

5. CORPORATE GOVERNANCE

5.1 DECLARATION ON CORPORATE GOVERNANCE

The declaration on corporate compliance to be issued pursuant to § 289a HGB and the corporate governance report are available online at <http://ir.tlg.de/websites/tlg/English/7100/corporate-governance-und-erklarung-zur-unternehmensfuehrung.html>. Pursuant to § 317(2) line 3 HGB, the disclosures under § 289a HGB are not included in the audit carried out by the auditor.

5.2 REMUNERATION REPORT

The remuneration report explains the structure and the amount of remuneration allocated to the Management and Supervisory Boards. It complies with the statutory regulations and the recommendations of the German Corporate Governance Code.

5.2.1 Foreword

In the 2014 financial year, the current members of the Management Board had management contracts until 23 October 2014. By resolution of the Supervisory Board on 8 September 2014, Mr Finkbeiner and Mr Karoff were appointed to the Management Board of TLG IMMOBILIEN AG, which was formed on 5 September 2014 upon the notarisation of the change of legal status to an Aktiengesellschaft (which came into effect once entered into the commercial register on 10 September 2014).

When the shares of the company became available to trade on the Frankfurt Stock Exchange (24 October 2014), the members of the Management Board received new contracts which the Chairman of the Supervisory Board, Mr Michael Zahn, was authorised to conclude by resolution of the Supervisory Board on 8 September 2014.

5.2.2 Management Board remuneration system

The remuneration system factors in the joint and personal work of the members of the Management Board to ensure sustainable corporate success. The remuneration system is based on performance and success, in which regard long-term orientation, suitability and sustainability are key criteria.

The remuneration of the Management Board comprises a fixed remuneration component (base remuneration), a variable remuneration component with a short-term incentive (STI) and a variable remuneration component with a long-term incentive (LTI). In 2014, the short-term incentive amounted to at least EUR k 150 and no long-term incentive had been paid or awarded.

in EUR k	Peter Finkbeiner	Niclas Karoff
Base remuneration	300	300
Short-term variable remuneration (STI)	200	200
Long-term variable remuneration (LTI)	250	250
Total remuneration	750	750

Fixed remuneration component

The base remuneration is paid out to the members of the Management Board in 12 equal monthly instalments.

On top of the base remuneration, the members of the Management Board receive predefined additional benefits².

Furthermore, the company has taken out industrial accident insurance which pays benefits if a member of the Management Board should become ill or die (in which case the benefits are paid to the member's surviving dependants) and financial loss liability insurance (D&O insurance). Under the Corporate Governance Code, the D&O insurance policy features a statutory excess which, if a claim is filed, consists of 10% of the claim, up to 1.5 times the fixed annual remuneration of the member of the Management Board in question.

Short-term incentive

The achievement rate, which is determined by comparing the progress of the member of the Management Board after one year, is the basis of the calculation of the short-term incentive.

The annual targets are defined by means of a joint agreement on objectives for the members of the Management Board; this agreement is to be proposed by the Supervisory Board for the current financial year by the time the financial statements for the financial year ended are prepared and agreed between the Supervisory Board, represented by its Chairman, and the members of the Management Board.

The achievement rate for the short-term incentive must be at least 70% and is capped at 130%. The achievement rate increases on a straight-line basis between 70% and 130%. With a 100% achievement rate, the members of the Management Board each receive 100% of the bonus.

At the end of each financial year, the Supervisory Board determines the rate of joint achievement for the members of the Management Board.

The short-term incentive is payable in the salary statement issued for the month after the preparation of the financial statements.

Long-term incentive

In addition to a short-term incentive, the members of the Management Board are entitled to a long-term incentive based on the long-term performance of the company. The achievement rate for the long-term incentive is based on the achievement of the agreed targets at the end of every 4-year period. The achievement rate is determined by assessing the level of progress towards the targets.

² The members of the Management Board receive additional fringe benefits: these essentially comprise a company car, insurance premiums and the reimbursement of travel expenses, as well as payments to cover the costs of any second business address.

The key parameters for the long-term incentive are the performance of the EPRA NAV (per share in EUR) – as defined in the prospectus published for the IPO – of the company (NAV per share) from 1 January of the first of the four years to 31 December of the last of the four years (NAV development), as well as the performance of the company's shares in relation to the FTSE EPRA/NAREIT Europe Index (or a similar index) from 1 January of the first of the four years to 31 December of the last of the four years (relative strength index). The parameters are weighted against one another in a ratio of 50% (NAV development) and 50% (relative strength index).

