

# CORPORATE GOVERNANCE REPORT AND DECLARATION ON CORPORATE GOVERNANCE

In this declaration, TLG IMMOBILIEN AG (also referred to as ‘the Company’) reports on the principles of management pursuant to § 289a of the German Commercial Code (HGB) and on corporate governance pursuant to § 161 of the German Stock Corporation Act (AktG) and recommendation 3.10 of the German Corporate Governance Code (‘the Code’). Besides a declaration of compliance with the Code, the declaration contains information on management practices, the composition and methods of the Management and Supervisory Boards and Supervisory Board committees, as well as information on other significant corporate governance structures.

## IMPLEMENTATION OF THE CODE

Corporate governance denotes the responsible management and control of a company with a view to generating value over the long term. The management and corporate culture of TLG IMMOBILIEN AG comply with the statutory provisions and – with a few exceptions – the supplementary recommendations of the Code. The Management and Supervisory Boards of TLG IMMOBILIEN AG feel committed to corporate governance; all divisions of the Company adhere to it. We focus on values such as expertise, transparency and sustainability.

In the 2014 financial year, the Management and Supervisory Boards worked carefully to meet the standards of the Code. They factored in the amendments to the Code of 24 June 2014, which were published in the Federal Gazette on 30 September 2014, and in April 2015 they issued their declaration of compliance with the recommendations of the Code for the 2014 financial year in line with § 161 AktG and explained the few deviations. The declaration is available to shareholders and interested investors alike at <http://ir.tlg.eu/websites/tlg/English/7200/declaration-of-compliance.html>.

## DECLARATION OF COMPLIANCE

In April, the Management and Supervisory Boards of the Company issued the following joint declaration of compliance pursuant to § 161 AktG:

“The Management and Supervisory Boards of TLG IMMOBILIEN AG declare that TLG IMMOBILIEN AG has fulfilled the recommendations of the amended Code dated 24 June 2014 since 10 September 2014 (the date on which the Company’s reorganisation as an Aktiengesellschaft was entered into the commercial register), with the exception of recommendation 4.2.1 (no spokesman for the Management Board), recommendation 5.4.1 (concrete objectives regarding the composition of the Supervisory Board), recommendation 5.6 (examination of efficiency) and recommendation 7.1.2 line 4 (shorter publication deadlines for financial reports). Furthermore, the Management and Supervisory Boards of TLG IMMOBILIEN AG intend to meet all of the recommendations of the Code in the future, excluding the following temporary exceptions described below.

#### **RECOMMENDATION 4.2.1 OF THE CODE: THE MANAGEMENT BOARD SHALL HAVE A CHAIRMAN OR SPOKESMAN**

Recommendation 4.2.1 of the Code recommends that the Management Board consist of several people and has a chairman or spokesman.

Due to the size and composition of the Management Board, the chosen structure ensures good, close cooperation between its members.

#### **RECOMMENDATION 5.4.1 OF THE CODE: CONCRETE OBJECTIVES REGARDING THE COMPOSITION OF THE SUPERVISORY BOARD**

Pursuant to recommendation 5.4.1 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of recommendation 5.4.2, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report.

Due to the fact that the Supervisory Board was only active for four months in the 2014 financial year, and the fact that the 2014 financial year was greatly characterised by the IPO, such objectives have not yet been set; as a result, recommendations to election bodies could not take these into account and there is no such information in the Corporate Governance Report. In the future, objectives are to be set on a regular basis. In light of the German law on equal opportunities for men and women in managerial positions in public and private companies, the Supervisory Board will address the issue of having a fair proportion of women as it will be responsible for defining goals designed to increase the number of women on the Supervisory and Management Boards and for setting deadlines for these goals. The Company plans to fulfil these recommendations in the future.

#### **RECOMMENDATION 5.6 OF THE CODE: EXAMINATION OF EFFICIENCY**

Pursuant to recommendation 5.6 of the Code, the Supervisory Board shall examine the efficiency of its activities on a regular basis.

Due to the fact that the Supervisory Board was only active for four months in the 2014 financial year, this examination of efficiency has not yet been carried out. It will be carried out regularly in the future.

