	11.70
Tübinger Straße	80686 München Tübinger Str. 1-5, Hansastr. 8	17,191	82	0.5 %	1,261	6.14
Einsteinstraße	81675 München Einsteinstr. 127	2,191	72	3.3 %	394	15.49
Cafe Atlas	81667 München Innere Wiener Str. 2	383	-	0 %	110	23.93
Osswaldstr.	82139 Starnberg Osswaldstr. 1a, 1b	5,499	213	3.9 %	1,054	16.62
FAZ Dachau	85221 Dachau Hochstr. 27	3,629	315	8.7 %	530	13.33
Porschezentrum	86368 Gersthofen Porschestraße 5	1,994	-	0 %	348	14.55
Hauptstraße	56155 Bendorf Hauptstr. 186	1,536	-	0 %	104	5.46
Königstorgraben	90402 Nürnberg Königstorgraben 7	2,593	257	9.9 %	270	9.63
Pegasus Business Center	85716 Unterschleißheim Gutenbergstr. 5	21,493	-	0 %	2,058	7.98
Harburger Str.	21429 Stelle Harburger Str. 1	1,753	401	22.9 %	152	9.37
Werther Carré	42275 Wuppertal Kleiner Werth 30, Kohlgarten 7	9,811	-	0 %	1,115	9.47
Planckstr.	22761 Hamburg Planckstr. 13-15	6,266	1,388	22.2 %	697	11.91
Stahltwiete	22761 Hamburg Stahltwiete 20	2,839	-	0 %	362	10.63
Siemensdamm	13629 Berlin, Siemensdamm 50/ Wernerwerksweg 16	53,962	-	0 %	3,000	4.63
Dynamostr.	68165 Mannheim Dynamostr. 4	32,032	-	0 %	2,200	5.72
St.-Martin-Str. (Kustermannpark)	81669 München St.-Martin-Str.	19,987	-	0 %	1,913	7.98
Hofmannstr. 51	81379 München Hofmannstr. 51	23,152	-	0 %	1,825	6.57
Franz-Greuer-Straße 10	50823 Köln Franz-Greuer-Straße 10	26,492	-	0 %	2,400	7.55
Bogenstraße	22926 Ahrensburg Bogenstraße 47	1,676	101	6.0 %	78	4.13
Steinweg	59821 Arnsberg Steinweg 13	1,860	672	36.1 %	47	3.30
Blankenburg	26135 Oldenburg Klostermark 70-80	17,520	-	0 %	577	2.74
Bartholomäusstraße	90489 Nürnberg Bartholomäusstraße	15,420	823	5.3 %	1,444	8.24
Logistikzentrum Gründlacher Str.	90765 Fürth Gründlacherstr. 258-260	24,290	-	0 %	1,014	3.48
		325,733	**12,877**	**4.0 %**	**24,739**	**6.59**

Siemens, Berlin

Commercial: Land and real estate as an investment/for sale

Investment	Postcode/City/Street	Areas in sqm	Of which vacant in sqm	Vacancy	Annualised net actual rental[1] TEUR p.a.	EUR/sqm
Max-Brauer-Allee[7]	22765 Hamburg Max-Brauer-Allee 163	7,206	7,206	100 %	/	/
Heiterblickstr.[8]	04347 Leipzig Heiterblickstr. 26	1,300	1,000	76.9 %	2	0.56
		8,506	**8,206**	**96.5 %**	**2**	**0.56**
Total volume commercial		**334,239**	**21,083**	**6.3 %**	**24,741**	**6.58**

[1] Annualised actual rental calculated on the basis of the portfolio as of 12/31/2008.
[2] Occupancy status at the beginning of 2009: 64 percent.
[3] 180 sqm leased as of 01/01/2009, further reduction in vacancy to 30 percent.
[4] Project development had been planned for property. Project development had been planned for property.
[5] Property sold Q1/2009.
[6] Development completed in 2008; 80 percent of floor space leased at the beginning of 2009.
[7] Sale planned.
[8] Land with warehouse/fair value of land TEUR 280.

Main investments

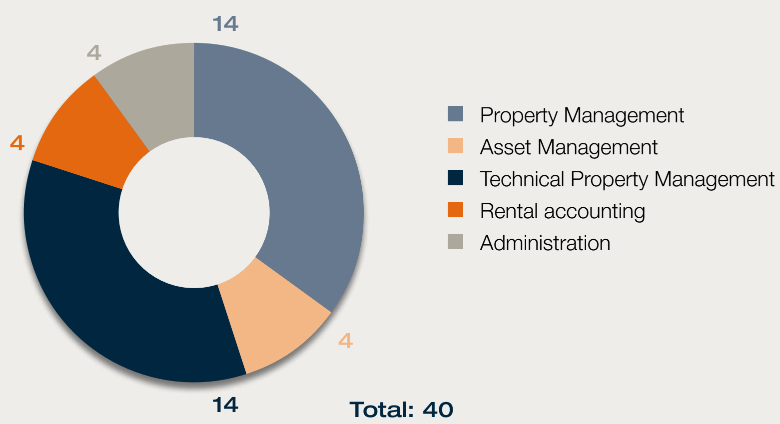
Larus Asset Management GmbH

The joint venture forged by TAG Immobilien AG and HSH Real Estate AG has been doing business under the name of Larus Asset Management GmbH since September 2008. The company was launched at the beginning of 2008 with real estate under management of EUR 1.2 billion and increased this volume by 58 percent to EUR 1.9 billion by the end of the year. The portfolio under management comprises a total of 110 commercial properties owned by TAG asset volume of some EUR 390 million, and HSH Real Estate AG as well as by investment funds, other companies and private investors. The 40 qualified employees are mostly based at the company's Hamburg head office as well as at branches in Berlin, Leipzig and Munich.

Its range covers the entire gamut of commercial and technical services including technical due diligence activities for commercial real estate as well as asset management, property management and project management.

The purpose is to ensure the optimum preservation and greatest possible development in the value of the properties under management. This is achieved by means of extensive real estate expertise coupled with many years of experience in the relevant markets backed by the capital market experience of the joint venture partners. This successful business activity is spurring growth significantly. Accordingly, the Company has been deconsolidated as of the end of the year.

Numbers of employees of Larus Asset Management GmbH as of 12/31/2008



Key figures of Larus Asset Management GmbH

Real estate under management	
Value of real estate under management as of 01/01/2008 in EUR m	1,200
Value of real estate under management as of 12/31/2008 in EUR m	1,900
Increase in values under management	+58 %

Key figures for income statement (in TEUR)	
Revenues from commercial real estate management	2,549
Revenues from technical real estate management	1,409
Total revenues	3,958
Net income from the management of real estate	870
Return on sales	22 %
Headcount as of 12/31/2008	40

GAG Grundstücksverwaltungs-Aktiengesellschaft

A 25 percent stake is held in GAG via Bau-Verein zu Hamburg Aktien-Gesellschaft (Bau-Verein), a subsidiary of TAG Immobilien AG. The majority shareholder is conwert Immobilien Invest SE, Vienna. The company has a high-quality real estate portfolio primarily comprising residential properties in urban locations in German cities.

The year under review was dominated by the continuation and completion of construction activities which had been commenced in earlier years.

As a result of impairment expense of around EUR 9.5 million on real estate holdings and higher borrowing costs, GAG sustained a post-tax loss of EUR 12.2 million.

The increased borrowing costs are due to the greater utilisation of bank loans in connection with the construction activities. Total assets stand at EUR 142.9 million.

GAG‘s earnings for 2008 came under pressure from the project work performed and completed in the year under review as well as impairments recognised on real estate. Target rental for full occupancy is EUR 8.1 million.

Langenhorn, Hamburg

Outlook

Given the completion of the development activities in 2008 and the leases which have already been entered into, it can be assumed that operating earnings will improve as a result of rental income and sales.

Zehlendorf, Berlin

Key figures of GAG Gründstücksverwaltung Aktiengesellschaft

Object		Units	Floor area in sqm	Vacancies as of 12/31/08 in sqm	Vacancy	Annualised net actual rental in TEUR [1]	Actual rental EUR/sqm
Residential real estate portfolio							
Grevenweg 32	Hamburg	54	2,431	62	3 %	202	7.09
Hirtenstr. 29a-c	Hamburg	50	1,227	24	2 %	116	8.05
Wandsbeker Marktstr. 30	Hamburg	18	1,293	0	0 %	220	14.20
Zehlendorf [2]	Berlin	660	37,489	6,076	16 %	2,064	5.47
Langenhorn Q4 [3]	Hamburg	196	17,457	2,625	15 %	1,607	9.03
Langenhorn Q1 [4]	Hamburg	115	10,591	3,476	33 %	778	9.11
Lupsteiner Weg 17, 17a-d	Berlin	35	2,039	156	8 %	139	6.14
Soldtmannstr. 19-22	Greifswald	143	3,510	0	0 %	266	6.32
Maenherstr. 40/45	Munich	30	1,824	20	1 %	232	10.70
		1,301	**77,859**	**12,439**	**16 %**	**5,623**	**7.16**
Commerical real estate portfolio							
Steckelhörn 5/9	Hamburg	1	6,230	175	3 %	1,176	16.18
Total real estate		**1,302**	**84,090**	**12,614**	**15 %**	**6,799**	**7.93**

[1] Annualised actual rental calculated on the basis of the portfolio as of 12/31/2008.
[2] Completed in 2008 / effective leases as of the end of March 2009: 579 (61 units vacant / 9% vacancy)
[3] Completed in 2007 / effective leases as of the end of March 2009: 194 (2 units vacant / 1% vacancy)
[4] Completed in 2008 / effective leases as of the end of March 2009: 113 (2 units vacant / 2% vacancy)

TAG Stock

Stock price and IR activities against the backdrop of the financial market crisis

Stock markets came under considerable pressure in the second half of 2008, causing prices to fall all around the world. After remaining stable at 6,000 points for a protracted period, the DAX slumped to a low of just over 4,000 points for the year. The SDAX also retreated in 2008, closing the year 46 percent down.

In this environment, the SDAX-listed TAG stock saw the year out at EUR 1.99, after bottoming out at the end of October at around EUR 1.24, down from EUR 6.70 at the beginning of the year.

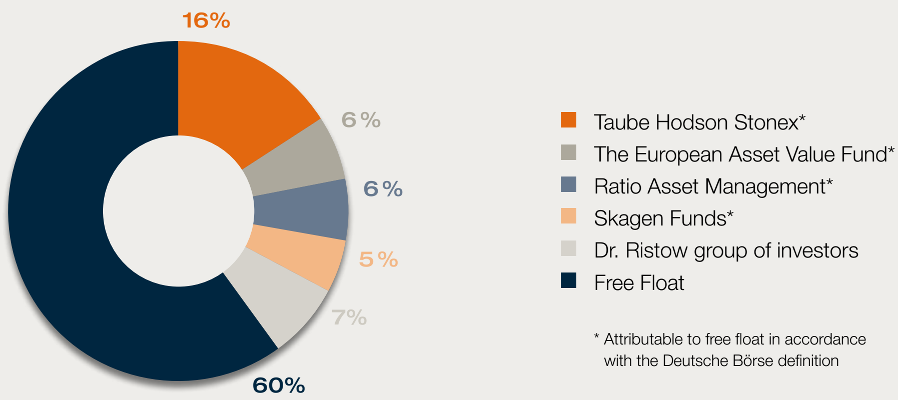
The number of shares is unchanged at 32,566,364. The free float stands at 93 percent. At the same time, market capitalisation dropped to about EUR 65 million as of 31 December 2008.

Despite the crisis in the financial markets, the current shareholder structure, which remained virtually unchanged throughout the year, testifies to the confidence being placed in the Company. TAG's main shareholders comprise national and international investors with a predominantly long-term horizon.

The aim of investor relations activities at TAG Immobilien AG is to gradually build trust in the share by means of clear transparency and open information policies while also boosting investors' behaviour with regard to investments. As was previously the case, prompt and comprehensive corporate communications and commitment within the scope of corporate governance remain a fixed part of the company strategy.

Shareholder structure 12/31/2008

(as disclosed by the statutory notifications of 2008)



* Attributable to free float in accordance with the Deutsche Börse definition

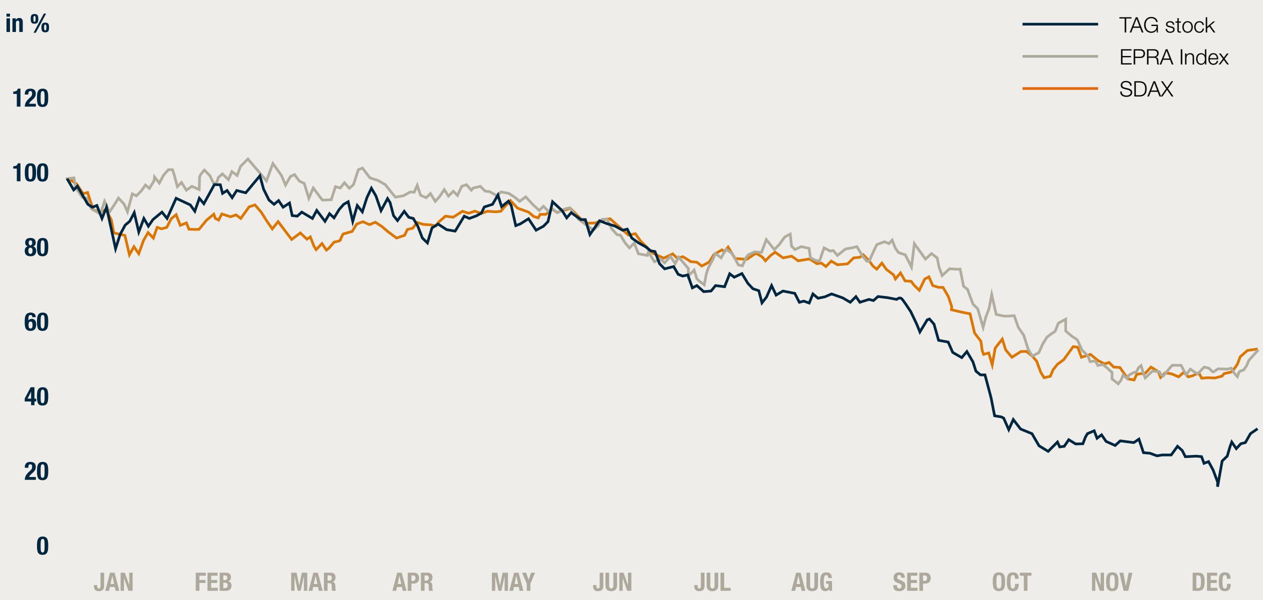
TAG stock

	2008	2007	2006	2005	2004
Number of shares as of 12/31	32,566,364	32,566,364	32,566,364	10,044,901	6,228,926
Notional share in share capital in EUR	1.00	1.00	1.00	1.00	1.00
Dividend per share	0	0.10	0	0	0
Market capitalisation as of 12/31 in EUR million	64.8	212.9	300.9	82.4	46.1

TAG stock parameters

Stock market ticker	TEG
Stock type	Bearer ordinary shares
ISIN	DE0008303504
Market segment	SDAX
Indices	German CDAX Performance, SDAX Performance Index, Prime All Share, Prime Financial Services, Classic All Share DIMAX
German securities code number	830350
Designated sponsor	M.M. Warburg Bank, Hamburg, Close Brothers Seydler AG, Frankfurt/Main
Stock exchange	Munich, Frankfurt/Main
Research	Bankhaus Lampe, Berenberg Bank, DZ Bank, Fair Research, HSH Nordbank AG, IRICIC GmbH, SES Research, UniCredit Markets & Investmentbanking, Viscardi AG Investmentbanking

Stock price




HAMBURG SÜD

Net Asset Value

TAG's net asset value (NAV)

As in earlier years, TAG instructed the independent valuers Cushman & Wakefield, Frankfurt, and Rödl & Partner, Nuremburg, to measure the fair and market values of its real estate. This was done in accordance with the valuation methods applied by international valuers, which correspond to the principles of the International Valuation Standards. The market values measured form the basis for calculating net asset value (NAV), which is the international benchmark for assessing and comparing real estate companies and the indicator of the Company's inherent value. TAG modified the method which it used for calculating NAV compared with 2007. The fast growing service business was eliminated from the calculation in 2008 with the result that only the core business, namely the Company's residential and commercial real estate, were included in the calculation of NAV. In addition, deferred taxes were also adjusted out. All figures used in the calculations are backed by valuers' reports. The comparative figures for 2007 have been restated to take account of the new method.

As of 31 December 2008, net asset value stands at EUR 7.37 per share, down from EUR 9.19 at the end of 2007. This drop is primarily due to the impairments recognised on the investment products as well as the effects arising from the measurement of the interest derivatives,

TAG is aiming to increase its NAV by means of sustained value growth across all core business segments as a basis for a higher stock price and to strengthen shareholders' confidence in the Company.

Net asset value as of 31 December 2008

in TEUR	2008	2007
Fair value of the investment properties	620,942	556,702
Fair value of the available-for-sale real estate	194,250	231,803
+/- other assets net of other liabilities	-11,007	58,158
Loan liabilities	-538,043	-512,957
Minority interests	-26,060	-34,500
Net asset value (net of deferred taxes)	**240,083**	**299,206**
Net asset value (NAV) per share in EUR	**7.37**	**9.19**
Number of shares	**32,566,364**	**32,566,364**

The figures for 2007 have been restated to allow for the new method adopted in 2008.

Steckelhörn, Hamburg

German Corporate Governance Code

TAG corporate governance report for fiscal 2008

In accordance with the recommendations of the German Corporate Governance Code (GCGC) on responsible corporate governance, the Management Board and the Supervisory Board are required to report annually on the extent to which the Code has been conformed with. In addition, the German Stock Corporations Act imposes a duty on the Management Board and the Supervisory Board to issue an annual declaration of conformance, stating which recommendations have not been adopted (declaration of conformance in accordance with Section 161 of the German Stock Corporations Act). This code and observance by companies of the recommendations which it contains aim to reinforce the confidence of shareholders, customers, employees and the general public in companies' management. The German Corporate Governance Code serves as an instrument to heighten the transparency and control of listed companies.