The NAV development is defined in a corridor of between 100% (no increase in the NAV per share) and 250% (corresponds to a 150% increase in the NAV per share). With an achievement rate of 100%, the member of the Management Board will receive 100% of the portion of the bonus attributable to the NAV development. The achievement rate increases on a straight-line basis between 100% and 250%. Under 100%, the achievement rate of the member of the Management Board for the portion attributable to the NAV development will fall by the percentage by which the target was missed; the achievement rate is capped at 250%.

The relative strength index is defined in a corridor of between 100% (i.e. the shares of the company performed the same as the index) and 250% (i.e. the shares of the company performed 1.5 times better than the index) relative to the index. With an achievement rate of 100%, the member of the Management Board will receive 100% of the portion of the bonus attributable to the relative strength index. The achievement rate increases on a straight-line basis between 100% and 250%. Under 100%, the achievement rate of the member of the Management Board for the portion attributable to the relative strength index will fall by the percentage by which the target was missed; the achievement rate is capped at 250%.

The long-term incentive is paid to the member of the Management Board with the salary statement issued for the month after the preparation of the financial statements in the fourth financial year.

The Supervisory Board is entitled to award shares in the company in lieu of some or all of the cash payment. The company is entitled to introduce a share options programme – which has yet to be defined and which is of the same economic value to the member of the Management Board – to replace the long-term incentive.

Total remuneration of the Management Board in 2014/2013

The current members of the Management Board each received a proportional bonus from the shareholders in the form of a special payment totalling EUR 1.05 mn and a transfer of shares to the value of EUR 0.3 mn for the successful IPO of the company. The payment was made by LSREF II East AcquiCo S.à r.l. and Delpheast Beteiligungs GmbH & Co. KG.

In the 2013 financial year, Mr Peter Finkbeiner was employed at Hudson Advisors Germany GmbH and received his salary from there.

In the 2014 and 2013 financial years, no advance payments or loans were granted or paid to the members of the Management Board.

Benefits received

in EUR k	Peter Finkbeiner ²		Niclas Karoff	
	2014	2013	2014	2013
Fixed remuneration	300	—	300	248
Fringe benefits	80	—	16	68
Subtotal of fixed remuneration	380	—	316	316
Bonus ³	1,350	—	1,350	0
Short-term variable remuneration (STI) ¹	0	—	170	140
Long-term variable remuneration (LTI)	0	—	0	0
Subtotal of variable remuneration	1,350	—	1,520	140
Total remuneration	1,730	—	1,836	456

¹ The variable remuneration paid to the members of the Management Board in 2014 is governed by the management contracts with TLG IMMOBILIEN GmbH which merely provide for a bonus agreement.

² In 2013 the benefits received were paid by Hudson Advisors Germany GmbH.

³ The bonus for the IPO was granted by the shareholders of TLG IMMOBILIEN.

Benefits granted¹

in EUR k	Peter Finkbeiner ²			2013	Niclas Karoff			2013
	2014	2014 min.	2014 max.		2014	2014 min.	2014 max.	
Fixed remuneration	300	300	300	0	300	300	300	248
Fringe benefits	80	80	80	0	18	18	18	68
Subtotal of fixed remuneration	380	380	380	0	318	318	318	316
Bonus	2,200	0	2,200 ³	0	2,200	0	2,200 ³	0
Short-term variable remuneration (STI)	150	150		0	150	150		150
Long-term variable remuneration (LTI)	0	0	0	0	0	0	0	0
Subtotal of variable remuneration	2,350	150	2,200	0	2,350	150	2,200	150
Total remuneration	2,730	530	2,580	0	2,668	468	2,518	466

¹ In 2014 the benefits were paid under management contracts with TLG IMMOBILIEN GmbH.

² In 2013 the benefits were paid by Hudson Advisors Germany GmbH.

³ Without consideration for any changes in value caused by fluctuations of the TLG share price.