#### **RECOMMENDATION 7.1.2 LINE 4 OF THE CODE: SHORTER PUBLICATION DEADLINES FOR FINANCIAL REPORTS**

Pursuant to recommendation 7.1.2 line 4 of the Code, the consolidated financial statements of the Company shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period.

TLG IMMOBILIEN AG published the interim report within two months of the end of each reporting period. Due to internal optimisations, the processes are to be adapted and streamlined – with consideration for the level of care necessary for the preparation of financial reports – in order that the goal of publishing consolidated financial statements and interim reports, which are to be prepared after this declaration of conformity is issued, within the deadlines prescribed by recommendation 7.1.2 line 4 of the Code is achieved.”

Furthermore, the Company voluntarily fulfils the recommendations of the version of the Code dated 24 June 2014, with the following exceptions:

- ▼ Recommendation 2.3.2 of the Code: availability of the representative during the general meeting;
- ▼ Recommendation 2.3.3 of the Code: following the general meeting using modern communication media.

#### **MANAGEMENT PRACTICES**

At the moment, no special management practices exceeding the statutory requirements or the recommendations of the Code are in place.

#### **WORKING METHODS OF THE MANAGEMENT AND SUPERVISORY BOARDS**

As an Aktiengesellschaft incorporated under German law, TLG IMMOBILIEN AG has a dual management system consisting of the Management Board and Supervisory Board. The Management and Supervisory Boards work closely together to further the interests of the Company. In this context, the Management Board is responsible for management, and the role of the Supervisory Board involves control, monitoring and consultation. The shareholders of TLG IMMOBILIEN AG exercise their rights in the general meeting.

#### **MANAGEMENT BOARD**

The Management Board is responsible for the management of TLG IMMOBILIEN AG in line with the statutory provisions, the Articles of Association and the rules of procedure for the Management Board. Obligated to generate long-term value, it serves the interests of the Company. The Management Board develops the strategy of the Company, coordinates it with the Supervisory Board and ensures that it is implemented. It is also responsible for reasonable risk management and control within the Company and for submitting regular, prompt and comprehensive reports to the Supervisory Board.

The Management Board performs its management duties as a collegial body. The Board's overall responsibility for general management notwithstanding, the members of the Management Board manage the divisions to which each has been assigned by the Management Board on their own authority. The divisions are divided between the members of the Management Board as set out in the business distribution plan. Under this plan, Mr Peter Finkbeiner is responsible for finance,

controlling, accounting, investor relations, legal, IT/organisation and human resources, and Mr Niclas Karoff is responsible for investments, disposals, portfolio/asset management, marketing/public relations and branches (acquisition and sale, property management, project development). Both members of the Management Board are jointly responsible for the auditing division.

The work of the Management Board is governed in more detail by rules of procedure which assign responsibilities from a functional perspective. The rules of procedure for the Management Board were most recently amended by the Supervisory Board on 25 November 2014. The rules of procedure stipulate that the strategic orientation of the Company and the strategic allocation of resources in particular are determined by the entire Management Board. Additionally, the rules of procedure stipulate that measures and transactions which are of extraordinary significance to the Company and/or TLG IMMOBILIEN Group companies, or which involve an extraordinarily high economic risk, require the prior approval of the entire Management Board. Furthermore, the rules of procedure require certain transactions of fundamental significance to be approved by the Supervisory Board or one of its committees in advance. The Articles of Association also stipulate that transactions of fundamental significance require the approval of the Supervisory Board.

The Management Board provides the Supervisory Board with regular, prompt and comprehensive reports on all relevant matters of strategy, planning, business development, risk, risk management and compliance.

#### **SUPERVISORY BOARD**

The Supervisory Board monitors, controls and advises the Management Board. It works closely with the Management Board to further the interests of the Company and is involved in decisions of fundamental importance to the Company.

