

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 elements of the management report – are available online at <https://ir.tlg.eu/corporategovernance> and <https://www.wcm.de/en/company/corporate-governance>. Pursuant to Sec. 317 (2) sentence 4 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).

Therefore, under Sec. 111 (5) AktG, the Supervisory Board must set the targets and implementation deadlines for the Management and Supervisory Boards of the company.

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. The Supervisory Board is not currently meeting this target.

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. All of the 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%; the proportion of women on these management levels may not fall below this target before 30 June 2022. These targets were met in 2019.

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.

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 on 13 September 2018, Mr Klinck and Mr Overath were appointed as members of the Management Board and received their employment contracts with effect from 1 October 2018.

By resolution of the Supervisory Board on 28 May 2019, Mr Bar-Hen was appointed as a member of the Management Board and its CEO with effect from 3 June 2019.

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 2019 in its meeting on 20 March 2019.

Another Management Board member, the CEO Mr Barak Bar-Hen, was appointed in 2019; his remuneration from 3 June 2019 onwards has been taken into account proportionately.

in EUR k	Barak Bar-Hen	Gerald Klinck	Jürgen Overath
Base remuneration	500	450	450
Short-term variable remuneration (STI)	300	250	250
Long-term variable remuneration (LTI)	400	300	300
Total remuneration	1,200	1,000	1,000

The 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 benefits¹. 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.

Short-term incentive (STI)

Every year, the members of the Management Board and its Chairperson 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 year in which the person in question assumed the role.

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

¹ Essentially from the fixed compensation for use of a private car and for private pension funds

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 for the members of the Management Board and EUR k 450 for the Chairperson, 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 for the members of the Management Board and a maximum of 1.2 for the Chairperson.

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 towards the targets.

Starting from the year in which the person in question assumed the role (Mr Klinck and Mr Overath in 2018, Mr Bar-Hen in 2019), the LTI is paid in the form of virtual shares (performance shares) which are converted into cash bonuses and paid out as such after the end of each LTI performance period with consideration for the achievement of LTI targets.

The key parameters for the LTI for the members of the Management Board are the performance of the EPRA NAV (target NAV per share) and the performance of the company's shares (total shareholder return) 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 (total shareholder return performance).

The target NAV per share for the performance period is defined by the Supervisory Board at the start of each financial year.

The parameters are weighted against one another in a ratio of 50% (NAV per share development) and 50% (total shareholder return performance factor).

At the start of each four-year period, the number of assigned virtual shares is defined 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 LTI is the product of the number of virtual shares allocated for the financial year, the share price at the end of every fourth year plus the sum of the dividend per share paid during the LTI performance period and the LTI target performance factor (the total LTI factor). The performance factor is based equally on progress on the NAV per share factor and the total shareholder return 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, the performance is scored as zero. Likewise, if the total shareholder return of the company's shares is at least 15% poorer than the total shareholder return of the reference index, the total shareholder return performance factor is scored as zero.

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 LTI is capped at a maximum of EUR k 750 (for Mr Klinck and Mr Overath) and EUR k 1,000 (for the CEO Mr Bar-Hen), yet it is also capped in that the total remuneration including base remuneration and STI may not exceed EUR k 1,500 (for Mr Klinck and Mr Overath) or EUR k 1,700 (for the CEO Mr Bar-Hen) in any one financial year.

The following virtual shares were provided to the members of the Management Board in 2019:

Long-term incentive

2019 tranche	Barak Bar-Hen ¹	Gerald Klinck	Jürgen Overath ¹
Settlement date	03/06/2019	20/03/2019	20/03/2019
Number of virtual shares	8,882	11,420	11,420
Fair value as at the settlement date (EUR k)	341	429	429
Intrinsic value of the virtual shares as at 31/12/2019 (EUR k)	378	486	486

¹ Proportionate remuneration from 3 June 2019

With regard to the share-based payments, expenses of EUR k 761 were recognised for Mr Bar-Hen (previous year EUR k 0), expenses of EUR k 824 were recognised for Mr Klinck (previous year EUR k 257) and expenses of EUR k 741 were recognised for Mr Overath in the financial year (previous year EUR k 240).

Total remuneration for the Management Board in 2019 and 2018

In the 2019 and 2018 financial years, the members of the Management Board did not receive any advances or credit.

