

TLG IMMOBILIEN expects the EPRA Net Asset Value, which is largely influenced by changes in the value of the property portfolio, to increase slightly by the end of the 2019 financial year. This will require the company to not incur any significant unforeseen expenses and the property markets not to change significantly.

4. CORPORATE GOVERNANCE

4.1. DECLARATION ON CORPORATE GOVERNANCE

The declarations on corporate governance to be issued pursuant to Sec. 289f and Sec. 315d HGB and the corporate governance report, which are not components of this management report, are available online at <https://ir.tlg.eu/corporategovernance> and <https://ir.wcm.de/en/#corporate-governance>. Pursuant to Sec. 317 (2) sentence 6 HGB, the disclosures under Sec. 289f and Sec. 315d HGB are not included in the audit carried out by the auditor.



4.2 PROPORTION OF WOMEN AND DIVERSITY

Following the entry into force of the German act on equal participation of women and men in executive positions in the private and public sector on 1 May 2015, listed companies are obliged to set future targets for the proportion of women on their management and supervisory boards as well as on the two management levels below the management board, and to set implementation deadlines within which they intend to reach their target proportion of women (targets and implementation deadlines).

In its meeting on 23 May 2017, the Supervisory Board set the target proportion of women on the Supervisory Board at 16.67%, which must be met continuously until 30 June 2022. Due to the resignation of Ms Elisabeth Talma Stheeman with effect from 29 January 2018 and the judicial appointment of Mr Stefan E. Kowski as a new member of the Supervisory Board, this target is currently not being met by the Supervisory Board.

Initially, the minimum proportion of women on the Management Board of TLG IMMOBILIEN AG shall remain at 0% for the implementation deadline ending on 30 June 2022. Both members of the Management Board are male.

In line with Sec. 76 (4) AktG, the Management Board must set the targets and implementation deadlines for the proportion of women on the first and second management levels beneath the Management Board.

In its meeting on 29 June 2017, the Management Board set the minimum proportion of women on the first management level below the Management Board at 10% and the minimum proportion of women on the second management level below the Management Board at 30%; neither may fall below this target before 30 June 2022. These targets were met in 2018.

In addition to the diversity-related targets for the composition of the Management Board and Supervisory Board described in the declaration on corporate governance, the Supervisory Board prepared a profile of skills and expertise in 2018.

4.3 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.

4.3.1 Foreword

The Supervisory Board defines the total salary of each member of the Management Board and adopts the remuneration system for the Management Board and examines it regularly.

New Management Board contracts were concluded with Mr Finkbeiner and Mr Karoff in January 2018. These contracts were terminated by means of dissolution agreements on 31 October 2018.

By resolution of the Supervisory Board effective 17 September 2018, Mr Klinck and Mr Overath were appointed as members of the Management Board and were given their employment contracts on 1 October 2018.

4.3.2 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).

The Supervisory Board set out the initial levels of the LTI for 2017 in its meeting on 7 March 2017. It did the same for 2018 in its meeting on 21 March 2018.

The composition of the Management Board changed in 2018. The remuneration of Mr Finkbeiner and Mr Karoff, the previous members of the Management Board, is being taken into account proportionately up to 31 October 2018 and the remuneration of Mr Klinck and Mr Overath, the current members of the Management Board, is being taken into account proportionately from 1 October 2018 onwards.

in EUR k	Gerald Klinck	Jürgen Overath	Peter Finkbeiner	Niclas Karoff
Base remuneration	450	450	400	400
Short-term variable remuneration (STI)	250	250	250	250
Long-term variable remuneration (LTI)	300	300	400	400
Total remuneration	1,000	1,000	1,050	1,050

The current members of the Management Board will strive to hold an agreed target number of shares in the company (at the very least) for the duration of their employment as members of the Management Board. In order to achieve this target, the company can pay 25% of the annual STI and LTI as shares until the target number of shares has been reached.

Fixed remuneration component

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

On top of the base remuneration, the members of the Management Board receive contractually defined additional benefit. Furthermore, the company has taken out a D&O insurance policy for the members of the Management Board. Under the German Corporate Governance Code, the D&O insurance policy features a statutory deductible 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.

Additionally, the company had taken out pension insurance and occupational accident insurance policies which provided benefits if a member of the Management Board is unable to work due to a disability and for his surviving dependants in the event of his death for both Mr Finkbeiner and Mr Karoff, the former members of the Management Board.

Short-term incentive (STI)

Every year, the former and current members of the Management Board receive a short-term incentive (STI) which is calculated and determined by the Supervisory Board on the basis of the proportionate achievement of targets (target FFO per share and management targets) in each financial year starting with the 2018 financial year.

The target FFO per share is defined by the Supervisory Board at the start of each financial year and the management targets are agreed with each member of the Management Board before the start of the financial year.

The STI is the product of (i) the target STI, (ii) the FFO per share factor and (iii) the performance factor; the maximum annual STI is EUR k 375 and no STI will be paid at all in a financial year if the FFO per share is less than 75% of the target FFO per share.