Its rights and duties are determined by the statutory provisions, the Articles of Association and the rules of procedure for the Supervisory Board dated 8 September 2014. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning. It works both in plenary sessions and in committees (see below). The committees work to improve the efficiency of the Supervisory Board's activities. The chairmen of the committees regularly report to the Supervisory Board on the work of their committees. In line with its rules of procedure, the Supervisory Board must convene at least twice every six months. Otherwise, it convenes as often and as soon as the interests of the Company demand. Four Supervisory Board meetings are currently scheduled for the 2015 calendar year.

The members of the Supervisory Board are selected in particular by virtue of their expertise, abilities and professional experience which they will need in order to carry out their work. Only persons who will still be under the age of 75 as of the date of appointment may stand for election to the Supervisory Board of the Company. In its rules of procedure, the Supervisory Board has set itself the requirement that at least one independent member of the Supervisory Board must be an expert in either accounting or auditing (§ 100(5) AktG). Furthermore, the rules of procedure stipulate that a member of the Supervisory Board who also belongs to the management board of a listed company may not be a member of more than two other supervisory boards of listed companies or companies with similar requirements which do not belong to the TLG Group in which the Management Board activities are being performed. Additionally, members of the Supervisory Board may perform any executive functions or serve as consultants for major competitors of the TLG Group. Diversity must also be taken into account. In the future, the Company will follow the specific recommendations of recommendation 5.4.1 (2) and (3) of the Code which

concern the composition of the Supervisory Board under certain criteria, the inclusion of these objectives in the recommendations of the Supervisory Board and the publication of the objectives and their implementation status in the Corporate Governance Report. As set out in the declaration of compliance which is available at <http://ir.tlg.eu/websites/tlg/English/7200/declaration-of-compliance.html>, however, the Company has so far refrained from following these recommendations because the 2014 financial year was essentially characterised by the IPO and the Supervisory Board was only established in September 2014.

#### **COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS**

Pursuant to the Articles of Association, the Management Board consists of at least two people. The Supervisory Board, which appoints the members, specifies the number of members. In the 2014 financial year, the Management Board has consisted of two members since 8 September 2014. The Management Board has no chairman.

Pursuant to the Articles of Association, the Supervisory Board consists of six members. It is not subject to any employee participation. All of the members are elected by the general meeting as representatives of the shareholders.

Pursuant to § 285 no 10 HGB, more information on the members of the Management and Supervisory Boards can be found in the notes to the annual financial statements of TLG IMMOBILIEN AG (page 50 et seq.).

#### **COLLABORATION BETWEEN THE MANAGEMENT AND SUPERVISORY BOARDS**

The Management and Supervisory Boards work closely together to further the interests of the Company. The intensive, ongoing dialogue between the Boards is the basis for efficient and effective corporate governance. The Management Board develops the strategy of TLG IMMOBILIEN, coordinates it with the Supervisory Board and ensures that it is implemented. The Management and Supervisory Boards regularly meet to discuss the implementation of the strategy. The Chairman of the Supervisory Board is in regular contact with the Management Board and discusses matters of strategy, planning, business development, risk, risk management and compliance with it. The Management Board immediately informs the Chairman of the Supervisory Board of any major events of significance to the analysis of the Company's situation and development and to the management of the Company and its Group companies. The Chairman of the Supervisory Board then immediately informs the Supervisory Board and, if necessary, convenes an extraordinary Supervisory Board meeting.

The Articles of Association and the rules of procedure for the Management Board stipulate that transactions of fundamental significance require the approval of the Supervisory Board.

The members of the Management Board must immediately reveal any conflicts of interests to the Supervisory Board and their fellow Management Board members. Likewise, significant transactions between members of the Management Board or related parties and the Company require the approval of the Supervisory Board, as does the commencement of secondary employment outside of the Company.

A D&O group insurance policy was taken out for the members of the Management and Supervisory Boards; this policy contains an excess that meets the requirements of § 93(2) AktG.

## COMMITTEES OF THE SUPERVISORY BOARD

In the 2014 financial year, the Supervisory Board had two committees: the presidential and nomination committee and the audit committee. Other committees can be formed if necessary.