Benefits received in EUR k	Barak Bar-Hen ¹		Gerald Klinck ²		Jürgen Overath ^{2,3}		Peter Finkbeiner	Niclas Karoff
	2019	2019	2018	2019	2018	2018	2018	
Fixed remuneration	289	450	112	439	112	333	333	
Fringe benefits	89	135	21	65	71	40	26	
Subtotal of fixed remuneration	378	585	133	504	183	373	359	
Short-term variable remuneration (STI)	0	125	0	125	0	300	300	
Long-term variable remuneration (LTI)	0	0	0	0	0	1,857	1,857	
Subtotal of variable remuneration	0	125	0	125	0	2,407	2,407	
Total remuneration	378	710	133	629	183	2,780	2,766	

¹ Proportionate remuneration from 3 June 2019

² Proportionate remuneration from 1 October 2018

³ Proportionate remuneration in 2019 because of long-term illness

Bonuses paid in EUR k	Barak Bar-Hen ¹			Gerald Klinck ²			Jürgen Overath ²			Peter Finkbeiner	Niclas Karoff		
	2019	2019 min.	2019 max.	2019	2019 min.	2019 max.	2018	2019	2019 min.	2019 max.	2018	2018	
Fixed remuneration	289	289	289	450	450	450	112	439	439	450	112	333	333
Fringe benefits	89	89	89	85	85	85	71	65	65	89	71	40	26
Subtotal of fixed remuneration	378	378	378	535	535	535	183	504	504	539	183	373	359
Short-term variable remuneration (STI)	175	0	262	250	0	375	63	250	0	375	63	250	250
Long-term variable remuneration (LTI)	341	0	583	429	0	750	93	429	0	750	93	419	419
Subtotal of variable remuneration	516	0	845	679	0	1,125	156	679	0	1,125	156	669	669
Total remuneration	894	378	1,223	1,214	535	1,660	339	1,183	504	1,664	339	1,042	1,028

Total earnings from the company according to the German Commercial Code (HGB) in EUR k	Barak Bar-Hen ¹	Gerald Klinck ²		Jürgen Overath ²		Peter Finkbeiner	Niclas Karoff
	2019	2019	2018	2019	2018	2018	2018
Fixed remuneration	289	450	112	439	112	333	333
Fringe benefits	89	85	71	65	71	40	26
Subtotal of fixed remuneration	378	535	183	504	183	373	359
Short-term variable remuneration (STI)	175	313	63	313	63	250	250
Long-term variable remuneration (LTI)	341	429	93	429	93	145	145
Subtotal of variable remuneration	516	742	156	742	156	395	395
Total remuneration	894	1,277	339	1,246	339	768	754

¹ Proportionate remuneration from 3 June 2019

² Proportionate remuneration from 1 October 2018

Current pensions were paid to two former managing directors in 2018 and 2019. The expenses totalled EUR 0.168 m in 2018 and EUR 0.166 m in 2019. The provisions formed for the pensions amount to EUR 2.475 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).

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 a 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 Sascha Hettrich) receives three times this amount and the Vice-chairperson (Mr Ran Laufer) 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 EUR k	Presidential and nomination committee	Audit committee	Capital market and acquisitions committee	Project development committee
Michael Zahn ¹	C	M	C	
Dr. Michael Bütter ¹	M		M	M
Sascha Hettrich ²	M			C
Sascha Hettrich (C) ³	C	M	C	M
Jonathan Lurie ³	M	M	M	
Helmut Ullrich		C	M	M ²
Stefan E. Kowski ⁴				
Klaus Krägel ³				C
Ran Laufer (VC) ³	M			M

¹ Until 21 May 2019 ² Until 20 May 2019 ³ From 21 May 2019 ⁴ Until 15 May 2019
 C = Chairperson M = Member VC = Vice-chairperson

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 2019 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	50,000.00	6,250.00	4,166.67	6,250.00	0	12,666.67	79,333.33
Dr. Michael Bütter ¹	25,000.00	3,125.00	0	3,125.00	3,125.00	6,531.25	40,906.25
Helmut Ullrich	40,000.00	0	20,000.00	7,500.00	3,125.00	13,418.75	84,043.75
Sascha Hettrich ^{4,5}	93,333.33	12,500.00	10,000.00	10,000.00	10,000.00	24,700.00	154,700.00
Stefan Kowski ¹	16,666.67	0	0	0	0	0	16,666.67
Jonathan Lurie ²	36,666.67	5,000.00	6,666.67	5,000.00	0	0	53,333.33
Klaus Krägel ³	26,666.67	0	0	0	10,000.00	6,966.67	43,633.33
Ran Laufer ³	40,000.00	5,000.00	0	0	5,000.00	9,500.00	59,500.00

¹ Proportionate at 5/12; resigned in May ² Proportionate at 11/12; appointed from February 2019 ³ Proportionate at 8/12; appointed from May 2019
⁴ Proportionate at 8/12; Chairperson from May 2019 ⁵ Cap (according to Sec. 13.3 of the Articles of Association, Group-wide)

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.