The Management Board and the Supervisory Board of TAG have issued regular declarations of conformance in accordance with Section 161 of the German Stock Corporations Act, most recently in December 2008. This declaration of conformance has been made permanently available to the public via the Company's website at www.tag-ag.com.

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

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

Any deviation from the GCGC recommendations primarily has technical reasons. Given the size of the Supervisory Board, which comprised four shareholder representatives in 2008, it was not expedient for committees to be established. In this constellation, it was possible for the Supervisory Board to work effectively and efficiently both internally and in collaboration with the Management Board.

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

Dr. Lutz R. Ristow (Chairman)	EUR 60,000.00
Prof. Ronald Frohne (Deputy Chairman)	EUR 45,000.00
Rolf Hauschildt	EUR 30,000.00
Dr. Wolfgang Schnell (until 30 September 2008)	EUR 28,750.00
Rolf Elgeti (as of 17 October 2008)	EUR 1,562.50

Further details on the Management Board remuneration are set out on pages 57 and 116 of the annual financial statements. The disclosures made there form part of the corporate governance report.

Dr. Lutz R. Ristow, Chairman of TAG's Supervisory Board received fees of TEUR 114 in 2008 (previous year: TEUR 0) for consulting services outside his office on the Supervisory Board.

Prof. Ronald Frohne is a partner in the Nörr, Stiefenhofer, Lutz law firm, which provided legal advice on corporate law matters in 2008. A total fee of TEUR 63 was paid for these services.

As at 31 December 2008, borrowings of TEUR 1,443 (previous year TEUR 1,486) exist vis-a-vis a company, which the aforementioned persons are personally invested in.

In addition, Article 6.6 of the GCGC provides for the members of the Supervisory Board and the Management Board to disclose details of shares held directly or indirectly in the Company or financial instruments based on these. As of 31 December 2008, the following shares were held:

Shareholders	Number of shares
Dr. Lutz R. Ristow and Rita Ristow	962,887
Albert Asmussen GmbH (Prof. Dr. Ronald Frohne)	278,127
A&B Vermögensverwaltung GmbH, Düsseldorf (Managing Director: Rolf Hauschildt)	300,000
WH Vermögensverwaltung GmbH, Düsseldorf (Waltraud Hauschildt)	400,000
RH Vermögensverwaltung GmbH, Düsseldorf (Rolf Hauschildt)	300,000
Dr. Wolfgang Schnell	51,786
Andreas Ibel, CEO	58,536
Erhard Flint (member of the Management Board)	167,833
Rolf Elgeti (member of the Supervisory Board)	21,000

Hamburg, April 2009

Supervisory Board and Management Board of TAG Immobilien AG

Declaration of conformity

Declaration of conformance by the Management Board and the Supervisory Board in accordance with Section 161 of the German Stock Corporation Act

The Management Board and the Supervisory Board of TAG Immobilien AG (hereinafter referred to as „Company") confirm that the Company conforms to the recommendations issued by the German Federal Ministry of Justice and published in the official part of the electronic Bundesanzeiger publication drafted by the Government Commission on the German Corporate Governance Code (hereinafter referred to as „GCGC") in the version dated 6 June 2008 save for the following exceptions:

- The Company's D&O insurance-provides for a small deductible for individual members of the Management Board and the Supervisory Board (Article 3.8 of the GCGC). This entails group insurance which also covers the Company's other management and executive staff. A distinction between members of the Company's corporate bodies and employees is not considered to be appropriate.

- TAG Immobilien AG's Supervisory Board has not formed any committees at this stage. This particularly refers to the establishment of an audit committee (Section 5.3.2 Sentence 1 of the GCGC) and the establishment of a nomination committee (Section 5.3.3 of the GCGC). The Company's Supervisory Board takes the view that such committees are neither necessary nor appropriate given the Company's specific situation, particularly the size of the Supervisory Board.

- The Company's consolidated financial statements are not published within 90 days of the end of the fiscal year (Section 7.1.2 of the GCGC). The consolidated financial statements and the interim financial reports are published within the first four months of the conclusion of the financial year or eight weeks after the end of the quarter in accordance with the statutory provisions. The Company's Management Board and Supervisory Board do not consider a shorter publication period to be justified given the differences in the periods and the expense involved.

- The Company did not make previous declarations of conformity accessible on its website until the 2005 financial year (Section 3.10 GCGC).

Hamburg, December 2008

Management Board and Supervisory Board of TAG Immobilien AG

Report of the Supervisory Board

Dear shareholders, ladies and gentlemen,

In 2008, the Supervisory Board regularly dealt with the Company's economic condition, strategic development and business performance at length.

The Management Board reported orally and in writing on the Company's economic condition, its business performance, strategy and plans and the risk situation and risk management. In addition to acquisition-related decisions, the meetings primarily dealt with the measures to be taken by the Company to respond to the crisis currently afflicting the financial and capital markets as well as the emerging economic crisis. The Supervisory Board was directly involved in all decisions of fundamental importance and was also briefed by the Management Board on special occurrences outside its meetings. Some decisions were made in written form.

The Chairman of the Supervisory Board was regularly briefed on major transactions outside meetings of the Supervisory Board as well. No committees were established in the year under review.

Dr. Lutz R. Ristow

Deliberations and resolutions of the Supervisory Board

In a total of five meetings, the Supervisory Board deliberated on and discussed numerous topics as well as activities requiring its approval in conjunction with the Management Board. In addition, telephone conferences were held to consult on the interim financial statements. No member of the Supervisory Board attended fewer than half of the meetings.

Of the transactions submitted for approval in the first half of the year, special mention should be made of the acquisition by Bau-Verein zu Hamburg Aktien-Gesellschaft of a residential portfolio from VBL Versorgungsanstalt des Bundes und der Länder, Karlsruhe, Anstalt des öffentlichen Rechts. Acquired in June 2008, the package comprised 1,250 units with a purchase price in the mid double-digit millions.

At its meeting dated 17 April 2008, the Supervisory Board approved the annual financial statements for 2007 after discussing these and the Company's results of operations in detail with the auditor. At its meeting held on 17 April 2008 the Supervisory Board additionally endorsed the resolutions which the shareholders were asked to pass at the annual general meeting.

At the meetings held in the second half of the year, the matters on which the Supervisory Board deliberated included the further postponement of the stock market flotation originally planned for TAG Gewerbeimmobilien-Aktiengesellschaft as a prerequisite for conversion into a listed REIT, which was no longer considered viable in view of the conditions in the capital market. It also considered various other alternatives for TAG Gewerbe.

The effects of the crisis afflicting the financial and capital markets were discussed at length in the second half of the year. At its December meeting, the Supervisory Board considered the first preliminary results of the real estate valuation which already revealed the initial effects of the crisis, with the external surveyors substantially increasing the risk discounts on commercially used properties in particular within the space of a year. In addition, it dealt with the situation at GAG Grundstückverwaltungs-Aktiengesellschaft, an associate of Bau-Verein zu Hamburg Aktien-Gesellschaft, and the progress of the Stuttgart Südtor development project.

The Supervisory Board considers all measures for safeguarding liquidity to have priority over profit-earning activities. It accepted the proposals made by the Management Board for overcoming the crisis, which had been adversely affecting the entire real estate market since mid 2008 and had brought major transactions in particular to a standstill. A decision was unanimously made to close the Leipzig office. Similarly, the Supervisory Board endorsed the Management Board's decision to limit project development activities to those which had already been commenced and to refrain from continuing or initiating any further construction projects. This also applies to the deconsolidation of Larus Asset Management GmbH, which is primarily involved in the management of commercial real estate and is a joint venture between HSH Real Estate and the TAG Group.

Auditors of 2008 financial statements

In accordance with the recommendations of the Corporate Governance Code, the Supervisory Board engaged the auditors Wirtschaftsprüfungsgesellschaft Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, which had been elected by the shareholders at the annual general meeting as the auditors of the annual financial statements of TAG Immobilien AG for 2008.

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 and the Group management report for 2008, which had been 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 forwarded to all members of the Supervisory Board in good time and deliberated upon in detail at the meeting of 21 April 2009 at which the Supervisory Board was to approve the annual financial statements. The auditors also 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 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, did not raise any objections. Accordingly, the parent-company and consolidated financial statements prepared by the Management Board were approved and accepted by the Supervisory Board. At its meeting held on 21 April 2009 the Supervisory Board additionally approved the resolutions which the shareholders were asked to pass at the annual general meeting.

Corporate governance

In the year under review, the Supervisory Board paid particular attention to monitoring compliance by management with the principles of good corporate governance. In particular, there was a risk of conflicting interests in that the members of the Management Board of TAG also held offices on the Management Board of Bau-Verein zu Hamburg Aktiengesellschaft. No such conflicting interests arose in 2008.

At its meeting in December, the Supervisory Board and the Management Board jointly issued 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 followed save for a small number of justified exceptions. Given its current size, which permits efficient and swift decisions, the Supervisory Board still does not see any need to establish separate committees.

Personnel

At the annual general meeting held on 20 June 2008, Dr. Lutz R. Ristow, Prof. Dr. Ronald Frohne, Rolf Hauschildt and Dr. Wolfgang Schnell were re-elected to the Supervisory Board. Thereafter, Dr. Lutz R. Ristow was confirmed as Chairman and Prof. Dr. Ronald Frohne as Deputy Chairman.

Dr. Wolfgang Schnell stepped down from the Supervisory Board for personal reasons on 30 September 2008. In a ruling issued by the Local Court of Hamburg on 17 October 2008, Rolf Elgeti was appointed to the Company's Supervisory Board.

The Supervisory Board wishes to thank Dr. Wolfgang Schnell for his many years of constructive assistance.

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

Hamburg, April 2009

The Supervisory Board
Dr. Lutz R. Ristow, Chairman

Group Management Report for the year 2008

Introduction

For TAG Immobilien AG (TAG for short), 2008 was a year of changing fortunes. Although operating business improved, resulting in a 43 percent increase in rental income from EUR 38.0 million in 2007 to EUR 54.2 million in 2008 and a 52 percent increase in net income from rental business from EUR 22.5 million to EUR 34.3 million, TAG closed the year under review with a loss. Thus, it sustained a loss at the EBT level of EUR 42.1 million, reversing the previous year's earnings before taxes of EUR 29.0 million. A consolidated net loss from continuing activities of EUR 32.1 million was recorded, compared with net profit of EUR 18.7 million in the previous year. These losses were due to the considerable impairment losses recognised in the income statement resulting from fair-value remeasurement of real estate and investments – particularly against the backdrop of the global economic crisis. Despite the increased rental income, it was necessary to recognise impairment losses of EUR 24.1 million on real estate. Investment properties were written down by EUR 18.7 million on account of market conditions, while impairment losses on land held as inventories came to EUR 5.4 million primarily as a result of higher notional interest particularly for commercial real estate.

Adjustments to the fair values resulted in markdowns of 4.4 percent in the commercial segment and 1.7 percent in the residential segment relative to 31 December 2007.

In addition, non-recurring costs of EUR 4.4 million arose in 2008 in connection with construction and construction management business. TAG reacted to this development by restructuring the Group and discontinuing this business. In this connection, impairments of EUR 4.1 million were recognised on receivables from associates. The share in the loss of associates and impairments resulted in expense of EUR 3.6 million.

Total revenues contracted from EUR 125.2 million at the end of 2007 to EUR 101.6 million at the end of the year under review.

With a loan-to-value (LTV) ratio of 67 percent and an equity ratio of just over 30 percent, the Company has solid balance sheet ratios by sector standards and continues to be funded adequately. Total assets were valued at EUR 839.3 million as of 31 December 2008, down from EUR 882.3 million on 31 December 2007.

As a result of the loss sustained in 2008, the Company will not be distributing any dividend for the year under review.

Paradieshof, Hamburg

The TAG Group

Business activity and Group structure

TAG is a holding company in a diversified and clearly structured real estate group. Its activities are targeted at German metropolitan regions exhibiting growth potential, such as Hamburg, Berlin and Munich. It has its head office in Hamburg with branches in Berlin and Munich. TAG is divided into two subgroups covering residential real estate and commercial real estate. In addition, the TAG Group offers real estate services, although these do not form part of its core business. The subsidiary Bau-Verein zu Hamburg Aktien-Gesellschaft (or “Bau-Verein” for short), which is also a listed company, is responsible for residential real estate within the TAG Group. TAG’s commercial real estate activities are handled by TAG Gewerbeimmobilien-AG (TAG Gewerbe for short), which achieved pre-REIT status in June 2007. Service business is pooled within Larus Asset Management GmbH, which provides an extensive array of real estate services within the Group covering management of commercial properties owned by the Group as well as by third parties. Established in 1992 as B.u.P. Projektmanagement GmbH, it was converted into a joint venture with HSH Real Estate AG at the end of 2007 and has been doing business under the name Larus Asset Management since autumn 2008.

Strategy and goals

Over the last few years, TAG has developed and extended its portfolio to pursue its strategy of value-enhancing real estate management. In particular, it benefited from the favourable economic conditions and the state of the real estate market in 2007. Thus, TAG has been able to harness existing potential for achieving growth and unlocking value, enhancing the return on and earnings potential of the real estate held in its portfolio by means of active portfolio management. The strategic focus continues to be on real estate in German metropolitan regions such as Hamburg, Berlin and Munich in good inner-city locations offering growth potential and a favourable long-term outlook in the German residential and commercial real estate market. At the same time, properties of subordinate strategic importance are being removed from the portfolio to secure gains after the completion of development work or to make use of a favourable exit opportunity. The success of this strategy is based on many years of experience and extensive knowledge of the market.

TAG has made use of the opportunities of the German real estate market for extending, diversifying and optimising its business model across several segments. In this way, it is well positioned to weather future challenges in the face of the current economic crisis.

Focus on portfolio and asset management

Thanks to active asset management and targeted investments in individual properties, TAG harnesses the potential available for boosting rental income. As a matter of principle, its activities concentrate on generating stable cash flows and attractive returns.

As a result of the global financial crisis, the Group’s building activities have been scaled back. Accordingly, no new construction projects were initiated in 2008 with the exception of those for which funding had already been secured. One example of this is the Stuttgart Südtor project.

Company management

As in the past, the Company uses a modern financial tracking system allowing it to calculate value growth and returns in line with liquidity and earnings requirements in order to manage its growth targets. In this connection, TAG is managed via the results achieved at the property level of the individual business segments. Key factors in this respect include feasibility studies, utilisation optimisation, cost accounting and controlling and returns. Regular meetings with asset and property management ensure that strategic measures can be taken for the portfolio swiftly and efficiently. This includes such elements as property positioning, rental, capital spending, valuation, optimisation and exit timing. In addition, all results and project budgets are reviewed at least once a year by independent international valuers with extensive market expertise such as Cushman & Wakefield and Rödl & Partner, after which reports are produced following inspection of the real estate.

Underlying economic conditions

The overall economy

The financial market crisis and its impact
A global economic crisis emerged at the end of last year. What started as the subprime crisis in the United States caused a serious blow to the financial markets in 2008.

The effects of the crisis have assumed dire proportions, with investors losing large sums of money on the stock market, banks writing off billions and one hundred thousand jobs being lost in the financial services sector alone. This affected IKB, a number of state banks and real estate financer Hypo Real Estate, whose rescue required billions of euros from the government. All told, the German federal government has spend some EUR 500 billion on bailing out the banking sector.

The financial crisis has ushered in a global economic crisis. The bail-out packages worth billions have since been followed by economic stimulus programmes in an effort to stave off recession. However, experts currently expect Germany to be less severely hit than other countries.

Underlying economic conditions
Whereas the German economy remained stable within the euro zone for a long time, the tables have since been turned, with the various economic indicators all painting a worse picture. The German federal government assumes that gross domestic product (GDP) will contract by 2.25 percent in 2009. However, it also expects the downswing to bottom out in the spring, ushering in a quarter-on-quarter increase in GDP as early as in the second quarter of 2009, followed by slight expansion in the third and fourth quarters. Even so, the worst is not yet over and Germany faces a recession with corresponding consequences for the labour market. The German federal government projects an increase of 500,000 in the number of unemployed and an unemployment rate of 8.4 percent by the end of 2009.

In October 2008, the IFO business barometer, one of the most important leading indicators for the German economy hit its lowest level since May 2003, dropping still further to 82.6 points in December 2008 and 82.1 points at the end of March 2009. The economic experts at the IFO Institute in Munich expect gross domestic product to shrink by 2.2 percent in 2009 and by 0.2 percent in 2010. They do not see any swift end to the crisis, stating that preliminary signs of a gradual improvement in the financial crisis may emerge in 2010. (Source: vol. at, 11 December 2008; Handelsblatt 27 January 2009, Handelsblatt 25 March 2009)

According to the IMF (International Monetary Fund), economic output in Germany will contract by 2.5 percent due to declining exports and receding consumer spending. It sees growth of only 0.1 percent for 2010. A severe economic downswing accompanied by large public-sector debt is also expected across the entire EU. Thus, the EU Commission assumes that the European economy will shrink by 1.8 percent in 2009. The Commission assumes that the German economy will drop by 2.3 percent accompanied by a sharp increase in new borrowing. (Source: Handelsblatt, January 2009)

The global economy is experiencing a historically unprecedented decline in demand in tandem with steadily dropping prices. Accordingly, many economists sees the acute risk of a self-sustaining downward spiral of deflation, rising debt and new problems in the financial sector. It is also unclear whether the economic stimulus programmes launched by governments and central banks will be able to prevent this. At the same time, the economy faces a liquidity crunch as the banks are not passing on the interest cuts and liquidity injections or supplying the private sector with sufficient credit. The pressure on the European Monetary Union is growing as the public and private sectors will only be able to shoulder their mounting debt through a depreciation of the currency, something which will directly fuel inflation. At the beginning of 2009, inflation was benign, primarily due to lower energy prices according to experts.