Total remuneration paid by the company under the German Commercial Code (HGB)

in EUR k	Peter Finkbeiner ¹		Niclas Karoff	
	2014	2013	2014	2013
Fixed remuneration	300	—	300	248
Fringe benefits	80	—	18	68
Subtotal of fixed remuneration	380	—	318	316
Short-term variable remuneration (STI)	150	—	150	150
Long-term variable remuneration (LTI) ²	1,232	—	1,232	0
Subtotal of variable remuneration	1,382	—	1,382	150
Total remuneration	1,762	—	1,700	466

¹ In 2013 the remuneration was paid by Hudson Advisors Germany GmbH.

² The disclosures on the long-term incentives in the total remuneration are based on the legally binding commitment made during the conclusion of the management contracts in September 2014. The total value of the long-term incentive was calculated to be EUR k 1,232 for each member of the Management Board.

In 2013, another managing director was employed whose total remuneration amounted to EUR 0.8 mn. Of this, EUR 0.1 mn was attributable to fixed components and EUR 0.2 mn was attributable to variable components. Additionally, payments totalling EUR 0.5 mn were made due to the termination of the contract.

Payments in the event of premature termination of employment

Severance packages

If the contract of a member of the Management Board is terminated prematurely, payments to that member of the Management Board may not exceed the value of two years' worth of remuneration (the severance payment cap) or the value of the remuneration for the remaining term of the contract. The severance payment cap shall be calculated on the basis of the total remuneration for the past full financial year and if appropriate also the expected total remuneration for the current financial year (see recommendation 4.2.3 of the German Corporate Governance Code). If a change of control should result in the termination of a Management Board member's contract, that member shall receive a settlement equal to 150% of the severance payment cap.

Death benefits

If the member of the Management Board should die during the term of the contract, the remuneration—including STI and LTI—shall be determined up to the date of the termination of contract as a result of death and disbursed to the member's surviving dependants in line with the management contract. Furthermore, as joint creditors the widow and children—up to the age of 25—shall be entitled to the continued payment of all remuneration in line with section 2(1) of the management contract for the rest of the month in which the member died plus the three following months.

Supervisory Board remuneration system

The Supervisory Board was established on 5 September 2014. In line with the Articles of Association, all Supervisory Board remuneration is payable at the end of each financial year. Members of the Supervisory Board who have only been part of the Supervisory Board or one of its committees for part of the financial year will receive proportional remuneration for that financial year.

The members of the Supervisory Board receive annual fixed base remuneration of EUR k 30. The Chairman of the Supervisory Board (Mr Michael Zahn) receives 200% of this amount (EUR k 60) and the Vice-Chairman (Mr Alexander Heße) receives 150% of this amount (EUR k 45). Members of the presidential and nomination committee (Mr Michael Zahn (chairman), Mr Alexander Heße, Dr Michael Bütter) or the audit committee (Mr Axel Salzmänn (chairman), Mr Michael Zahn, Ms Elisabeth Stheeman) receive fixed annual base remuneration of EUR k 5. The Chairman of each committee (Mr Zahn for the presidential and nomination committee and Mr Salzmänn for the audit committee) receives 200% of this amount (EUR k 10).

Breakdown of Supervisory Board remuneration

The following remuneration was or will be paid pro rata to the members of the Supervisory Board for the 2014 financial year:

	Supervisory Board	Presidential and nomination committee	Audit committee	VAT	Total
Michael Zahn	20,000.00	2,500.00	1,250.00	4,512.50	28,262.50
Alexander Heße*	0.00	0.00	0.00	0.00	0.00
Axel Salzmänn	10,000.00	0.00	2,500.00	2,375.00	14,875.00
Elisabeth Stheeman	10,000.00	0.00	1,250.00	0.00	11,250.00
Dr Michael Bütter	10,000.00	1,250.00	0.00	2,137.50	13,387.50
Dr Claus Nolting	10,000.00	0.00	0.00	1,900.00	11,900.00

* For the 2014 financial year, Mr Heße waived all claims to remuneration against TLG IMMOBILIEN.

6. DISCLOSURES RELEVANT TO ACQUISITIONS

COMPOSITION OF SUBSCRIBED CAPITAL

As at 31 December 2014, the share capital was EUR 61,302,326, comprised of 61,302,326 no-par bearer shares with a value of EUR 1.00 per share. The share capital is fully paid-in. There are no other share types. All shares provide the same rights and duties. Every no-par value share grants one vote in the general meeting. This does not include any treasury shares held by the company; these do not grant the company any rights.