The FFO per share factor is 1.00 if the final FFO per share for the year corresponds to the target FFO per share. For every full percentage point of a difference between the final FFO per share for the year and the target FFO per share, the factor changes by 0.02 up to a maximum of 1.50.

The performance factor is defined by the Supervisory Board on the basis of progression towards management targets and is between 0.8 and 1.2.

At the end of each financial year, the Supervisory Board determines the rate of joint achievement for the members of the Management Board. The STI is payable along with the monthly instalment of the basic annual salary following the approval of the consolidated financial statements of the company.

Long-term incentive (LTI)

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 four-year period (the performance period) and is determined by assessing the level of progress made towards the targets.

Starting in the 2018 financial year, the LTI remuneration is paid in the form of virtual shares (performance shares) which are converted into cash remuneration and paid out as cash after the end of each LTI performance period and with consideration for the level of progress towards LTI targets.

The key parameters for the long-term incentive for the members of the Management Board are the development of the EPRA NAV per share (target NAV/share) and the development of the yield of the shares of the company (total shareholder return; TSR) by the end of the LTI performance period compared to the development of the total shareholder return of the LTI reference index; the capped version of the FTSE EPRA/NAREIT Europe Index (TSR performance).

The Supervisory Board defines the target NAV/share for the performance period at the start of each financial year.

The parameters are weighted against one another in a ratio of 50% (the NAV/share factor) and 50% (the TSR performance factor).

At the start of each four-year period, the number of assigned virtual shares is calculated by dividing the agreed target amount by the EPRA NAV per share calculated on the basis of the annual financial statements for the previous year.

The long-term incentive is the product of the number of assigned virtual shares for the financial year and the share price as at the end of every fourth year plus the total dividends per share paid out during the LTI performance period and the performance factor for the LTI targets (the total LTI factor). The performance factor is based equally on progress for the NAV/share and the TSR performance factor. Each performance factor can have a value of between 0% and 200%. If the NAV per share falls short of the target by more than 15 percentage points, this equates to a performance of 0. If the TSR of the shares of the company performs at least 15% worse than the TSR of the reference index, the TSR performance factor will also be 0.

The long-term incentive for each year of activity 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 long-term incentive is capped at EUR k 750 (EUR k 800 for former members of the Management Board), yet is also capped in the sense that the total earnings of a member of the Management Board may not exceed EUR k 1,500 in a financial year with consideration for the basic remuneration and the short-term incentive.

The following virtual shares provided to the members of the Management Board in 2018:

Long-term incentive

2018 tranche	Gerald Klinck ¹	Jürgen Overath ¹
Settlement date	01/10/2018	01/10/2018
Number of virtual shares	3,434	3,434
Fair value as at the settlement date (EUR k)	93	93
Intrinsic value of the virtual shares as at 31/12/2018 (EUR k)	130	130

¹ Proportionate remuneration from 01/10/2018

With regard to the share-based payments, expenses of EUR k 257 (previous year EUR k 0) were recognised for Mr Klinck and expenses of EUR k 240 (previous year EUR k 0) were recognised for Mr Overath in the financial year. For the members of the Management Board who left the company in the financial year, expenses of EUR k 465 (previous year EUR k 259) were recognised for share-based payments to Mr Finkbeiner and expenses of EUR k 465 (previous year EUR k 259) were recognised for share-based payments to Mr Karoff.

Total remuneration for the Management Board in 2018 and 2017

In the 2018 and 2017 financial years, the members of the Management Board did not receive any advances or credit.

Benefits received in EUR k	Gerald Klinck ¹	Jürgen Overath ¹	Peter Finkbeiner ²		Niclas Karoff ²	
	2018	2018	2018	2017	2018	2017
Fixed remuneration	112	112	333	300	333	300
Fringe benefits	21	71	40	87	26	30
SUBTOTAL of fixed remuneration	133	183	373	387	359	330
Short-term variable remuneration (STI)	0	0	300	260	300	260
Short-term variable remuneration (STI) in current year	0	0	250	0	250	0
Long-term variable remuneration (LTI)	0	0	1,857	0	1,857	0
Subtotal of variable remuneration	0	0	2,407	260	2,407	260
Total remuneration	133	183	2,780	647	2,766	590

¹ Proportionate remuneration from 01/10/2018

² Proportionate remuneration until 31/10/2018

Bonuses paid	Gerald Klinck ¹			Jürgen Overath ¹			Peter Finkbeiner ²				Niclas Karoff ²			
	2018	2018 min.	2018 max.	2018	2018 min.	2018 max.	2018	2018 min.	2018 max.	2017	2018	2018 min.	2018 max.	2017
in EUR k														
Fixed remuneration	112	112	112	112	112	112	333	333	333	300	333	333	333	300
Fringe benefits	71	71	71	71	71	71	40	40	40	87	26	26	26	30
Subtotal Fixed remuneration	183	183	183	183	183	183	373	373	373	387	359	359	359	330
Short-term variable remuneration (STI)	63	0	94	63	50	94	250	0	250	200	250	0	250	200
Long-term variable remuneration (LTI)	93	0	188	93	0	188	419	0	800	297	419	0	800	297
Subtotal of variable remuneration	156	0	282	156	50	282	669	0	1,050	497	669	0	1,050	497
Total remuneration	339	183	465	339	233	465	1,042	373	1,423	884	1,028	359	1,409	827