Looking ahead over the next few months, a further decline in inflation is expected. The ECB is also responding to these fears by adjusting its base rates to avert the risk of deflation. Since October 2008, it has trimmed its rate in several steps to 1.25 percent as of the beginning of April 2009.

The real estate industry

Commercial real estate
Office space rental volumes in the main German cities such as Berlin, Düsseldorf, Essen, Frankfurt, Hamburg, Cologne, Leipzig, Munich and Stuttgart declined by 5.2 percent to 3.5 million square metres in 2008 according to Atisreal. In contrast to earlier years, the fourth quarter in particular was very weak. Volumes are expected to contract to 2005 levels in 2009. With the exception of Berlin, Frankfurt and Leipzig, top rentals rose by 4 percent. That said, it must now be assumed that rentals have peaked and may retreat as of the second half of 2009. (Source: IZ 7 January 2009). Despite this muted outlook, German office centres are still relatively stable and are less affected by the emerging European-wide recession than their European neighbours. Thus, a study by Deutsche Bank subsidiary Rreef projects a double-digit decline in top office rentals in London, Madrid and Dublin relative to 2007 levels by 2010, whereas rentals in the German cities of Hamburg, Frankfurt and Munich will probably only drop by 5 percent. (Source: IZ 7 January 2009)

In the year under review, there was a considerable decline in transaction volumes in the commercial real estate segment relative to the record year in 2007. According to real estate consulting company Atisreal, revenues from commercial real estate came to EUR 20.7 billion in Germany, a decline of 65 percent over 2007. Transaction volumes in the main German office centres of Berlin, Düsseldorf, Frankfurt, Cologne and Munich came to EUR 9.2 billion, a decline of around 70 percent over 2007. This sharp decline was caused by the financial crisis with all its fallout - particularly in the form of funding difficulties for investors and the resultant “wait-and-see” strategy. Given the very difficult financing situation, experts do not expect to see any swift improvement in the current situation, meaning that there will be little in the way of large transactions. Sales with a transaction volume of up to EUR 5 million will continue to dominate. This is reflected in a muted forecast for 2009, which points to transaction volumes slightly below the previous year, with investors not expected to start actively responding to price adjustments until the second half of the year. Transaction volumes are not likely to materially improve until 2010. (Source: Financial Times Deutschland, 8 January 2009 /IZ, 13/14 January 2009)

With respect to commercial real estate prices, it can be assumed that top properties in good locations in office centres with first-class fittings will acquit themselves well. By contrast, second-class real estate in B locations, which will additionally have to be sold in the next few years in response to bank pressure, are set to face discounts of up to 50 percent on 2007 price levels. In addition, the number of forced sales may rise significantly. (Source: Welt online, 15 January 2009; Handelsblatt, 10 January 2009)

Residential real estate

The financial crisis is affecting not only the office market but also the residential real estate market. The real estate consulting company Cushman & Wakefield has calculated that transaction volumes contracted by 57 percent in 2008, accompanied by a 44 percent decline in the number of residential units traded. Expressed in absolute figures, this is equivalent to 150,000 residential units sold worth EUR 6.1 billion. Like the office real estate markets, the residential segment was dominated by small-scale sales entailing maximum volumes of 2,500 residential units due to the more difficult financing conditions.

The Cushman & Wakefield experts are reserved in their forecast for 2009. At the moment, there are many offers in the market for small to mid-size portfolios as the future outlook for investment markets hinges on when banks start lending again and how borrowing costs develop over the next few months. (Source: Haufe online, 13 January 2009). In addition, location is crucial. Rentals in central locations in German cities with growth potential have remained stable.

Legal environment

In Germany, the REIT Act came into force in June 2007. Several German real estate companies, including TAG's subsidiary TAG Gewerbe, have already applied for and received pre-REIT status. REITs are listed companies which are largely only permitted to invest in commercial real estate in accordance with German REIT legislation. Residential real estate built before 1 January 2007 is excluded. REITs' main area of activity entails the purchase, development, management and sale of real estate. They enjoy a special legal status and are exempt from corporate and trade tax.

Given the current economic crisis, TAG is not actively taking measures to obtain REIT status for TAG Gewerbe at this time, although it remains committed to its REIT plans for this company.

Accounting principles

Pursuant to Regulation (EC) No. 1606/2002, the consolidated financial statements of the listed stock corporation TAG as of 31 December 2008, have been prepared in accordance with International Financial Reporting Standards (IFRS), as supplemented by the provisions of Section 315a (1) HGB (German Commercial Code). The annual financial statements of TAG as well as those of the Group companies were again prepared in accordance with the provisions of the German Commercial Code. In accordance with Regulation (EC) No. 1606/2002, the consolidated subgroup financial statements of listed subsidiary Bau-Verein zu Hamburg Aktien-Gesellschaft as of 31 December 2008 were 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.

Results of operations

Operating performance

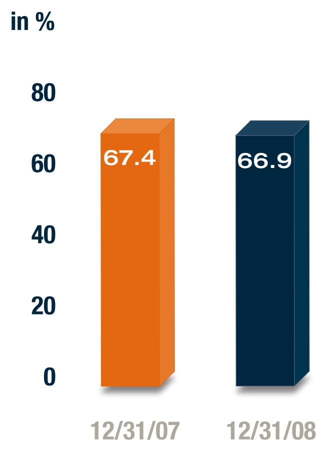
In spite of an improvement in its operating business with a 43 percent increase in rental income from EUR 38.0 million in 2007 to EUR 54.2 million in 2008, TAG sustained a loss after tax from continuing activities of EUR 32.1 million in the year under review. This was primarily due to impairment losses on real estate and investments.

Consolidated revenues came to EUR 101.6 million (previous year EUR 125.2 million). At the same time, net income from ongoing rental business climbed by 52 percent to EUR 34.3 million in 2008 (previous year EUR 22.5 million). In the period under review, revenues of EUR 44.5 million were generated from the sale of residential and commercial real estate, yielding gross profit of EUR 2.4 million. Despite the higher rental income, it was necessary to adjust the fair value of the investment properties and the available-for-sale real estate by a total of EUR 24.1 million primarily as a result of the higher property interest particularly in the commercial segment. In accordance with the preliminary figures, fair values were reduced by 4.4 percent in the commercial segment and by 1.7 percent in the residential segment compared with 31 December 2007. The fair value adjustments do not have any effect on liquidity or the applicable loan covenants.

The Company has reacted to the global financial market crisis and the resultant effects on all sectors of the economy by adjusting its previous business model. As a result, rental activities have been extended, while new construction and portfolio development have been scaled back. Moreover, staff costs were reduced substantially in 2008. TAG is planning to reduce its staff and material costs by a total of 50 percent by 2010. In the construction and construction management segment, which was discontinued at the end of the year, losses of EUR 4.4 million arose from construction and construction management projects in 2008. A loss before tax of EUR 42.1 million was sustained, with consolidated net loss coming to EUR 30.6 million.

With a loan-to-value (LTV) ratio of 67 percent and an equity ratio of just over 30 percent, the TAG Group has a sound balance sheet structure by sector standards and remains solidly financed. Thanks to strategic real estate management, the Group is able to enhance the value of its real estate and secure long-term stable income from rentals and, in individual cases, from real estate sales. A good example of this strategy in 2008 is the purchase of the VBL package by Bau-Verein and the investment in the property in Bartholomäusstraße, Nuremberg, by TAG Gewerbe.

Loan-to-value (LTV) ratio*



* Loan to value: ratio of debt to the market value of the real estate financed.

Revenues and earnings

Revenues, other operating income and net revaluation gains and losses
Revenues contracted by 18.9 percent from EUR 125.2 million to EUR 101.6 million. This was the despite the fact that rental income rose by 43 percent in the year under review from EUR 38.0 million to EUR 54.2 million. Service income declined by 54.8 percent to EUR 2.8 million in 2008, down from EUR 6.2 million in 2007.

Proceeds from the sale of real estate were down as the result of the financial market crisis and the resultant credit crunch as well as the relatively difficult market situation, dropping by 45.0 percent from EUR 81.0 million in 2007 to EUR 44.5 million in 2008.

However, TAG was able to achieve prices on sales transactions in excess of those stated in market reports in several cases in 2008. At the same time, global sales in the residential segment generated a sum of EUR 18.3 million, while the volume of small-scale sales yielded proceeds of EUR 23.6 million.

Other operating income dropped by 33.3 percent to EUR 5.4 million (previous year: EUR 8.1 million) due for the most part to profit earned on the sale of shares in previous years in connection with the establishment of the joint venture with HSH Real Estate.

The net loss of EUR 18.7 million arising from remeasurement of investment properties at their fair values, compared with a net gain of EUR 30.2 million in the previous year, made a material contribution to the deterioration in gross profit. The remeasurements were primarily necessitated by the financial crisis. Despite these impairments, the Company still sees this as vindicating its strategy of reinforcing the profitability of investment properties by means of active project management. Situated in urban locations in German cities, TAG's real estate generates stable cash flows and good returns and thus underpins its long-term profitability.

Gross profit

The TAG Group's gross profit declined by more than two thirds from EUR 80.9 million in 2007 to EUR 26.4 million in 2008 primarily as a result of the impairment losses on investment properties and the reduced other operating income.

Gross profit from core rental business rose sharply by 52 percent, climbing to EUR 34.3 million in 2008, up from EUR 22.5 million in the previous year. In the property sales segment, it declined from EUR 13.9 million in 2007 to EUR 2.5 million in the year under review and in the services segment from EUR 6.1 million in 2007 to EUR 2.8 million in 2008. In 2007, TAG had earned particularly high proceeds from the sale of the Alte Wöhr project, while 2008 was characterised by a "wait-and-see" stance on the part of major project investors.

The increase in gross profit in rental business testifies to the success with which TAG is concentrating on real estate rentals. For the first time, the cash flow-heavy, lucrative properties which TAG Gewerbe had acquired in 2007 made a full-year contribution to net rental income.

Expenses

Group personnel expenses dropped substantially to EUR 9.6 million, down from EUR 12.4 million in the previous year. This was particularly due to the transfer of property management business to Larus Asset Management GmbH as well as further reductions in personnel expenses by means of strict cost management.

Other operating expenses were also cut on a sustained basis to EUR 15.2 million (previous year EUR 16.5 million). In this connection, it should be noted that expenditure of EUR 0.8 million on obtaining the planned REIT status for TAG Gewerbe was recognised in 2007 but did not arise again in the year under review. This drop was also due to the decline in loan raising costs and lower legal and consultant costs, among other things.

EBIT

At the EBIT level, a loss of EUR 5.7 million was sustained in 2008, reversing the previous year's earnings of EUR 49.0 million primarily as a result of the non-cash impairment losses on investment properties due to general market conditions.

Net borrowing costs

Net borrowing costs came to EUR 27.9 million (previous year EUR 19.1 million). Lending volumes widened in line with plans particularly as a result of the acquisition of real estate. However, the increase in capital and money market rates in the wake of the financial market crisis also contributed to the higher borrowing costs. To hedge interest exposure, the TAG Group entered into interest derivatives with a nominal value of EUR 316.9 million at an average interest rate of around 4.4 percent.

EBT

The Group sustained a loss at the EBT level of EUR 42.1 million (previous year earnings of EUR 29.0 million).

Net consolidated loss from continuing activities

A net consolidated loss of EUR 32.1 million was sustained from continuing activities (previous year net consolidated profit of EUR 18.7 million).

Consolidated net loss

The TAG Group sustained a consolidated net loss after tax and minorities of EUR 30.6 million in 2008, thus reversing the previous year's net consolidated profit of EUR 16.5 million. This was due in part to the aforementioned impairment losses on real estate and receivables in 2008.

quartier kronberg, Berlin

TAG's segments

The following section describes the performance of the Group's individual segments.

Residential real estate segment

Revenues from the Group's residential real estate portfolio contracted by 9.6 percent in 2008 from EUR 74.0 million in the previous year to EUR 66.9 million.

At EUR 26.6 million in 2008, up from EUR 17.5 million in the previous year, Berlin, including the properties in Leipzig, accounted for the greatest share of revenues. This increase of EUR 9.2 million (52.5 percent) was achieved through acquisitions and portfolio development.

The greatest growth in revenues was registered in the Munich region, where a five-fold increase from EUR 4.2 million to EUR 20.5 million was recorded also as a result of acquisitions and portfolio development. At EUR 4.6 million, above-average segment earnings were achieved in Munich on the strength of the lucrative residential properties held there. This is a three-fold increase over 2007, testifying to the success of the acquisition policy.

At EUR 7.5 million, the best segment earnings and the greatest bottom-line contribution were achieved in the metropol region Hamburg. This favourable result was largely attributable to the stable remeasurement results achieved in Hamburg.

Commercial real estate segment

The commercial real estate segment felt the effects of the financial market crisis and the resultant rise in the cost of capital in 2008.

Revenues dropped to EUR 29.7 million in the year under review, down from EUR 40.5 million in 2007 primarily as a result of reduced sales proceeds. Despite the impairment losses, segment earnings of EUR 5.3 million were recorded in 2008, down from EUR 34.0 million in the previous year.

Service segment

The service segment generated revenues of EUR 6.5 million in the year under review (previous year EUR 12.4 million). Of this, a sum of EUR 3.6 million (previous year EUR 6.2 million) resulted from intragroup activity. In line with the decline in revenues, segment earnings dropped from EUR 12.3 million in the previous year to EUR 6.5 million in 2008.

Financial condition and net assets

Balance sheet

Total assets contracted slightly to EUR 839.3 million at the end of 2008, down from EUR 882.3 million at the end of 2007. This was accompanied by a decline in the equity ratio to 30.3 percent, compared with 34.7 percent in the previous year. Equity dropped from EUR 306.5 million at the end of 2007 to EUR 254.2 million at the end of 2008 due to the loss sustained for the year as well as the market-induced drop in the fair values of hedges, which - including deferred taxes - resulted in a deduction of EUR 10.1 million from equity.

At the level of Bau-Verein, total assets stood at EUR 354.3 million at the end of 2008 (previous year EUR 360.0 million), equity at EUR 101.1 million (previous year EUR 123.9 million) and the equity ratio at EUR 28.5 percent (previous year 34.4 percent). TAG Gewerbe's total assets were valued at EUR 391.9 million in 2008, compared with EUR 395.4 million in the previous year; the equity ratio equalled 6.4 percent in both 2008 and 2007. The total assets of TAG Asset Management GmbH came to EUR 82.1 million at the end of 2008, up from EUR 80.6 million in the previous year. The equity ratio stood at 13.6 percent at the end of 2008 (previous year 19.1 percent).

The value of the investment properties increased from EUR 556.7 million at the end of 2007 to EUR 620.9 million at the end of 2008 as a result of acquisitions, investments, reclassification of available-for-sale properties and adjustments to fair value. Available-for-sale properties dropped from EUR 204.6 million at the end of the previous year to EUR 176.7 million as of 31 December 2008 primarily as a result of the reclassification of the Bärenpark property in Berlin as an investment property.

As a result of the declining fair values of real estate and increased unused tax losses, there was an overhang of deferred tax assets of EUR 7.1 million as of 31 December 2008, thus contrasting with the deferred tax liabilities of EUR 8.7 million recognised at the end of the previous year.

The drop in trade receivables from EUR 65.6 million in the previous year to EUR 5.4 million in 2008 is materially due to the receivables arising from the sale of properties as of the end of 2007.

Capital spending

Total capital spending including new acquisitions dropped from EUR 268.6 million in 2007 to EUR 106.3 million in 2008 on account of the adverse conditions in the financial markets. In June 2008, Bau-Verein acquired from Versorgungsanstalt des Bundes und der Länder (VBL) a lucrative portfolio comprising around 1,200 residential units and a number of commercial units with a total floor area of some 82,000 square metres in a transaction worth roughly EUR 59 million. The total of 20 properties are located in Hamburg, Berlin, the Rhine/Main region and in Southern Germany. The portfolio is characterised by attractive cash flows and was placed on TAG's balance sheet at the end of the second quarter. In addition, four properties comprising a total of 119 residential units with an aggregate floor area of some 8,200 square metres were sold in 2008.

The Bartholomäusstraße commercial property was acquired at the beginning of 2008 for EUR 20.2 million.

Funding

The Group's liabilities widened by EUR 9.4 million to EUR 585.1 million in 2008, up from EUR 575.7 million in the previous year. This was largely due to the increase in bank borrowings from EUR 513.0 million at the end of 2007 to EUR 538.0 million at the end of 2008. As of the end of 2008, the TAG Group had the following funding structure:

	Total TEUR 12/31/2008	in % of total assets 12/31/2008	Total TEUR 12/31/2007	in % of total assets 12/31/2007
Equity	254,180	30.3	306,513	34.7
Bank borrowings	538,042	64.1	512,957	58.2
Other borrowings	47,075	5.6	62,791	7.1

Bank borrowings due for repayment in more than one year were valued at EUR 408.0 million, compared with EUR 295.6 million in 2007. The Group is seeking to achieve a shift from short-term to long-term debt in its funding structures. The average interest rate on these non-current liabilities stood at 5.7 percent allowing for the hedges utilised. In accordance with the investment strategy, current bank borrowings contracted from EUR 217.4 million in 2007 to EUR 130.1 million in 2008. The average interest rate on these liabilities was around 5.7 percent.

With total assets of EUR 839.3 million as of 31 December 2008 (previous year EUR 882.3 million), a loan-to-value (LTV) ratio of 67 percent and an equity ratio of over 30 percent, TAG continues to have what by industry standards is a solid balance sheet structure and continues to be adequately financed. In addition, it reduced it current bank borrowings from EUR 217.4 million at the end of 2007 to EUR 130.1 million as of 31 December 2008. At the same time, non-current bank borrowings were increased from EUR 295.6 million at the end of 2007 to EUR 408.0 million as of 31 December 2008. As a result, TAG has a balanced funding structure as only 24.2 percent of its bank borrowings are current liabilities due for settlement in less than one year, while 75.8 percent are non-current in nature with differing settlement periods up until 2019.

TAG assumes that all loans expiring in 2009 will be renewed as planned. TAG does not have any foreign-currency finance.

Given the current economic situation, TAG expects borrowing costs to decline following the cut by the European Central bank of its base rates to a historically low 1.5 percent at the beginning of 2009. Lower market interest rates will reduce the Company's overall borrowing costs in the long term in particular. Even though this will be partially offset by higher bank margins, overall interest costs will still be lower, thus taking pressure off the TAG Group's costs.

Funding structure	12/31/2008	12/31/2007
Bank borrowings in TEUR	**538,042**	**512,957**
of which non-current	407,980	295,580
of which current	130,062	217,377
Net borrowing costs	-27,910	-19,084
Average interest rate	**12/31/2008**	**12/31/2007**
non-current (%)	5.6	5.39
current (%)	5.7	5.58
Interest heding by means of swaps/caps	**12/31/2008**	**12/31/2007**
Nominal volume in TEUR	316,919	233,119
Interest rate (%)	4.38	4.50
Average term in years	5.5	6.8

Residual periods of loans	EUR Mio.	in %
2009*	104	19,2
2010	74	13,6
2011	20	3,7
2012	90	16,8
2013	2	0,4
2014	68	12,5
2015	0	0
2016	45	8,4
2017	115	21,2
2018	9	1,6
2019	4	0,7
Until further notice	9	1,7
Total	540	100

* under negotiation.

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

TAG's total assets contracted slightly by 4.9 percent, while the value of its investment properties increased by 11.5 percent. Although the results of the Group's operations are considerably worse in the year under review than in the previous year on account of the net loss of EUR 30.6 million caused by impairment losses on investment properties (previous year net profit of EUR 16.5 million), the conditions are in place for a future improvement thanks to the reinforcement of an improvement in operating business.

At 30.3 percent, the equity ratio remains at a high level by sector standards. TAG has sufficient liquidity and is solidly financed.

Employees

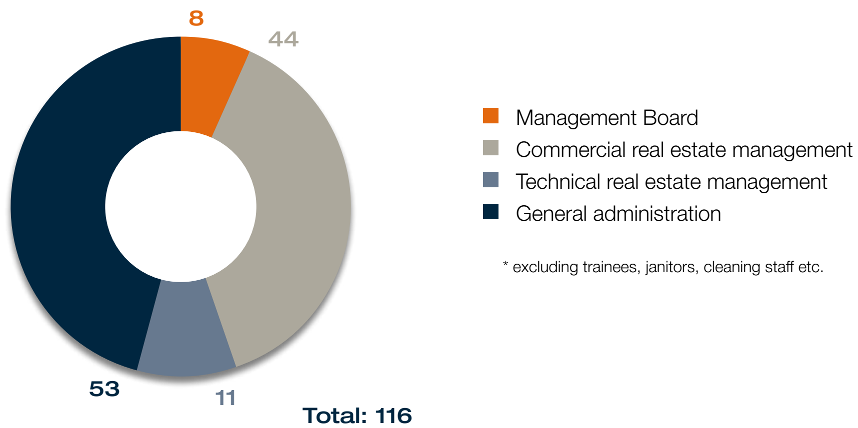
The TAG Group requires qualified specialists and executives to reach its strategic and operating goals. Dynamic and committed staff are crucial for its business success. Accordingly, the Group attaches key importance to bonding and training staff especially as the constant changes in undergoing conditions give rise to new tasks which can only be performed by committed and qualified employees.

At the end of 2008, TAG had 116 employees, down from 147 one year earlier. This shows that TAG was able to reduce its headcount through the transfer of employees to Larus Asset Management GmbH, the joint venture with HSH Real Estate AG, the scaled-back construction business and the utilisation of synergistic benefits.

Staff training at all levels of the Group ensures that employees have the competence required. This ensures strong employee bonding and a high number of qualified staff. TAG also offers its employees language and IT courses as well as instruction on real-estate-related matters via external training institutions. The training program also includes numerous internal courses for staff. Given the intensified competition for qualified staff and demographic trends, the availability of internal training is becoming an increasingly important competitive factor. TAG is a recognised career trainer in the real estate industry.

In 2008, the Group had a total of 11 school leavers in traineeships. The number of employees (excluding trainees, janitors and cleaning staff) as of 31 December 2008 breaks down by function as follows:

Number of employees as of 31 December 2008* by function



* excluding trainees, janitors, cleaning staff etc.

Remuneration report

In accordance with the recommendations of the German Corporate Governance Code, the remuneration received by the members of the Management Board comprises fixed components which are paid on a monthly basis as well as a variable bonus, which is determined and paid once a year on the basis of the Group's business performance.

The amount of the variable bonus is tied to the Group's earnings before tax (EBT) calculated on the basis of the IFRS consolidated financial statements and is determined by the chairman of the Supervisory Board after the adoption of the consolidated financial statements. It is capped by a maximum amount. If a member of the Management Board simultaneously holds a management board position and service contract with Bau-Verein, the bonus paid for such activities is deducted from the bonus payable for service for TAG. The purpose of this provision is to avoid double payment on account of simultaneous activities as members of the Management Board of TAG and of Bau-Verein as the latter's earnings are included in TAG's consolidated financial statements.

There are no stock options or similar variable remuneration arrangements in force with the members of the Management Board.

In the event of a change of control, i.e. if one of more shareholders acquires a majority of the voting rights or a controlling influence over TAG, the members of the Management Board have a right to terminate their service contracts in certain cases. Upon this right being exercised, the member in question is entitled to compensation equalling two annual salaries provided that as of the date on which the termination takes effect the service contract would normally run for at least a further two years and provided that the service contract with Bau-Verein is simultaneously terminated.

The service contracts with the members of the Management Board do not provide for any pension entitlement to accrue. In the event of premature termination of the service contract for any other reason there is no entitlement to claim compensation.

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

The Company's share capital stands at EUR 32,566,364.00 as of 31 December 2008 and is dividend into 32,566,364 shares. The same rights are attached to all shares. There is one vote per share; dividend entitlement is determined by the number of shares held.

As far as the Company is aware, direct or indirect interests resulting in more than 10 percent of its voting rights being held are attributable to Taube Hodson Stonex Partners Ltd., London, UK, which holds 16.36 percent of the voting rights as of 31 December 2008.

In a resolution passed at the annual general meeting held on 30 June 2006, the shareholders authorised the Management Board subject to the Supervisory Board's approval to increase the Company's share capital by a total amount of no more than EUR 6,278,182.00 by issuing up to 6,278,182 no-par-value ordinary shares on a cash and/or non-cash basis once or repeated times on or before 29 June 2011. On 15 June 2007, the shareholders passed a further resolution authorising the Management Board to buy back the Company's own shares up to a value of EUR 3,256,636.00 of its share capital with a notional share in its capital of EUR 1.00 per shares on or before 14 December 2008 for certain purposes.

In addition, at the annual general meeting held on 5 July 2005, 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 50 million with a term of no more than ten years on or before 30 June 2010 and to grant the bearers or creditors of such bonds conversion or option rights on new shares in TAG with a proportionate share of its share capital of up to EUR 3,424,463.00 in accordance with the terms and conditions determined.

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

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

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

TAG itself has not entered into any material agreements which include change-of-control clauses. Only Bau-Verein has entered into a contract with conwert Immobilien Invest AG, Vienna, governing their joint subsidiary GAG Grundstücksverwaltungs-Aktiengesellschaft, under which the other party is entitled to exercise a call option in the event of any change in the shareholder structure or if any competing company is able to exercise material influence on the jointly held subsidiary, in this case GAG Grundstücksverwaltungs-Aktiengesellschaft.

Finally, the service contracts entered into between TAG and the members of the Management Board, Messrs. Ibel and Flint, include a provision granting them a right of immediate termination in the event of any change in TAG's current majority structure and entitling them to claim compensation in an amount to be determined on a case-by-case basis in the effect of such right of termination being exercised. However, the termination of their office as members of the Management Board of TAG does not result in the termination of their office as members of the Management Board of Bau-Verein.

Risk report

Risk management system

The main purpose of risk and opportunities management is to safeguard the TAG Group and to ensure its continued development. All organisational units within TAG are obliged to observe the requirements of risk management to reduce exposure to risks, to safeguard the Group's assets and to support its continued successful performance.

The conscious management of risks permits the resultant opportunities to be harnessed with greater security. The Management Board of TAG is responsible for implementing an extensive and appropriate risk management process. As in the previous year, 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 once a quarter, with the countermeasures taken reviewed and updated. In addition, the Management Board and the Supervisory Board are kept regularly informed via defined reporting routes. In addition, the Management Board is immediately notified of all material risks and provided with the necessary information to take the requisite steps with minimum delay. The review 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 monitors general conditions and trends in the financial services and real estate sectors as well as 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 and one-on-ones also help to identify risks.

Sector risks

TAG is exposed to general risks in connection with the real estate sector. This includes all risks along the value chain, i.e. portfolio, development and construction. These risks typically entail the following:

- cyclical movements in the real estate market in general and in international and local markets
- sales and rental risks
- the risk of damage
- construction risks and the risk of construction budgets being exceeded

Description of the 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. Controlling is integrated in the risk-exposed buying and selling processes.

General 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 subject to risks in the rental and investment markets. Market risks relate to possible changes in underlying economic conditions which may have an adverse effect on rental income and market conditions, resulting in heightened vacancy rates and lower revenues. On the demand side of the rental market, cyclical effects and long-term structural shifts may give rise to risks. Many experts expect the European economy and employment market to come under further pressure from the recent turbulence afflicting the financial markets, the problems in the US housing market, the high value of the euro and possibly rising oil prices in 2009.

In contrast to peripheral locations, the dynamic metropolitan regions which form the focus of TAG's strategy will not be materially affected by demographic factors, meaning that TAG does not see any demographic risk over the next ten years.

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 estates prices. TAG sees little risk of any impairment in the fundamental appeal of real estates as an asset class: Various studies demonstrate 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 adjust. We consider this risk to be marginal in 2009.

Rental risks
TAG addresses the risk of payment defaults under rental leases by leasing its properties to companies with a good credit rating 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. TAG attempts to avoid risk clustering, i.e. a small number of tenants accounting for a large proportion of rental income. Siemens AG at the largest tenant is considered to be an investment-grade premium tenant.

In addition, the risk of rental payment defaults is averted by 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. At the same time, measures are taken at an early stage to ensure that expiring leases are renewed. Although there is an individual risk of default, we consider it to be marginal in its entirety.

Risks arising from corporate strategy
TAG considers the main risks with respect to corporate strategy to entail transaction risks. The crisis afflicting the financial market and tighter lending practices have caused the transaction market to come to an almost complete standstill. If any acquisition opportunities arise for TAG in 2009, there is a risk in connection with large-volume portfolio 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 exercises and the use of risk-oriented forecasts which are rolled over and adjusted with minimum delay on an ongoing basis.

Payment risks
Loss may occur as a result of excess payments or defaults, among other things. We consider the loss of assets to be the main type 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. 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.

Kustermannpark, Munich

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 risk
TAG 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 cases there is a risk that it may not be possible to renew such loans at these or any other terms due to the current financial crisis. However, TAG has already responded to this risk by restructuring material parts of its non-current debt in the year under review.

Liquidity risk
At the moment, the acquisition and selling business is proving extremely difficult on account of the financial market crisis. The transaction market has come to an almost complete standstill.

TAG has reacted systematically and appropriately to this by adopting a strict cost-cutting programme and converting current debt into non-current debt. Accordingly, the risk is considered to be calculable given the extensive selling activities at the end of 2008 and in the first quarter of 2009.

Extensive liquidity planning instruments are used in both the short and medium term area 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 submitted to the Management Board.

Interest risk
The Group's activities primarily 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 as well as caps to minimise the risk of changing interest rates and sensitivity 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 2008, subsidiaries Bau-Verein and TAG Gewerbe had conservative interest derivatives (mainly payer swaps) in a volume of roughly EUR 316 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.

Future changes in market interest rates may cause the derivatives to exert adverse effects on the hedge reserve, as was the case in 2008.

Currency risk
The risks arising from transactions in a foreign currency are limited. As a matter of principle, all new loans are denominated in euros. One loan in Swiss francs was refinanced in euros in mid 2008. As of the balance sheet date, it has a volume of around EUR 7 million with a fixed interest rate and matures at the end of 2011. Accordingly, there is no currency risk.

Personnel risks
The TAG Group requires qualified specialists and executives to reach its strategic and operating goals. Dynamic and committed staff are crucial for its business success. Accordingly, as the constant changes in undergoing conditions give rise to new tasks which can only be performed by committed and qualified employees.

It is a permanent challenge to recruit and retain employees for the Group in the face of intensive competition. Staff training at all levels of the Group ensures that employees have the competence 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. Appropriate provisions have been set aside in the financial statements for all future material personnel-related risks.

IT and environmental risks
A loss of data or a protracted failure of the systems utilised could result in disruptions in TAG's business operations. For this reason, the Company has established its own network to avert external attacks on its IT systems. All relevant data is backed up on a daily basis. We therefore consider this risk and its possible ramifications to be small.

Legal risks
TAG has set aside reasonable provisions to cover risks in connection with legal disputes, claims for damages or guarantee claims. No provisions have been set aside for a dispute currently pending with respect to the recovery of commission payments of EUR 2.2 million from TAG as the claim is disputed and TAG does not expect it to be upheld.

TAG supports the financing of its subsidiaries with 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 risk of recourse being taken in the event of unforeseen project developments.

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

Overall view
In the light of the risks described above and the current business outlook, we do not see any threats to TAG's status as a going concern.

Material events occurring after the balance sheet date

Erhard Flint, a member of TAG's Management Board, left the Company effective 31 March 2009.

No other events of material importance capable of affecting the Company's business performance occurred after the balance sheet date.

Outlook

Underlying economic conditions

Most analysts assume that economic growth in Europe will weaken still further in 2009 as a result of the financial market crisis and the appreciation of the euro. The International Monetary Fund forecasts negative growth for the euro zone in 2009 due to declining exports. The German economy is expected to contract by 2.5 percent in 2009 and expand by only 0.1 percent in 2010.

Expected earnings / opportunities

TAG's portfolio comprises real estate in attractive locations in German metropolitan regions such as Hamburg, Berlin and Munich. These cities are characterised by a good infrastructure and growth potential in both economic and demographic terms. Strong concentrating economic and purchasing power is to be found in these regions, prompting TAG to assume even despite the current economic difficulties that rentals will remain stable over the next few years and that it will be possible to increase them step by step particularly in the residential segment by means of active asset management. This will be achieved by unlocking the potential available in the residential real estate market to directly increase rentals and also to reduce vacancies. The successful implementation of these activities and moderate strategic investment will have a favourable effect on revenues and earnings, thus buoying the Company's future performance.

Given the current economic uncertainty, forward visibility over the next two years is extremely limited in the German commercial real estate market. Accordingly, the risk of further impairment expense on commercial real estate cannot be ruled out. At the same time, it is difficult to estimate the extent to which companies will be forced to cut costs, thus possibly resulting in a reduction in rented space and the risk of payment defaults. For this reason, rising vacancy levels and declining rentals must be expected in the commercial real estate segment. That said, TAG does not expect any material effect for its own portfolio as its commercial portfolio – like its residential real estate – is situated in good urban locations in German cities offering high growth potential. In addition to this, it has entered into long-term leases with investment-grade tenants in the commercial real estate segment, something which should minimise the payment default risk.

The current crisis in the financial markets has made it extraordinarily difficult to forecast the real estate markets and their environment. For this reason, TAG has decided not to issue any quantitative guidance concerning earnings over the next few years. In 2009, measures aimed at boosting liquidity, specifically regular funding negotiations and business activities aimed at preserving liquidity, will play a dominant role. It remains to be seen whether it will be necessary to continue this strategy beyond 2009 into 2010. If the adverse economic conditions persist after 2009, this strategy will also be applied to business activities in 2010.