Total earnings from the company according to the German Commercial Code (HGB)

in EUR k	Gerald Klinck ¹		Jürgen Overath ¹		Peter Finkbeiner ²		Niclas Karoff ²	
	2018	2017	2018	2017	2018	2017	2018	2017
Fixed remuneration	112	300	112	300	333	300	333	300
Fringe benefits	71	87	71	87	40	87	26	30
Subtotal of fixed remuneration	183	387	183	387	373	387	359	330
Short-term variable remuneration (STI)	63	260	63	260	250	260	250	260
Long-term variable remuneration (LTI)	93	0	93	0	145	0	145	0
Subtotal of variable remuneration	156	260	156	260	395	260	395	260
Total remuneration	339	647	339	647	768	647	754	590

¹ Proportionate remuneration from 01/10/2018

² Proportionate remuneration until 31/10/2018

Current pensions were paid to two former managing directors in 2017 and 2018. The expenses totalled EUR 0.153 m in 2017 and EUR 0.168 m in 2018. The provisions formed for the pensions amount to EUR 2.360 m.

Payments in the event of premature termination of employment

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 exit compensation cap) or the value of the remuneration for the remaining term of the contract. The exit compensation cap is 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).

Mr Finkbeiner and Mr Karoff each received payments of EUR 897 k in connection with the premature termination of their activity.

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 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 the part of the financial year will receive proportional remuneration for that financial year.

The members of the Supervisory Board receive fixed basic annual remuneration of EUR k 40. The Chairperson of the Supervisory Board (Mr Michael Zahn) receives three times this amount and the Vice-chairperson (Dr Michael Bütter) receives one and a half times this amount. Members of the audit committee receive fixed annual remuneration of EUR 10,000 and members of other committees of the Supervisory Board receive fixed annual remuneration of EUR 7,500. The Chairperson of each committee receives double this fixed amount. The members of the Supervisory Board are members of the following committees:

in TEUR	Presidential and nomination committee	Audit committee	Capital market and acquisitions committee	Project development committee
Michael Zahn	V	M ³	V	
Dr. Michael Bütter	M		M	M
Frank D. Masuhr ¹				V
Dr. Claus Nolting	M ⁶	M ⁶		
Elisabeth Talma Stheeman ²		M		
Sascha Hettrich ⁴	M ⁷	M ⁷		V
Stefan E. Kowski ⁵				
Helmut Ullrich		V	M	M

¹ Until 31 January 2018 ² Until 29 January 2018 ³ From April 2018 ⁴ From March 2018 ⁵ From February 2018 ⁶ Until 31 December 2018
⁷ From 1 January 2019 V = Vorsitzender M= Mitglied

The sum of all remuneration plus the remuneration for membership on the supervisory boards and similar managerial bodies of Group companies may not exceed EUR k 150 (excluding VAT) per calendar year per member of the Supervisory Board, regardless of the number of committee memberships and roles.

Supervisory Board remuneration in detail

Remuneration paid or to be paid to the members of the Supervisory Board for the 2018 financial year:

in EUR k	Supervisory Board	Presidential and nomination committee	Audit committee	Capital market and acquisitions committee	Project development committee	VAT	Total
Michael Zahn ¹	120,000.00	15,000.00	7,500.00	15,000.00	0	28,500.00	178,500.00
Dr. Michael Bütter	60,000.00	7,500.00	0	7,500.00	7,500.00	15,675.00	98,175.00
Frank D. Masuhr ²	3,333.33	0	0	0	1,250.00	870.83	5,454.17
Dr. Claus Nolting	40,000.00	7,500.00	10,000.00	0	0	10,925.00	68,425.00
Elisabeth Stheeman ^{3, 2}	3,333.33	0	833.33	0	0	0	4,166.67
Sascha Hettrich ⁴	33,333.33	0	0	0	11,250.00	8,470.83	53,054.17
Stefan E. Kowski ⁵	36,666.67	0	0	0	0	0	36,666.67
Helmut Ullrich	40,000.00	0	20,000.00	7,500.00	7,500.00	14,250.00	89,250.00

¹ Proportionate at 9/12 for the audit committee; the total remuneration is limited to the maximum limit of EUR k 150 (net)
² Proportionate at 1/12; resigned in late January ³ Does not deduct VAT ⁴ Proportionate at 10/12; took over role in March
⁵ Proportionate at 11/12; took over role in February

A D&O group insurance policy has also been taken out for the members of the Management and Supervisory Boards; this policy contains a deductible that meets the requirements of Sec. 93 (2) sentence 3 AktG and recommendation 3.8 (3) in conjunction with (2) of the German Corporate Governance Code.