Hamburg, April 2, 2009

Andreas Ibel

Hans-Ulrich Sutter

Consolidated balance sheet

Assets in TEUR	Notes	12/31/2008	(adjusted) 12/31/2007
Non-current assets			
Investment properties	(1)	620,942	556,702
Intangible assets	(2)	49	77
Property, plant and equipment	(3)	2,036	2,129
Investments in associates	(4)	347	4,220
Other financial assets	(5)	375	1,532
Deferred taxes	(6)	7,074	0
		630,823	**564,660**
Current assets			
Land with unfinished and finished buildings	(7)	176,667	204,610
Other inventories	(7)	478	6,430
Trade receivables	(8)	5,358	65,606
Income tax refund claims	(8)	1,395	458
Other current assets	(8)	11,365	26,484
Cash and cash equivalents	(9)	5,880	14,013
		201,143	**317,601**
Non-current available-for-sale assets	(10)	**7,331**	**0**
		839,297	**882,261**

Equity and liabilities in TEUR	Notes	12/31/2008	(adjusted) 12/31/2007
Equity			
Equity holders of the parent			
Subscribed capital	(11)	32,566	32,566
Share premium	(12)	219,733	219,606
Other reserves	(13)	-10,349	-208
Unappropriated surplus/-loss	(14)	-13,830	20,049
Minority interests	(15)	26,060	34,500
		254,180	**306,513**
Non-current liabilities			
Bank borrowings	(16)	407,980	295,580
Retirement benefit provisions	(17)	1,920	1,962
Other non-current liabilities	(18)	8	8
Deferred taxes	(6)	0	8,677
		409,908	**306,227**
Current liabilities			
Other provisions	(19)	11,639	22,075
Income tax liabilities	(20)	1,440	4,114
Bank borrowings	(16)	130,062	217,377
Trade payables	(21)	8,603	15,627
Other current liabilities	(22)	21,504	10,328
		173,248	**269,521**
Liabilities in connection with the non-current available-for-sale assets	(23)	**1,961**	**0**
		839,297	**882,261**

Consolidated income statement

in TEUR	Notes	2008	(adjusted) 2007
Revenues	(24)	101,600	125,240
a) Sale of properties		44,546	80,962
b) Rental income		54,231	38,038
c) Property management and others		2,823	6,240
Other operating income	(25)	5,427	8,134
Fair-value remeasurement of investment properties	(26)	-18,700	30,263
Cost of goods and services purchased	(27)	-61,945	-82,740
a) Sale of properties		-42,084	-67,068
b) Rental income		-19,861	-15,521
c) Property management and others		0	-151
Gross profit		**26,382**	**80,897**
Personnel expenses	(28)	-9,556	-12,398
Depreciation/amortisation	(29)	-392	-1,650
Impairment losses on receivables and inventories	(30)	-6,941	-1,357
Other operating expenses	(31)	-15,233	-16,506
EBIT		**-5,740**	**48,986**
Share of profit of investees	(32)	-727	-627
Share of profit of associates	(33)	-3,617	-295
Impairment losses on receivables from associates	(34)	-4,140	0
Net borrowing costs	(35)	-27,910	-19,084
EBT		**-42,134**	**28,980**
Income taxes	(36)	10,089	-10,147
Other taxes	(37)	-11	-100
Consolidated net profit/loss from continuing activities		**-32,056**	**18,733**
Consolidated net profit/loss from discontinued business	(38)	-4,385	555
Consolidated net profit/loss before minorities		**-36,441**	**19,288**
Minorities	(15)	5,819	-2,821
Consolidated net profit/loss after minorities		**-30,622**	**16,467**
Earnings per share (EUR), basic			
continuing activities	(39)	-0.98	0.58
discontinued busines	(39)	-0.13	0.02
Total	(39)	-0.94	0.51

Consolidated cash flow statement

in TEUR	Notes	2008	(adjusted) 2007
Consolidated net profit/loss		**-30,622**	**16,467**
Depreciation/amortisation	(26)	392	1,650
Impairment losses on financial assets	(32)	800	700
Share of profits of associates	(33)	3,617	295
Fair-value remeasurement of investment properties	(28)	18,700	-30,263
Impairment losses on receivables and inventories	(30)	6,941	1,357
Impairment losses on receivables from associates	(34)	4,140	0
Gains from sales, consolidated companies and financial assets	(5)	0	-3,059
Changes in deferred taxes	(6)	-15,751	6,894
Changes in provisions	(17, 19)	-10,478	9,563
Changes in receivables and other assets	(7, 8, 9,10)	72,274	-27,323
Changes in payables and other liabilities	(18, 20, 22, 23)	-13,991	-45,402
Cash flow from operating activities		**36,022**	**-69,121**
Payments made for investment properties	(1)	-64,984	-249,301
Payments received from the disposal of investment properties	(1)	296	10,065
Payments made for investments in intangible assets and property, plant and equipment	(2, 3)	-271	-391
Sale of consolidated companies and financial assets	(5)	-1,024	-331
Payments made for investments in consolidated companies	(5)	0	3,643
Cash flow from investing activities		**-65,983**	**-236,315**
Proceeds from equity issues (net of transaction costs)	(12)	0	141
Payments made to shareholders	(14)	-3,257	0
Payments received from the raising of bank loans	(16)	173,933	261,609
Payments made for repaying bank loans	(16)	-148,831	-68,998
Cash flow from financing activities		**21,845**	**192,752**
Net change in cash and cash equivalents		-8,116	-112,684
Cash and cash equivalents at the beginning of the period	(9)	11,887	124,571
Cash and cash equivalents at the end of the period	(9)	**3,771**	**11,887**

Statement of changes in consolidated equity

		Equity holders of the parent company							
				Other reserves					
in TEUR	(Notes)	Sub-scribed capital	Share premium	Retained earnings	Hedge accoun-ting reserve	Unap-prop-riated surplus	Total	Minority interests	Total equity
01/01/2007		**32,566**	**219,714**	**527**	**-107**	**3,582**	**256,282**	**31,728**	**288,010**
Consolidated net profit		0	0	0	0	16,467	16,467	2,821	19,288
Cost of equity issue	(12)	0	141	0	0	0	141	0	141
Changes in hedge accounting reserve	(13)	0	0	0	-628	0	-628	0	-628
Total revenues and expenses		0	141	0	-628	16,467	15,980	2,821	18,801
Business combination without change of status	(12)	0	-249	0	0	0	-249	0	-249
Other changes in minorities	(15)	0	0	0	0	0	0	-49	-49
12/31/2007		**32,566**	**219,606**	**527**	**-735**	**20,049**	**272,013**	**34,500**	**306,513**
Consolidated net profit		0	0	0	0	-30,622	-30,622	-5,818	-36,441
Changes in hedge accounting reserve	(13)	0	0	0	-10,141	0	-10,141	-800	-10,941
Total revenues and expenses		0	0	0	-10,141	-30,622	-40,763	-6,619	-47,382
Business combination without change of status	(12)	0	127	0	0	0	127	-1,151	-1,024
Payments made to shareholders	(14)	0	0	0	0	-3,257	-3,257	-670	-3,927
12/31/2008		**32,566**	**219,733**	**527**	**-10,876**	**-13,830**	**228,120**	**26,060**	**254,180**

Consolidated segment report

in TEUR	Real estate Hamburg	Real estate Berlin	Real estate Munich	Real estate Others	Total Resi-dential	Com-mercial	Services	Other acitivites/ Consoli-dation	Group
Total revenues	14,954	26,623	20,545	4,806	66,928	29,722	6,466	-1,515	101,601
Previous year	51,134	17,459	4,210	1,222	74,025	40,549	12,447	-1,780	125,241
• of which external revenues	14,954	26,623	20,545	4,806	66,928	29,722	2,823	2,128	101,601
Previous year	51,134	17,459	4,210	1,222	74,025	40,549	6,240	4,427	125,241
• of which internal revenues	0	0	0	0	0	0	3,643	-3,643	0
Previous year	0	0	0	0	0	0	6,207	-6,207	0
Segment profit/loss	7,518	-2,650	4,578	-293	9,153	5,297	6,466	39	20,955
Previous year	19,127	3,352	1,363	824	24,665	33,991	12,296	1,811	72,763
• Non-allocated other operating income									5,427
Previous year									8,134
Gross profit									26,382
Previous year									80,897
• Non-allocated expenses									-68,517
Previous year									-51,917
EBT									-42,134
Previous year									28,980
Segment assets	125,227	202,938	45,846	38,021	412,032	386,808	0	5,392	804,232
Previous year	103,913	197,464	47,006	24,592	372,976	383,965	0	5,455	762,396
• Non-allocated assets									35,065
Previous year									119,865
Total assets									839,297
Previous year									882,261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Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of TAG Immobilien AG, Hamburg, (known as “TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft” up until 19 September 2008 and also referred to herein as “TAG” or the “Company” or, in connection with the Group as the “TAG Group”) as of 31 December 2008 were prepared in accordance with the International Financial Reporting Standards in the form required to be applied in the European Union. In addition, the provisions contained in Section 315a (1) of the German Commercial Code were observed.

The requirements set forth in the standards applied have been fulfilled and result in the presentation of a true and fair view of the net assets, financial position and results of operations of the Group.

The following new accounting standards and interpretations were subject to compulsory application for the first time for the IFRS consolidated financial statements prepared for the previous year.

IFRIC 11	IFRS 2: Group and treasury share transactions
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction

The first-time application of these new accounting principles did not have any effect on the consolidated financial statements.

As of 31 December 2008, IFRS 8 (Operating Segments) was early-adopted voluntarily. This resulted in changes in the structure of the segment report. Details can be found in the section entitled “Notes on the Segment Report” in these notes.

Markgrafenstraße, Leipzig

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

IFRS 1	First-time Adoption of IFRS (revised, to be applied as of 2010)
IFRS 2	Share-based payments (revised, to be applied as of 2009)
IFRS 3	Business combinations (revised, to be applied as of 2010)
IFRS 5	Non-current available-for-sale assets and discontinued businesses (revised, to be applied as of 2009)
IFRS 7	Financial instruments: Disclosures (revised, to be applied as of 2009)
IAS 1	Presentation of financial statements (revised, to be applied as of 2009)
IAS 16	Property, plant and equipment (revised, to be applied as of 2009)
IAS 19	Employee benefits (revised, to be applied as of 2009)
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance (revised, to be applied as of 2009)
IAS 23	Borrowing costs (revised, to be applied as of 2009)
IAS 27	Consolidated and separate financial statements under IFRS (revised, to be applied as of 2010)
IAS 28	Investments in associates (revised, to be applied as of 2010)
IAS 29	Financial Reporting in Hyperinflationary Economies (revised, to be applied as of 2009)
IAS 31	Shares in joint ventures (revised, to be applied as of 2009/2010)
IAS 32	Financial instruments: Presentation (revised, to be applied as of 2009)
IAS 36	Impairment of assets (revised, to be applied as of 2010)
IAS 38	Intangible assets (revised, to be applied as of 2010)
IAS 39	Financial instruments: Recognition and Measurement (revised, to be applied as of 2010)
IAS 40	Investment properties (revised, to be applied as of 2009)
IAS 41	Agriculture (revised, to be applied as of 2009)
IFRIC 15	Real estate construction agreements (new, to be applied as of 2009)
IFRIC 16	Hedges of net investments in a foreign operation (new, to be applied as of 2009)
IFRIC 17	Distributions of non-cash assets to owners (new, to be applied as of 2010)
IFRIC 18	Transfers of assets from customers (new, to be applied as of 2010)

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 the consolidated subsidiaries, joint ventures and associates, all of which are domiciled in Germany, is the calendar year. Uniform recognition and measurement methods have been applied to the financial statements prepared by the consolidated companies in accordance with IFRS. The consolidated financial statements are prepared in euros, which is the Group's functional currency. Amounts are mostly cited in thousands of euros (TEUR). As a result, rounding differences may occur.

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

The material part of its business is performed at the offices located at Steckelhörn 5, 20457 Hamburg. Since 19 September 2008, TAG has had its registered offices in Hamburg, Germany in accordance with an entry to this effect in the commercial register of the Local Court of Hamburg under the number HRB 106718. Up until this date, TAG's registered offices had been in Tegernsee in accordance with the entry in the commercial register of the Local Court of Munich under HRB 41651.

TAG is a listed real estate company which can look back on a history spanning more than 125 years. Its main business activities entail residential and commercial real estate in German metropolitan regions 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 released for publication on 2 April 2009.

Consolidation

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

The following companies are consolidated in full:

- TAG Immobilien AG, Hamburg (parent company)
- Tegernsee-Bahn Betriebsgesellschaft mit beschränkter Haftung, Tegernsee (98.12 percent)
- Feuerbachstr. 17/17a Leipzig Grundstücksgesellschaft GmbH & Co. KG, Leipzig (99.99 percent)
- Kraftverkehr Tegernsee-Immobilien GmbH, Tegernsee (98.00 percent)
- TAG Asset Management GmbH, Hamburg (99.97 percent)
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (71.23 percent)
- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Tegernsee (93.99 percent)
- TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg (98.56 percent)
- TAG Beteiligungs GmbH & Co KG, Hamburg (99.50 percent)
- Wenzelsplatz Grundstücks GmbH, Leipzig (99.97 percent)
- Wasserkraftanlage Gückelsberg oHG, Leipzig (99.47 percent)
- TAG Dresdner Straße GmbH & Co. KG, Leipzig (99.97 percent)
- Wohnen im Loft JUS AG & Co. oHG, Leipzig (99.97 percent)
- Ingenieur-Kontraktbau Gesellschaft für Ingenieurfertigbau mit beschränkter Haftung, Leipzig (99.97 percent)
- TAG Stuttgart-Südtor Verwaltungs GmbH, Leipzig (99.97 percent)
- TAG Stuttgart-Südtor Projektleitungs GmbH & Co. KG, Leipzig (99.97 percent)
- Wenzelsplatz GmbH & Co. Nr. 1 KG, Leipzig (99.97 percent)
- Trinom Hausverwaltungs GmbH i.L., Leipzig (99.97 percent)

- Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg (71.23 percent)
- Bau-Verein zu Hamburg Wohnungsgesellschaft mbH, Hamburg (71.23 percent)
- BV Hamburger Wohnimmobilien GmbH, Hamburg (71.23 percent)
- G+R City Immobilien GmbH, Berlin (71.23 percent)
- VFHG Verwaltungs GmbH, Berlin (71.23 percent)
- Wohnanlage Ottobrunn GmbH, Hamburg (71.23 percent)
- Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg (71.23 percent)
- Bau-Verein zu Hamburg „Junges Wohnen“, Hamburg (71.23 percent)
- URANIA Grundstücksgesellschaft mbH, Hamburg (71.23 percent)
- Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg (71.23 percent)
- VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin (72.93 percent)
- ARCHPLAN Projekt Dianastraße GmbH, Dortmund (47.44 percent)
- Fürstenberg'sche Häuser GmbH, Berlin (93.97 percent)
- Bau-Verein zu Hamburg Bauregie GmbH, Hamburg (71.23 percent)
- Trinom Business Apartments GmbH, Leipzig (99.97 percent)
- Patrona Saxoniae Grundbesitz GmbH, Leipzig (99.97 percent)
- Patrona Saxoniae GmbH & Co. KG, Leipzig (99.97 percent)
- TAG Logistik Immobilien Verwaltungs GmbH, Hamburg (98.56 percent)
- TAG Logistik Immobilien GmbH & Co. KG, Hamburg (98.65 percent)

Joint venture	Assets TEUR	Liabilities TEUR	Income TEUR	Net profit/loss TEUR
Neue Ufer GmbH & Co. KG, Leipzig	503 (py 2,572)	5,871 (py 7,322)	267 (py 1,087)	-623 (py -798)
DESIGN Bau BV Hamburg GmbH & Co. KG, Hamburg	11,687 (py 75,878)	7,434 (py 51,027)	1 (py 75,591)	-248 (py 20,354)
An den Obstgärten Bauträger GmbH & Co. KG, Ingelheim	7,697 (py 6,507)	7,773 (py 6,567)	2,895 (py 3)	-17 (py -64)

The following companies are consolidated on a proportionate basis:

- Neue Ufer GmbH & Co. KG, Leipzig (49.99 percent)
- DESIGN Bau BV Hamburg Verwaltungs GmbH, Hamburg (35.62 percent)
- DESIGN Bau BV Hamburg GmbH & Co KG, Hamburg (35.62 percent)
- An den Obstgärten Verwaltungs GmbH, Ingelheim (35.62 percent)
- An den Obstgärten Bauträger GmbH & Co KG, Ingelheim (35.62 percent)

With respect to the joint ventures, the shares in Neue Ufer GmbH & Co. KG, Leipzig, DESIGN Bau BV Hamburg GmbH & Co. KG, Hamburg and An den Obstgärten Bauträger GmbH & Co. KG, Ingelheim, are considered significant as of the balance sheet date. The following financial data are available for these companies as of 31 December 2008: The assets and liabilities stated are current in nature.

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

- GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg (17.81 percent)
- GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, Hamburg (35.62 percent)
- Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH, Hamburg (35.62 percent)
- Larus Asset Management GmbH (49,84 percent)

Larus Asset Management was consolidated in full as a 100 percent subsidiary up until December 2007. At the end of 2007, a majority of the shares in this company was sold. Since then, it has been accounted for as a joint venture. IFRS provides an option for either consolidating a joint venture on a proportionate basis or recognising it as an associate. As of 31 December 2007, Larus Asset Management GmbH was initially consolidated on a proportionate basis. However, as it provides services which are now outside the Group's core business, it was accounted for as an associate as of 2008.

In the interests of heightened comparability, the figures in the balance sheet as of 31 December 2007 have been restated to reflect this change. Accordingly, a figure of TEUR 343 is recorded within shares in associates. At the same time, non-current assets increased from TEUR 565 to TEUR 630, while current assets declined from TEUR 318 to TEUR 201; non-current liabilities rose from TEUR 306 to TEUR 410, while current liabilities declined from TEUR 270 to TEUR 173. This change did not have any effect on the income statement, cash flow statement or statement of changes in equity.

The following combined financial information on these associates is available as of 31 December 2008:

Associates	Assets TEUR	Liabilities TEUR	Income TEUR	Net profit/loss TEUR
GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg	142,280 (py 133,125)	142,910 (py 118,214)	6,514 (py 3,972)	-12,203 (py -1,069)
GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, Hamburg	5,464 (py 5,676)	5,495 (py 5,463)	579 (py 463)	-176 (py -55)
Verwaltung GIB Grundbesitz Investitions-gesellschaft Bergedorf mbH, Hamburg	30 (py 30)	0 (py 0)	1 (py 1)	0 (py 0)
Larus Asset Management GmbH, Hamburg	6,444 (py 647)	5,776 (py 517)	4,066 (py 1,733)	538 (py 169)

The following companies are of subordinate importance for the consolidated financial statements and are therefore not consolidated on account of their immateriality. The following table sets out these companies with details of their equity and net profit/loss as calculated in accordance with German accounting rules together with TAG's other associates (in accordance with Sections 315a (1.313), 313 (2) of the German Commercial Code):

	Share %	Equity TEUR	Net profit/loss TEUR
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	71.23	426	14
Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	71.23	46	4
Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg	26.94	2,186	-102
Vierte Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg	52.12	1,208	130
TAG Beteiligungsverwaltungs GmbH, Hamburg	49.60	20	3
Adamshof Grundstücks GmbH, Leipzig	6.00	(NA)	(NA)

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair value is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. 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 assets acquired or sold are recognised directly in equity.

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

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

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

Minority interests in consolidated equity capital and consolidated net profit are recorded under “Minorities” in the consolidated balance sheet and the consolidated income statement. The effects of purchase accounting recognised directly in the income statement are also included in calculating the share in consolidated net profit attributable to minorities.

Changes in consolidation

In 2008, no new companies were acquired. The acquisition of further shares in TAG Gewerbeimmobilien-Aktiengesellschaft as of 30 June 2008 (increase in share holdings from 94.4 percent to 98.6 percent) was recognised as a business acquisition without any change of status. On the basis of a purchase price of TEUR 1,024 including transaction costs, there was a difference of TEUR 127 relative to the carrying amount of the minority share acquired. This difference was recognised within equity.

In addition, TAG Beteiligungs GmbH & Co. KG, which had been incorporated in 2007 and was considered to be of subordinate importance as of 31 December 2007, was consolidated for the first time in 2008. However, this did not have any material effects on the consolidated financial statements.

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 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 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 balance sheet date. Any gains or losses from changes in fair value are recognised in the income statement.

If investment properties are reclassified as current assets, subsequent measurement is based on the fair value as of the date of the change of use. If current assets are reclassified as investment properties, any difference between the fair value and the carrying amount as of that date is recognised in the income statement. When the Group completes the production of an internally generally investment property, any difference between the fair value and the carrying value as of that date is also 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, this involved the discounted cash flow method and the capitalised income value method. 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 all impairment losses accruing.

Intangible assets with a definite useful life are written down on a straight-line basis over their expected useful life (generally three 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.

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

Property, plant and equipment

Property, plant and equipment are shown at cost less cumulative systematic depreciation and cumulative impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets in question (generally 3–10 years). The depreciation methods and useful lives are reviewed at the end of each 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.

Shares in associates

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

The cumulative post-acquisition movements in the associate's equity are adjusted against the carrying amount of the investment on an annual basis. The Group's share of the associate's post-acquisition profits or losses is recognised in the income statement.

Other financial assets

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

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

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

Available-for-sale financial assets are assets which are not held for trading purposes or are designated as held-to-maturity investments and do not constitute loans and receivables. After initial recognition, they are measured at their fair value provided that this can be reliably determined, with any gains or losses recorded in a separate item under equity. When the asset is sold or if it is found to be impaired, the amount previously carried under equity is taken to the income statement.

Land with finished and unfinished buildings and other inventories

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

Trade receivables and other current assets

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

Income tax refund claims and liabilities as well as deferred taxes

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

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

Deferred income tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that realisation of the related income tax benefit through future taxable profits is probable. The carrying value of deferred income tax assets is reviewed on each balance sheet date and reduced to the extent that sufficient taxable profits will not be available. Deferred income tax assets and liabilities are measured on the basis of tax rates expected to apply in the period in which an asset is realised or a liability settled, based on tax laws that have been enacted at the time the difference is reversed.

Deferred income tax assets are set off against deferred income tax liabilities of the same taxable entity if they relate to income taxes levied by the same taxation authority and the enterprise has a legally enforceable right to set off current tax assets against current tax liabilities.

Cash and cash equivalents

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

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

A non-current asset or group of available-for-sale assets 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 the 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.

Equity transaction costs

Equity transaction costs (e.g. all costs related to equity issues) net of the resultant income tax benefits, are deducted from equity and netted with other paid-in capital.

Hedges (cash flow-hedge accounting)

The effective part of a change to the fair value of derivates, which are suitable for cash flow hedges of variable-interest borrowings and which have been designated as such, is recorded under equity in a provision for hedge accounting while taking deferred tax effects into account. The profit or loss for the ineffective part is recorded on the profit and loss statement. The effectiveness is measured in applying the dollar offset method.

Hedge relationships are removed from the balance sheet when the Group dissolves 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 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.

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.

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 subsidiary Bau-Verein zu Hamburg Aktien-Gesellschaft and their family members. Expenses incurred with the benefits granted under this plan are calculated using the projected unit credit method. The amount to be carried as a liability is the sum total of the present value of the defined-benefit obligation and the unrecognised actuarial gains and losses less unrecognised past service costs and the fair value of the plan assets used to directly settle the liability.

Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation is possible.

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

Bärenparksiedlung, Berlin

Critical accounting estimates and assumptions

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 balance sheet date whether it is held on a long-term basis for rental or for investment or whether it is available for sale. Depending on the outcome of this decision, real estate is accounted for as investment properties or as available-for-sale land with finished or unfinished buildings (inventories).
- 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 and who calculate the fair value in accordance with international standards. The valuers selected are internationally acknowledged companies. The calculations are performed using the discounted cash flow method or the capitalised income value 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 balance sheet date stood at TEUR 620,942 (previous year TEUR 556,702).
- 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 balance sheet date, the carrying amount of the land with finished and unfinished buildings stood at TEUR 176,667 (previous year TEUR 204,610).
- In connection with the recognition of deferred income tax assets on tax losses, it is necessary to forecast the Group's future taxable earnings. For this purpose, it is assumed that in the absence of any evidence of specific legal risks jeopardising the continued availability of the tax losses the tax losses are available in full in the future. Deferred income tax assets on tax losses are valued at TEUR 29,971 as of the balance sheet date (previous year TEUR 20,937).
- With respect to other provisions, various assumptions have been made, e.g. with respect to the probability and amount of utilisation of provisions for rental guarantees and litigation risks. For this purpose, account is taken of all information available as of the balance sheet date. Other provisions are valued at TEUR 11,639 as of the balance sheet date (previous year TEUR 22,075).

Changes in presentation compared with the previous year

Compared with the financial statements as of 31 December 2007, the following changes were made in addition to those concerning the changed recognition of Larus Asset Management GmbH. At the same time, the comparative figures as of 31 December 2007 have been modified accordingly:

- Revenues from facility management of TEUR 3,021 were reported within rental income. As of 31 December 2008, they are now included in service income. As a result of this change, rental income is distinguished more effectively from the related services.
- In the previous year, repair costs of TEUR 2,872 had been reported within the cost of materials and services. As of 31 December 2008, this item is now included within other operating expenses as these costs are not related to the properties sold in the current year. In the previous year, the cost of rental guarantees of TEUR 319 had been reported within the cost of materials and services. As of 31 December 2008, this item is now included within other operating expenses as these costs are not related to the properties sold in the current year and are therefore of an off-period nature.
- In the previous year, impairments on inventories (land with finished and unfinished buildings) of TEUR 185 were reported within the cost of materials and services. As of 31 December 2008, they are reported in a newly created item entitled impairments on inventories and receivables. In the previous year, impairments on receivables (bad debts and individual adjustments) of TEUR 1,172 had been reported within other operating expense. As of 31 December 2008, they too are reported in a newly created item entitled “Impairments on inventories and receivables”. The inclusion of impairment expense in a separate item seeks to render the financial statements more transparent for users.
- In the previous year, land tax of TEUR 1,324 had been reported within other taxes. As of 31 December 2008, it is reported within the cost of services purchased. This is because land taxes are a type of operating costs and logically form part of the cost of materials and services purchased.
- Assets under construction arising from non-invoiced heating and operating costs of TEUR 10,162 were reported within other inventories in the previous year. As of 31 December 2008, the assets under construction were netted with the advance payments received from tenants towards heating and operating costs, which are recognised as trade payables. This is done due to the close relationship and the existing netting situation in this respect.

The accounting changes do not have any effect on consolidated net profit, earnings per share or consolidated equity. The Company takes the view that these accounting changes provide a clearer view of the Group’s business activities and afford a better understanding of its net assets, financial condition and results of operations. These and all other changes to the presentation of the financial statements serve to improve the logical structure and are largely consistent with the accounting practices applied by comparable companies in this sector.

Notes on discontinued business

In the past, the Group has also been involved in construction and construction management. This primarily entailed the management of the construction projects executed by GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg. The Management Board and the Supervisory Board decided in 2008 to discontinue these business activities.

The assets and liabilities attributable to the discontinued business are reported in the balance sheet under non-current available-for-sale assets and liabilities in connection with non-current available-for-sale assets. The main asset and liability groups concerned are set out below:

Assets	12/31/2008 TEUR
Trade receivables	1,710
Other assets	1
General	1,711

Liabilities	12/31/2008 TEUR
Tax provisions	-19
Other provisions	-1,750
Trade payables	-192
General	-1,961

In the income statement, the net profit/loss attributable to the discontinued business is reported separately under consolidated net profit/loss from discontinued business. The comparative figures for 2007 have been restated accordingly.

The net cash flows attributable to the discontinued business and related solely to operating activities are analysed in the following table:

	2008 TEUR	2007 TEUR
Consolidated net profit/loss from discontinued business	-4,385	555
Increase in provisions	91	-544
Deferred income taxes	0	302
Decrease in inventories, trade receivables and other assets	820	-735
Decrease in trade payables and other liabilities	-911	489
Net cash inflow/outflow from operating activities	-4,385	67

Notes on the balance sheet

1. Investment properties

In 2008, fair values were adjusted for depreciation of TEUR 30,292 (previous year TEUR 4,426) and appreciation of TEUR 11,592 (previous year TEUR 34,689). The net changes in fair value thus came to TEUR -18,700 (previous year TEUR 30,263). The table below sets out the movements in the real estate portfolio:

Investment properties	**TEUR**
Balance on 1 January 2007	172,545
Additions as a result of acquisition	242,929
Additions through cost of acquisition or construction	6,372
Additions from under non-current available-for-sale assets	4,180
Disposals as a result of sales	-10,066
Reclassification of available-for-sale properties	110,479
Net gains/losses in fair value as at 31 December 2007	30,263
Balance on 31 December 2007	556,702
Additions as a result of acquisition	52,291
Additions through cost of acquisition or construction	12,693
Disposal of non-current available-for-sale assets	-5,620
Disposals as a result of sales	-296
Reclassification of available-for-sale properties	23,872
Net gains/losses in fair value as at 31 December 2008	-18,700
Balance on 31 December 2008	620,942

In the year under review, investment properties valued at TEUR 620,942 (previous year TEUR 556,702) were secured by real-property liens and assignments of rental income.

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

Investment properties	**2008 TEUR**	**2007 TEUR**
Rental income	41,683	24,718
Operating expenses (maintenance, facility management, land taxes etc.)	-16,645	-10,366
General	25,038	14,352

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

Interior, Mainz-Finthen

2. Intangible assets

Movements in intangible assets, which comprise solely concessions acquired and licenses (predominantly software), are set out below. Currently, there are no intangible assets with an indefinite useful life.

Intangible assets **Cost**	**Concessions and licences TEUR**
Balance on 1 January 2007	208
Additions in 2007	89
Disposals in 2007	-16
Balance on 31 December 2007	281
Additions in 2008	11
Disposals in 2008	-34
Balance on 31 December 2008	258

Intangible assets **Depreciation/amortisation**	**Concessions and licences TEUR**
Balance on 1 January 2007	175
Additions in 2007	33
Disposals in 2007	-4
Balance on 31 December 2007	204
Additions in 2008	39
Disposals in 2008	-34
Balance on 31 December 2008	209
Carrying amount on 31 December 2007	77
Carrying amount on 31 December 2008	49

3. Property, plant and equipment

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

Property, plant and equipment Cost	Land with commercial buildings TEUR	Buildings on leasehold land TEUR	Machinery TEUR	Operating and business equipment TEUR	Total TEUR
Balance on 1 January 2007	3,297	19	2,932	2,733	8,981
Additions in 2007	0	0	7	301	308
Disposals in 2007	-823	-19	-17	-275	-1,134
Balance on 31 December 2007	2,474	0	2,922	2,759	8,155
Additions in 2008	21	0	102	129	252
Disposals in 2008	0	0	-70	-54	-124
Balance on 31 December 2008	2,495	0	2,954	2,834	8,283

Property, plant and equipment Depreciation/amortisation	Land with commercial buildings TEUR	Buildings on leasehold land TEUR	Machinery TEUR	Operating and business equipment TEUR	Total TEUR
Balance on 1 January 2007	1,275	19	1,458	1,884	4,636
Additions in 2007	200	0	1,121	295	1,616
Disposals in 2007	-85	-19	-16	-107	-208
Balance on 31 December 2007	1,390	0	2,563	2,072	6,025
Additions in 2008	81	0	39	233	353
Disposals in 2008	0	0	-72	-59	-131
Balance on 31 December 2008	1,471	0	2,530	2,246	6,247
Carrying amount on 31 December 2007	1,084	0	359	687	2,129
Carrying amount on 31 December 2008	1,024	0	424	588	2,036

The depreciation on machinery included an impairment of TEUR 1,039 in the previous year.

Within property, plant and equipment, land with a carrying amount of TEUR 1,024 (previous year TEUR 1,084) is secured with real estate liens and the assignment of rental income.

4. Shares in associates

Movements in shares in associates were as follows:

Shares in associates Cost	TEUR
Balance on 1 January 2007	3,762
Proportionate net gains from hedge accounting	364
Share of losses for the year	-295
Additions	389
Balance on 31 December 2007	4,220
Proportionate net gains from hedge accounting	-258
Share of losses for the year	-3,107
Impairments on equity carrying amounts	-508
Balance on 31 December 2008	347

5. Other financial assets

Other financial assets predominantly comprise the shares in associates and other investments not consolidated for materiality reasons. Movements in these were as follows:

Other financial assets Cost	Investments in affiliated companies TEUR	Other Equity interests TEUR	Total TEUR
Balance on 1 January 2007	3,497	664	4,161
Additions in 2007	362	0	362
Disposals in 2007	-396	-3	-399
Balance on 31 December 2007	3,463	661	4,124
Additions in 2008	0	0	0
Disposals in 2008	-1,161	0	-1,161
Balance on 31 December 2008	2,306	661	2,967

Other financial assets Depreciation/amortisation	Investments in affiliated companies TEUR	Other Equity interests TEUR	Total TEUR
Balance on 1 January 2007	1,264	628	1,892
Additions in 2007	700	0	700
Balance on 31 December 2007	1,964	628	2,592
Additions in 2008	0	0	0
Balance on 31 December 2008	1,964	628	2,592
Carrying amount on 31 December 2007	1,499	33	1,532
Carrying amount on 31 December 2008	342	33	375

6. Deferred tax assets

The deferred tax assets (previous year deferred tax liabilities) recognised as of the balance sheet date break down as follows:

Deferred tax assets (previous year liabilities)	2008 TEUR	2007 TEUR
Unused tax losses (including interest)	-29,971	20,937
Gains/losses from remeasurement of investment properties	30,617	-29,913
Recognition and measurement of receivables	1,502	272
Gains/losses from remeasurement of hedge accounting	5,556	426
Recognition and measurement of available-for-sale properties	1,055	0
Recognition and measurement of liabilities	-1,006	-1,221
Other	-679	822
Total	7,074	-8,677

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	2008 TEUR	2007 TEUR
Balance on 1 January 2008	204,610	338,667
Additions	41,647	30,977
Disposals as a result of sales	-40,277	-54,309
Reclassification as investment properties	-23,872	-110,479
Impairment	-5,441	-246
Balance on 31 December 2008	176,667	204,610
of which secured with real-property liens and assignment of rental income	176,667	204,610

The impairment losses on available-for-sale properties were for the most part identified on the basis of valuation reports and were due to lower fair values less selling costs caused by reduced market acceptance of these properties. The impairments are reported in the income statement under impairments on inventories and receivables. The carrying amounts of these properties, which were recognised at their fair value less selling costs, after impairment stood at TEUR 69,485 as of the balance sheet date (previous year TEUR 8,583).

Borrowing costs in connection with the available-for-sale properties were capitalised in the year under review as well as in earlier years provided that the applicable conditions were satisfied. The average borrowing cost rate stood at around 5.9 percent in the year under review as well as in the previous year. Capitalised borrowing costs came to TEUR 534 in the year under review (previous year TEUR 292).

Other inventories break down as follows:

Other inventories	12/31/2008 TEUR	12/31/2007 TEUR
Heating and operating costs not yet billed	349	6,319
Other	129	111
Total	478	6,430

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

Trade receivables break down as follows:

Trade receivables	12/31/2008 TEUR	12/31/2007 TEUR
Receivables from the sale of properties	3,667	57,482
Rental receivables	1,262	2,680
Other	429	5,444
General	5,358	65,606

In the year under review, impairments of TEUR 1,500 (previous year TEUR 1,172) on trade receivables were recognised in the income statement due to 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 adjusted receivables stood at TEUR 1,082 as of 31 December 2008 (previous year TEUR 640). Movements in the individual adjustments to receivables break down as follows:

Individual adjustments	TEUR
Balance on 1 January 2007	2,223
Consumed in 2007	111
Reversed in 2007	-118
Additions in 2007	271
Balance on 31 December 2007	2,265
Consumed in 2008	89
Reversed in 2008	-1,169
Additions in 2008	494
Balance on 31 December 2008	1,501

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	12/31/2008 TEUR	12/31/2007 TEUR
Receivables from affiliated companies	6,975	18,758
Receivables from joint ventures	571	2,143
Positive fair values on interest swaps	0	870
Prepaid expenses	32	81
Other	3,787	4,632
General	11,365	26,484

Auguste-Viktoria-Straße, Berlin

9. Cash and cash equivalents

Cash and cash equivalents include cash in hand at cash at banks. The cash flow statement as at 31 December 2008 includes the cash and cash equivalents freely available within the TAG Group (cash on hand and cash at banks net of current bank borrowings). In this respect, cash and cash equivalents in the cash flow statement differ from the corresponding item reported in the balance sheet. The latter also includes payments made by real estate purchasers that are not yet available.

10. Non-current available-for-sale assets

This item breaks down as follows:

	12/31/2008 TEUR	12/31/2007 TEUR
Available-for-sale investment properties	5,620	0
Assets in discontinued business	1,711	0
General	7,331	0

Investment properties are sold on the basis of a decision made by the Management Board for the purpose of obtaining liquidity from the proceeds of the sale. The Group expects to sell the investment properties in 2009. No liabilities are directly attributable to the investment properties.

In the segment report, the investment properties are included in the Residential Real Estate (Berlin region) segment. The discontinued business is not included in the segment report.

As of the balance sheet date, there were no gains or losses from the remeasurement of assets or sales groups at their fair value net of selling costs.

11. Subscribed capital

As in the previous year, TAG's share capital stands at TEUR 32,566 and is divided into 32,566,364 no-par-value shares with equal voting rights. The share capital is paid up in full.

The Management Board has been authorised subject to the Supervisory Board's approval to increase the share capital once or repeatedly on or before 29 June 2011 by a maximum amount of TEUR 6,278 by issuing up to 6,278,182 shares. The Management Board has been authorised to exclude the shareholders' statutory subscription rights subject to the Supervisory Board's approval,

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

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

The Company's share capital was increased on a contingent basis by up to TEUR 3,425 divided into up to 3,424,463 new bearer shares to ensure that the convertible and option bonds issued in accordance with the resolution passed by the shareholders on 5 July 2005 can be honoured. The contingent capital increase is executed only to the extent that convertible and option bonds are actually issued and the bearers or creditors of such convertible and option bonds make use of their options or the bearers or creditors of convertible and option bonds with an obligation of conversion satisfy such obligation.

12. Share premium

The share premium primarily contains the premium on the equity issues executed in former years as well as withdrawals to equalise the net losses for the year recorded in accordance with German commercial law. In 2008, the share premium additionally includes an increase of TEUR 127 from the acquisition of further shares in TAG Gewerbeimmobilien-Aktiengesellschaft. Reference should be made to the consolidated statement of changes in equity for details of the movements in this item in the year under review.

13. Other reserves

Other reserves break down as follows:

Other reserves	12/31/2008 TEUR	12/31/2007 TEUR
Retained earnings	527	527
Hedge accounting reserves	-10,876	-735
General	-10,349	-208

Retained earnings comprise the profit from earlier years available for distribution (TEUR 480) and the statutory reserve required by Section 150 of the German Stock Corporations Act (TEUR 46). The hedge accounting reserve includes gains and losses from hedges (cash flow-hedges) recognised in equity after the deduction of deferred taxes. The consolidated statement of changes in equity sets out the movements in the unappropriated surplus in the year under review.

14. Unappropriated surplus

The consolidated statement of changes in equity sets out the movements in the unappropriated surplus in the year under review. In 2008, a dividend of TEUR 3,257 or EUR 0.10 per share was paid out to the shareholders.

15. Minority interests

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

16. Bank borrowings

Bank borrowings consist almost exclusively of liabilities arising in connection with the acquisition of investment properties or the acquisition and development of available-for-sale properties. Investment properties are normally financed on a long-term basis and available-for-sale properties on a short-term basis. Lending terms and conditions (interest rates, repayments) are adjusted at regular intervals. Short-term loans are repaid upon the sale of the property. In the case of long-term finance, repayments are generally between 1 percent and 2 percent p.a.

As in the previous year, bank liabilities are secured in full. For the most part, collateral takes the form of real property liens.

17. Retirement benefit provisions

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

Retirement benefit provisions	TEUR
Opening balance as of 1 January 2007	2,188
Consumption	-209
Reversal	-222
Addition (interest costs, included in personnel expenses)	205
Balance on 31 December 2007	1,962
Consumption	-208
Reversal	-39
Addition (interest costs, included in personnel expenses)	205
Balance on 31 December 2008	1,920

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

	12/31/2008	12/31/2007
Interest rate	5.00 %	5.25 %
Rate of salary increase	1.50 %	2.00 %
Retirement age	In accordance with Social Code VI	

As in earlier years, changes in the actuarial assumptions, which however were only of minor importance, were recognised in profit and loss within personnel expenses. Of the retirement benefit provisions, an amount of TEUR 215 (previous year TEUR 210) 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:

	2008 TEUR	2007 TEUR
Obligations charged to the balance sheet as at 1 January	1,962	2,188
Retirement benefit expense	165	-16
Retirement benefit payments	-207	-210
Balance sheet obligations as at 31 January	1,920	1,962

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 2,188 as of 31 December 2006, TEUR 2,329 as of 31 December 2005 and TEUR 2,329 as of 31 December 2004.

18. Other non-current liabilities

The movements in other non-current liabilities due for settlement in more than one year but in less than five years were as follows:

Movements in other non-current liabilities	TEUR
Balance on 1 January 2007	424
Repayments	-2
Reclassification as current liabilities	-414
Balance on 31 December 2007 and 31 December 2008	8

19. Other provisions

Other provisions break down as follows:

Other provisions	Balance 01/01/2008 TEUR	Reversal TEUR	Consumption TEUR	Addition TEUR	Balance 12/31/2008 TEUR
Outstanding construction costs	11,613	59	10,813	4,201	4,942
Repairs	1,141	59	410	1,553	2,225
Outstanding services in connection with sold land	2,073	297	924	46	806
Outstanding invoices	1,746	280	1,446	686	706
Legal, consulting and auditing fees	1,216	104	748	834	1,198
Other	4,286	329	2,971	776	1,762
General	22,075	1,128	17,312	8,004	11,639

The provisions for outstanding construction costs relate to expected obligations with respect to construction costs which have not yet been invoiced. The provisions for repairs relate to obligations to remedy any faults exhibited by sold real estate. The provisions for outstanding services in connection with sold land primarily concern construction activities still to be performed in connection with sold properties.

Appenzellerstraße, Munich

20. Income tax liabilities

Income tax liabilities include provisions for 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	12/31/2008 TEUR	12/31/2007 TEUR
Negative market value of interest swaps	17,243	2,336
Loans from related parties	1,443	1,486
Advance payments received	416	3,137
Deferred income	48	52
Value added tax	17	1,408
Property transfer tax	0	1,169
Other	2,337	740
General	21,504	10,328

23. Liabilities in connection with available-for-sale assets

These liabilities relate solely to liabilities in connection with discontinued business.

Notes on income statement

24. Revenues

As broken down in the income statement, the Group's revenues primarily comprise the proceeds from the sale of properties, rental income and service income.

Rental income breaks down into income from investment properties and other rented properties held as inventories.

Rental income	2008 TEUR	2007 TEUR
Rental income on investment properties	41,683	24,718
Rental income on available-for-sale properties	12,548	13,320
General	54,231	38,038

25. Other operating income

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

Other operating income	2008 TEUR	2007 TEUR
Income from earlier years	2,740	2,040
Income from the reversal of provisions	1,128	1,069
Insurance claims	211	0
Gains from deconsolidation	0	3,059
Currency translation gains	0	198
Other	1,559	1,768
General	5,427	8,134

The income from earlier years includes income from the waiver of interest liabilities on trade tax for previous years of TEUR 535 (previous year TEUR 0), income in connection with settlement proceedings for guarantee claims of TEUR 360 (previous year TEUR 0) and income from retroactive investment grants of TEUR 262 (previous year TEUR 911).

26. Difference arising from remeasured fair value of investment properties

This item comprises gains and losses from the fair-value measurement of investment properties as of the balance sheet date.

27. Cost of goods and services purchased

As broken down in greater detail in the income statement, the cost of goods and services purchased primarily comprise expenses from the sale of properties and rental expense.

Expenses in connection with the sale of properties chiefly comprise portfolio costs for properties sold in the year under review and thus match the expenses in connection with inventories sold, which are recognised through profit and loss. 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).

28. Personnel expenses

Personnel expenses break down as follows:

Personnel expenses	2008 TEUR	2007 TEUR
Wages, salaries and bonuses	8,149	10,728
Social security	1,034	1,297
Retirement benefit expenses	373	373
General	9,556	12,398

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

29. Depreciation/amortisation

This item breaks down as follows:

Depreciation/amortisation	2008 TEUR	2007 TEUR
Amortisation on intangible assets	33	33
Depreciation	359	1,617
General	392	1,650

30. Impairments on receivables and inventories

This item breaks down as follows:

Impairment	2008 TEUR	2007 TEUR
Impairments on inventories	5,441	185
Impairments on receivables	1,500	1,172
Total	6,941	1,357

31. Other operating expenses

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

Other operating expenses	2008 TEUR	2007 TEUR
Costs of repairs for sold real estate	2,881	2,872
Legal, consulting and auditing fees	2,248	3,908
Loan arrangement fees	1,295	1,744
Cost or premises	1,163	1,550
Cost of rental guarantees	996	319
Currency translation losses	204	0
Other	6,446	6,113
Total	15,233	16,506

In the year under review, other operating expenses included payments under operating leases of TEUR 923 (previous year TEUR 884).

32. Share of profit of investees

The share of profit of investees breaks down as follows:

Share of profit of investees	2008 TEUR	2007 TEUR
Absorption of loss from non-incorporated entities	73	73
Impairment losses on investments	-800	-700
Total	-727	-627

The impairment losses on investments result from impairment testing in the light of the current economic situation. The carrying amount of the investments after impairment stands at TEUR 0 (previous year TEUR 800).

33. Share of profit of associates

This item includes the share in losses and impairments recognised in response to the adverse economic conditions in connection with the associates. The carrying amount of the associates after impairment stands at TEUR 0 (previous year TEUR 3,831).

34. Impairments on receivables from associates

This item includes adjustments to receivables from associates on the basis of their fair value remeasured in the light of the adverse economic conditions. The fair value of the receivables was calculated on the basis of expected future cash flows on the basis of forecasts. The carrying amount of the receivables after impairment stands at TEUR 4,000 (previous year TEUR 18,758).

35. Net borrowing costs

Net borrowing costs consist of the following items:

Net borrowing costs	2008 TEUR	2007 TEUR
Interest and similar income	16,972	6,105
Interest and similar expenses	-44,882	-25,189
Total	-27,910	-19,084

Interest income comprises interest on financial assets of TEUR 4,648 (previous year TEUR 4,615) and interest derivatives used for hedging purposes of TEUR 12,324 (previous year 1,490).

Interest expenses comprise interest on financial liabilities of TEUR 33,044 (previous year TEUR 23,643) and interest derivatives used for hedging purposes of TEUR 11,838 (previous year TEUR 1,546).

36. Income taxes

Income taxes (income tax refund in the year under review, income tax expense in the previous year) recorded in the income statement break down as follows:

Income taxes	2008 TEUR	2007 TEUR
Actual income tax expense	-572	-3,649
Deferred income taxes	10,661	-6,498
Total	10,089	-10,147

The table below sets out the material items under deferred tax assets (previous year liabilities):

Deferred taxes charged/credited to the income statement	2008 TEUR	2007 TEUR
Difference from remeasured fair value of investment properties	-704	-6,647
Recognition and measurement of provisions	-30	-157
Capitalisation of tax losses	8,477	-796
Recognition and measurement of provisions	1,230	292
Recognition and measurement of available-for-sale properties	1,055	0
Recognition and measurement of liabilities	215	-399
Other	418	1,209
Total	10,661	-6,498

Theoretical and current net tax expense is reconciled as follows:

Current net tax expense	2008 TEUR	2007 TEUR
Earnings before income taxes (EBT after other taxes)	-42,145	28,880
Expected net tax expense	13,486	-11,552
Reconciled with tax effects from:		
Notional net tax on discontinued business	1,403	-222
Income and expenses from earlier years	159	71
Subsequent capitalisation or non-capitalisation of tax losses	-1,886	3,447
Tax-free income and non-deductible expenses	-3,360	307
Tax effect from change of tax rate	0	-996
EK02 withholding tax	0	-914
Other	287	-288
Current net tax expense	10,089	-10,147

The theoretical tax rate changed in the year under review as a result of the corporate tax reform as follows:

Theoretical tax rate	2008 %	2007 %
Corporate tax	15.00	20.30
Solidarity surcharge	0.83	1.14
Trade tax	16.45	18.70
General	32.28	40.14

Deferred taxes of TEUR 5,092 (previous year TEUR 664) were recognised under equity in the year under review.

Deferred tax assets do not include corporate tax losses of around EUR 41.3 million (previous year approx. EUR 41.6 million) and trade tax losses of around EUR 62.5 million (previous year approx. EUR 62.3 million) as utilisation currently does not appear to be likely. Deferred tax assets on unused tax losses were substantially determined on the basis of company forecasts.

The sum total of unrecognised deferred taxes in connection with shares in subsidiaries, associates and joint ventures is unchanged over the previous year at around EUR 0.4 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 are mainly comprised of motor vehicle tax.

38. Consolidated net profit/loss from discontinued business

This item break down as follows in the income statement:

	2008 TEUR	2007 TEUR
Income from services	7,404	21,428
Other operating income	3	8
Expenses for services	-11,776	-20,551
Other operating expenses	-16	-9
Earnings before taxes (EBT)	-4,385	876
Income taxes	0	-321
Consolidated net profit/loss from discontinued business	-4,385	555

The consolidated net profit/loss from discontinued business is attributable in full to the equity holders of the parent company. Accordingly, the minority interests shown in the income statement refer solely to continuing business.

39. Earnings per share

Earnings per share state the earnings for a period attributable to a single share. For this purpose, consolidated earnings are divided by the weighted number of shares outstanding. This ratio may be diluted by “potential shares” (convertible bonds and stock options). The TAG Group has not concluded any diluting stock purchase agreements. Consequently, the basic and diluted earnings per share are identical.

	2008	2007
Consolidated net profit/loss	TEUR 30,622	TEUR 16,467
Number of shares outstanding (weighted)	32,566,364	32,566,364
Earnings per share	EUR -0.94	EUR 0.51

As in the previous year, the Company has share capital of EUR 32,556,364.00, which is divided into 32,556,364 shares.

Notes on cash flow statement

The cash flow statement was prepared using the indirect method and distinguishes between operating, investing and financing activity. The cash and cash equivalents reported as of the balance sheet include all bank accounts and overdraft facilities with banks due for settlement within three months of the balance sheet date and break down as follows:

Cash and cash equivalents	12/31/2008 TEUR	12/31/2007 TEUR
Cash and cash equivalents carried on the balance sheet	5,880	14,013
Overdraft facilities with banks	-2,109	-2,126
Total	3,771	11,887

As in the previous year, cash of TEUR 1,000 has been pledged to secure bank loans.

Further cash flows included in the cash flow statement contain the following components:

Cash flows	2008 TEUR	2007 TEUR
Interest paid	-44,882	-25,189
Interest received	16,972	6,105
Taxes paid	-582	-219
Taxes received	11	7
Dividends received	73	73

Notes on segment report

The segment report is based on IFRS 8 for the first time and follows the segmentation used for internal reporting to management. The prior-year figures have been restated for this new segment structure.

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, Berlin 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 Real Estate segment. The Company does not have any real estate outside Germany.

The Services segment entails the management of the Company’s own as well as third-party real estate and the commercial management of internal and external real estate companies. The Other Activities/Consolidation column primarily comprises income from the lease of the railway infrastructure in Tegernseer Tal and the elimination of intragroup income and expenses.

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 remeasurement gains are added. In the Commercial segment, the largest customer accounted for income of around EUR 13.6 million in 2008 (previous year approx. EUR 11.3 million).

Net profit/loss in the Service segment matches the income generated in this segment. Segment assets comprise the carrying amounts of the real estate recorded in the balance sheet.

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 from of the notes to the consolidated financial statements.

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 include interest, liquidity and credit risks and, to a small extent, exchange rate 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 valuation methods

Details of the main 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 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 Joint Stock Company Act. Compliance with these 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.

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

Equity ratio	12/31/2008 TEUR	12/31/2007 TEUR
Equity	254,180	306,513
Total assets	839,297	882,261
Equity ratio	30.3 %	34.7 %

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 2008	Carrying amount TEUR	of which coming with the scope of IFRS 7	Categorie[1] TEUR	Fair value TEUR
Other financial assets	375	375	AfS	375
Trade receivables	5,358	5,358	LaR	5,358
Other current assets	11,365	11,333	LaR	11,333
Cash and cash equivalents	5,880	5,880	AfS	5,880
Non-current available-for-sale assets	7,331	1,710	AmC	1,710
Non-current bank borrowings	407,980	407,980	AmC	396,848
Other non-current liabilities	8	8	AmC	8
Current bank borrowings	130,602	130,602	AmC	130,602
Trade payables	8,603	8,603	AmC	8,603
Other current liabilities	21,504	4,196	AmC	4,196
Liabilities in connection with available-for-sale assets	1,961	192	AmC	192

31 December 2007	Carrying amount TEUR	of which coming with the scope of IFRS 7	Categorie[1] TEUR	Fair value TEUR
Other financial assets	1,532	1,532	AfS	1,532
Trade receivables	65,606	65,606	LaR	65,606
Other current assets	26,484	25,533	LaR	25,533
Cash and cash equivalents	14,013	14,013	AfS	14,013
Non-current available-for-sale assets	0	0	AfS	0
Non-current bank borrowings	295,580	295,580	AmC	294,684
Other non-current liabilities	8	8	AmC	8
Current bank borrowings	217,377	217,377	AmC	217,377
Trade payables	15,627	15,627	AmC	15,627
Other current liabilities	10,328	5,363	AmC	5,363
Liabilities in connection with available-for-sale assets	0	0	AmC	0

[1] AfS: Available-for-Sale Financial Assets; LaR: Loans and Receivables; AmC: Amortised Cost

Fair value of financial instruments

Where applicable, the fair values of financial assets and liabilities are recorded in the following order:

- The fair value of financial assets and liabilities with standard durations and terms traded in active liquid markets is determined by reference to the quoted market prices.
- The fair value of other financial assets and liabilities is determined using generally acknowledged measurement models based on discounted cash flow analyses and the prices of observable current market transactions and trader quotes on similar instruments.

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, cash and cash equivalents and non-current available-for-sale assets (if coming within the scope of IFRS 7) are due for settlement in a short space of time. Accordingly, their carrying amount as of the balance sheet date comes close to their fair value. This also applies to current bank borrowings, trade payables, other current liabilities and liabilities in connection with non-current available-for-sale assets (if 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 the available-for-sale financial assets) and receivables from affiliated companies (see Note 34, part of the available-for-sale financial assets), the following net gains and losses were recorded on financial instruments:

- In the year under review, interest expense, which was calculated in accordance with the effective interest method, was recorded for financial liabilities recognised at their fair values in equity at an amount of TEUR 245 (previous year TEUR 157).
- 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 2,224 (previous year TEUR 1,587).

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 at amortised cost, is included in net borrowing costs (Note 35).

Purposes of financial risk management

The main risks monitored and managed by means of the Group's financial risk management comprise interest, credit and liquidity risks. The Group attempts to minimise the effects of interest risks by means of derivative financial instruments (interest swaps). The utilisation of financial derivatives is directly monitored by the Management Board. The Group does not engage or trade in financial instruments including derivative financial instruments for speculative purposes.

Interest risk

The Group's activities primarily 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 as well as caps to minimise the risk of changing interest rates and sensitivity in the event of rising interest rates.

The TAG Group uses derivatives based on hedged assets to actively manage and reduce interest risks. In the course of 2008, the subsidiaries Bau-Verein zu Hamburg Aktien-Gesellschaft and TAG Gewerbeimmobilien-Aktiengesellschaft utilised conservative interest derivatives (mostly payer swaps) in a nominal volume of around EUR 317 million (previous year EUR 223 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	12/31/2008 TEUR	12/31/2007 TEUR
Net borrowing costs in the year under review	-27,910	-19,084
Average interest rate on non-current loans	5.60 %	5.39 %
Average interest rate on current loans	5.70 %	5.58 %
Change in interest expenditure in the event of a 0,5 % increase in interest levels	-901	-1,180
Change in interest expenditure in the event of a 0,5 % decrease in interest levels	901	1,180

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 and variable contracts calculated on the basis of agreed nominal amounts are swapped.

Markgrafenstraße, Leipzig

Derivative	Hedged asset	Nominal volume		Interest rate	Term in years	Market value	
		2008 EUR	2007 EUR			2008 EUR	2007 EUR
Payer swap Callable (09/2013)	Siemens portfolio	20,000,000	20,000,000	4.410 %	8.4	-1,312,317	-191,484
Payer swap	Siemens portfolio	20,000,000	20,000,000	4.800 %	8.4	-1,893,189	-394,663
Payer swap	Siemens portfolio	20,000,000	20,000,000	4.805 %	5.7	-1,632,962	-411,218
Payer swap Callable (09/2012)	Siemens portfolio	30,000,000	30,000,000	4.545 %	8.4	-2,149,229	-570,689
Payer swap	Hamburg-Ottensen	8,500,000	8,500,000	4.745 %	3.4	-464,927	-113,618
Payer swap	Commercial RE package	25,000,000	25,000,000	4.000 %	3.5	-810,041	453,549
Payer swap	Commercial RE package	10,000,000	10,000,000	4.000 %	3.5	-87,098	162,463
Payer swap	Maximilian portfolio	10,000,000	10,000,000	4.450 %	6.7	-609,533	19,824
Payer swap	Maximilian portfolio	11,619,000	11,619,000	4.818 %	8.0	-981,655	-228,883
Payer swap	Maximilian portfolio	9,000,000	9,000,000	4.680 %	0.9	-132,177	-46,382
Payer swap	Moers	11,000,000	11,000,000	4.235 %	8.1	-536,470	220,490
Payer swap	Residential RE package	30,000,000	30,000,000	4.430 %	3.7	-1,453,405	-15,284
Payer swap	Bärenpark	17,000,000	17,000,000	4.780 %	4.0	-1,119,509	-273,812
Cap	Residential RE package	1,000,000	1,000,000	4.430 %	3.7	295	13,544
Bonus interest swap	Post package	0	10,000,000	n. a.	7.0	0	-89,776
Payer swap	Südportfolio	20,000,000	0	4.740 %	1.5	-558,898	0
Payer swap	Südportfolio	20,000,000	0	5.210 %	3.5	-1,499,051	0
Payer swap	Südportfolio	18,800,000	0	5.100 %	5.5	-1,533,840	0
Payer swap	VBP package	5,000,000	0	3.610 %	1.0	-29,475	0
Payer swap	VBP package	30,000,000	0	3.570 %	1.7	-419,087	0
Total		**316,919,000**	**233,119,000**	**4.38 %**	**5.5**	**-17,242,568**	**-1,465,939**

The period shown in the table also includes the periods in which the hedged payment flows are expected to arise. The Group assumes that the payment flows will also be included in net profit/loss for this period.

In the year under review, losses from hedges before inclusion of deferred taxes came to TEUR 18,520 (previous year TEUR 1,466) and were netted with equity.

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.

	12/31/2008 TEUR	12/31/2007 TEUR
Change in market value in the event of a 0.5 % pp increase in interest levels	1,536	4,878
Change in market value in the event of a 0.5 pp decrease in interest levels	-1,536	-4,775

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

Payment default risk

The payment default 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 balance sheet date, available-for-sale financial assets (trade receivables) overdue by more than three months but not adjusted stand at TEUR 665 (previous year TEUR 2,307). Financial assets overdue by more than one year whose value has not been adjusted are valued at TEUR 1,932 (previous year TEUR 2,810).

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 new tenant gained in 2007 stands at around EUR 13,6 million (previous year approx, EUR 11,3 million). Given the tenant's credit rating, no payment defaults are expected.

With the exception of the figures contained in the following table, the carrying amount of the financial assets recognised in the consolidated financial statements less any value adjustments constitute the Group's maximum payment default risk. This does not include any collateral received.

	12/31/2008 TEUR	12/31/2007 TEUR
Guarantees in favour of associates	2,970	2,970
Guarantees in favour of joint ventures	5,109	5,100

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 and other 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. The table shows both interest and capital payments.

Residual maturity of financial liabilities	12/31/2008 TEUR	12/31/2007 TEUR
Due for settlement in less than 1 year	143,053	238,367
1 – 5 years	207,940	113,381
Over 5 years	200,046	182,207
Total	551,041	533,955

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	12/31/2008 TEUR	12/31/2007 TEUR
Due for settlement in less than 1 year	24,281	105,152
Over 5 years	375	1,532
Total	24,656	106,684

As of the balance sheet date, financial assets worth TEUR 1,000 (previous year TEUR 1,000) were pledged as collateral for liabilities to banks on a short-term basis. This cash is subject to normal interest during the pledge period.

The Group is able to utilise overdraft facilities. The total amount not utilised as of the balance sheet date stands at TEUR 2,637 (previous year TEUR 3,189). 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.

Credit 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. However, the terms of these loans are increasing steadily, meaning that this risk is declining substantially.

Currency risk

The risks arising from transactions in a foreign currency are limited. As a matter of principle, all new loans are denominated in euros. One loan in Swiss francs was refinanced in euros in mid 2008. As of the balance sheet date, it has a volume of around EUR 7 million with a fixed interest rate and matures at the end of 2011. Accordingly, there is no currency risk.

Other details

Contingent liabilities and other financial obligations

There are contingent liabilities of TEUR 3,000 in the form of possible additional purchase price payments in connection with the acquisition of real estate. In addition, the following other financial obligations are in existence:

Other financial obligations	12/31/2008 TEUR	12/31/2007 TEUR
Rental guarantees	6,173	7,102
Miscellaneous (e.g. management contracts, leases, rental guaraantees)	3,744	3,484
Total	9,917	10,586

One part of the other financial obligations of TEUR 2,053 (previous year TEUR 2,031) is due for settlement in less than one year, a further part of TEUR 5,567 (previous year TEUR 6,119) between one and less than five years and a further part of TEUR 2,297 (previous year TEUR 2,436) in more than five years.

Minimum lease payments under operating leases

As of 31 December 2008, there are fixed future claims to minimum lease payments of approx. TEUR 134,000 (previous year approx. TEUR 131,000) under operating leases primarily entailing commercial real estate.

Related party disclosures

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

Business relations with joint ventures

- In connection with the sale of a property in Hamburg, TAG provided the proportionately consolidated company DESIGN Bau BV Hamburg GmbH & Co. KG with a guarantee for TEUR 5,100 in the year under review (previous year TEUR 5,100). TAG did not receive any remuneration for granting the guarantee.

- There were business relations between Bau-Verein zu Hamburg Aktien-Gesellschaft, a subsidiary of TAG, and DESIGN Bau BV Hamburg GmbH & Co. KG in the form of construction management and accounting activities. This resulted in income of TEUR 194 in the year under review (previous year TEUR 231).

Business relations with associates

- Bau-Verein zu Hamburg Aktien-Gesellschaft issued a guarantee towards a bank for TEUR 2,970 in favour of GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG in 2004. No remuneration has so far been agreed. However, the Group charged fees of TEUR 3 (previous year TEUR 30) plus VAT for property management and accounting/controlling services performed for this company.
- Fees for the provision of construction management, facility management and accounting/controlling services of TEUR 8,902 (previous year TEUR 23,217) plus VAT were charged to GAG Grundstücksverwaltungs-Aktiengesellschaft, in the year under review.
- In addition, GAG sold its shares (5.1 percent or 525,300 shares) in TAG Gewerbeimmobilien-Aktiengesellschaft, a subsidiary of TAG, to TAG Beteiligungs GmbH & Co. KG pursuant to a contract dated 30 June 2008 at a price of TEUR 1,020.
- GAG is the owner of the commercially used property in Steckelhörn Hamburg, which has been leased to Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, a subsidiary of TAG, amongst others since 1 January 2008 for an annual rental including all ancillary cost of TEUR 460.
- On 1 October 2007 a service contract was entered into between GAG as the owner of the Steckelhörn property in Hamburg and TAG Gewerbeimmobilien-Aktiengesellschaft for the rental of office space which had arisen after GAG constructed a further storey in 2006 and 2007 at the property. The commission if an external broker is involved equals one monthly rental and, in the case of a direct lease, three monthly rentals.
- In the year under review, there were business relations with Larus Asset Management GmbH in the form of construction management and administrative activities. This resulted in income of TEUR 140 (previous year TEUR 0) and expenses of TEUR 1,932 (previous year TEUR 1,164).

Business relations with other related parties

- Dr. Lutz R. Ristow, chairman of the Supervisory Board of TAG, received remuneration of TEUR 114 in fiscal year 2008 (previous year TEUR 0) for consulting work performed outside of his regular duties as a member of the Supervisory Board.
- Sozietät Nörr Stiefenhofer Lutz, Rechtsanwälte Wirtschaftsprüfer Steuerberater, Munich, in which Prof. Dr. R. Frohne, a member of the Supervisory Board, is a partner, received payments of TEUR 63 in the year under review (previous year TEUR 420) for legal counselling.
- As of 31 December 2008, there are loan liabilities of TEUR 1,443 (previous year TEUR 1,486) towards a company in which members of TAG's Supervisory Board hold shares. The liabilities are subject to interest of 7.5 percent.
- TAG Beteiligungs GmbH & Co. KG, in which members of the Management Board have a 0.5 percent stake, acquired shares in TAG Gewerbeimmobilien-Aktiengesellschaft from GAG at a price of TEUR 1,020.

Behrenstraße, Berlin

Total remuneration received by the Supervisory Board and the Management Board

Total remuneration to the Management Board came to TEUR 860 in the year under review (previous year TEUR 2,720).

Andreas Ibel received fixed remuneration including taxable benefits of TEUR 338 (previous year TEUR 338) and Erhard Flint TEUR 342 (previous year TEUR 342). The variable remuneration for 2008 equals TEUR 0 for Messrs. Ibel and Flint (previous year TEUR 1,020 each). Part of the remuneration received by Andreas Ibel and Erhard Flint was paid by the subsidiaries Bau-Verein zu Hamburg Aktien-Gesellschaft and Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH. Hans-Ulrich Sutter, who was appointed to the Management Board on 1 April 2008, received solely fixed remuneration including taxable benefits of TEUR 180.

The remuneration paid to the Supervisory Board in the year under review came to TEUR 165 (previous year TEUR 43).

Independent auditor’s fee

The independent auditor’s fee for the entire Group, which is reported as expense, includes fees (plus value added tax) for the audit of the financial statements of TEUR 380 (previous year TEUR 371), fees for other auditing activities of TEUR 35 (previous year TEUR 129) as well as fees for other consulting activities of TEUR 0 (previous year TEUR 59) and, as in the previous year, an amount of TEUR 6 for tax consulting activities.

Headcount

The Group had a total headcount of 116 as at 31 December 2008 (previous year 147). The annual average stood at 132 (previous year 135).

Supervisory Board

Members of the Supervisory Board and offices held in 2008:

Dr. Lutz R. Ristow, Hamburg, businessman (Chairman)

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

- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg
- TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg

Prof. Dr. Ronald Frohne, New York, attorney and public auditor (Deputy Chairman)

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

- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg
- Eckert & Ziegler Medizintechnik AG, Berlin
- Würzburger Versicherungs-AG, Würzburg
- Medienboard Berlin-Brandenburg GmbH, Potsdam
- TELLUX-Beteiligungsgesellschaft mbH, Munich

Offices held in comparable German and international executive bodies:

- AGICOA, Geneva, Switzerland
- CAB, Copenhagen, Denmark

Rolf Hauschildt, Düsseldorf, bank clerk

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

- Germania Epe AG, Gronau-Epe
- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg
- ProAktiva Vermögensverwaltung, Hamburg
- Allerthal Werke AG, Grasleben
- Solventis AG, Frankfurt/Main
- Scherzer & Co. AG, Cologne

Dr. Wolfgang Schnell, chemist, Munich

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

- Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg

Rolf Elgeti, Potsdam, businessman (since 17 October 2008)

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

- None

Management board

Members of the Management Board and offices held in 2008:

Andreas Ibel, Hamburg, lawyer

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

- GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg
- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Tegernsee

Erhard Flint, Hamburg, engineer (until 31 March 2009)

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

- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Tegernsee

Hans-Ulrich Sutter, Berlin, businessman (since 1 April 2008)

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

- None

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

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

- In accordance with Section 21 of the German Securities Trading Act, we were informed by Ratio Asset Management LLP London, London, UK that its share in the voting rights of TAG had exceeded the threshold of 5 percent and stood at 5.06 percent on 4 January 2008. 3.62 percent of the voting rights are attributable to Ratio Asset Management LLP of The Ratio European Fund, George Town, Cayman Islands, and 1.44 percent to MAC Lochsong 19A Limited, Hamilton, Bermuda. On 20 March 2008, TAG received updated notification from The Ratio European Fund, stating that The Ratio European Fund, now held a share of 5.51 percent.
- We were notified by Skagen AS, Stavanger, Norway, that the threshold of 5 percent had been exceeded and that shareholdings stood at 5.40 percent as of 10 April 2008.
- In accordance with Section 21 of the German Securities Trading Act, we were notified by Tudor International L.L.C. Corporation Service Company (CSC), Wilmington, USA, the limited partner of the investment manager Tudor Capital (UK) L.P., Great Burgh, Epsom, Surrey, Great Britain, and its general partner Tudor Capital (UK) Ltd. and Tudor BVI GGP Ltd., the general partner of Tudor BVI Global Portfolio L.P. Fonds, both companies of George Town, Grand Cayman, Cayman Islands, British West Indies, that the threshold of 3 percent was dropped below and that a share of 2.74 percent was held as of 19 August 2008.
- Finally, IP Concept Management S.A, Luxembourg, stated that it had exceeded the threshold of 3 percent and held a share of 3.11 percent as of 15 September 2008.

Declaration of conformity with The German Governance Code – pursuant to Section 161 of the German Stock Corporation Act.

The joint declaration of the Management and Supervisory Board concerning the recommendations of the Government Commission on the German Corporate Governance Code required pursuant to Section 161 of the German Stock Corporation Act has been prepared and made available to shareholders on the TAG website. TAG's listed subsidiary, Bau-Verein zu Hamburg Aktien-Gesellschaft, has also issued the declaration required pursuant to Section 161 of the German Stock Corporations Act and made it available on its website.

Material events after the balance sheet date

Mr. Erhard Flint left the Company's Management Board on 31 March 2009. There were no events occurring after the balance sheet date materially affecting the Group's net assets, financial condition and results of operations.

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, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Hamburg, 2 April 2009

(Andreas Ibel) (Hans-Ulrich Sutter)

Hummelsbütteler Kirchenweg, Hamburg

Independent auditor's report

We have audited the consolidated financial statements prepared by TAG Immobilien AG Hamburg comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the consolidated financial statements and the management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the additional accounting provisions in accordance with Section 315a (1) of the German Commercial Code is the responsibility of the 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 Section 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW = Institute of German Public Auditors). 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 principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit includes an assessment of the financial statements of the companies included in the Group, the definition of the consolidation group, the accounting and consolidation principles applied and the significant estimates made by the legal representatives as well as an appraisal of the overall situation presented by the consolidated annual 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 the results of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the supplementary provisions of German commercial law in accordance with Section 315a (1) of the German Commercial Code and in the light of these provisions give a true and fair view of the net assets, financial position and results of operations of the Group. The Group management report is consistent with the consolidated financial statements and on the whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks to future development.

Hamburg, 9 April 2009

Nörenberg • Schröder
GmbH Wirtschaftsprüfungs-
gesellschaft

Michels, Wirtschaftsprüfer
(German Public Auditor)

Thiel, Wirtschaftsprüfer
(German Public Auditor)

TAG's Financial calender

2 March	Announcement of the preliminary figures for the year 2008
23 April	Annual Report 2008
14 May	Interim Report - 1st quarter of 2009
19 June	Shareholder's meeting, Hamburg
13 August	Interim Report - 2nd quarter of 2009
12 November	Interim Report - 3rd quarter of 2009

Eichholz, Hamburg

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