The presidential and nomination committee provides advice on its areas of expertise and prepares resolutions for the Supervisory Board. In particular, it prepares the resolutions of the Supervisory Board on the following matters:

- a) Appointing and dismissing members of the Management Board;
- b) Concluding, amending and terminating the employment contracts of members of the Management Board;
- c) The structure of the remuneration system for the Management Board, including the key contractual elements and the total remuneration for each member of the Management Board;
- d) Supervisory Board recommendations for the general meeting in connection with the election of suitable members of the Management Board;
- e) Principles of financing and investments, including the capital structure of TLG IMMOBILIEN Group companies and dividend payments;
- f) Principles of acquisition and disposal strategies, including the acquisition and disposal of individual shareholdings of strategic significance.

The presidential and nomination committee regularly advises the Management Board on long-term succession planning.

The presidential and nomination committee consists of Mr Michael Zahn, Mr Alexander Heße and Dr Michael Bütter. The Chairman of the Supervisory Board is also the Chairman of the presidential and nomination committee.

### Audit committee

The audit committee predominantly monitors the accounting process, the effectiveness of the internal control system and audit system, the audit of the financial statements – especially the independence of the auditor – the additional services rendered by the auditor, the selection of an auditor, the identification of main audit points, the auditor's fee and compliance.

The audit committee prepares the resolutions of the Supervisory Board on the annual financial statements (and, if necessary, also the consolidated financial statements), i.e. it is primarily responsible for the preliminary audit of the documents of the financial statements and consolidated financial statements, the preparation of their approval/adoption and the proposed appropriation of profits by the Management Board. Furthermore, the audit committee prepares the agreements with the auditor (especially the awarding of the audit contract, the definition of focal points for the audit and the agreed fees) as well as the appointment of the auditor by the general meeting. This also involves the verification of the necessary degree of independence, in which regard the audit committee takes reasonable steps to determine and monitor the independence of the auditor. In lieu of the Supervisory Board, the audit committee approves contracts with auditors for

additional consultancy services if such contracts require consent under the Articles of Association or the rules of procedure for the Management Board. The audit committee discusses the principles of compliance, risk documentation, risk management and the suitability and effectiveness of the internal control system with the Management Board. Four audit committee meetings are currently scheduled for the 2015 calendar year.

The audit committee consists of Mr Axel Salzmann (Chairman), Mr Michael Zahn and Ms Elisabeth Stheeman. The Chairman of the audit committee is independent and has particular knowledge and experience in the application of GAAP and internal control processes, and therefore meets the requirements of § 100(5) AktG. The members of the audit committee are experts in accounting and auditing and the composition of the committee meets all independence requirements in terms of the Recommendation of the European Commission of 15 February 2015 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) OJEU L 52 of 25 February 2005, p. 51, as well as the recommendation of the Code.

The Management Board has not formed any committees. However, as a collegial body it performs its management duties whereby individual organisational units have been assigned to each member of the Management Board.

#### **GENERAL MEETING AND SHAREHOLDERS**

As set out by the Articles of Association, the shareholders of TLG IMMOBILIEN AG can exercise their rights in the general meeting, including their voting rights. Every share grants one vote.

The general meeting takes place annually, within the first eight months of the financial year. The agenda of the general meeting and the reports and documents required for the general meeting are published on the website of TLG IMMOBILIEN AG.

Fundamental resolutions are passed in general meetings, including resolutions on the appropriation of profits, the dismissal of Management and Supervisory Board members, the election of members to the Supervisory Board, the appointment of the auditor, amendments to the Articles of Association and measures affecting the capital of the Company. The general meeting is a good opportunity for the Management and Supervisory Boards to come face to face with the shareholders and discuss the future course of the Company.

In order to make it easier for them to exercise their rights, TLG IMMOBILIEN AG provides its shareholders with a proxy, who is bound to follow their instructions; the proxy remains available during the general meeting. The invitation to the general meeting explains how instructions can be issued in the run-up to the general meeting. Additionally, the shareholders are free to have an authorised representative of their choice represent them in the general meeting.

## OTHER CORPORATE GOVERNANCE

### REMUNERATION OF THE MANAGEMENT BOARD

The remuneration system for the Management Board is regularly the subject of consultation, examination and revision in the plenary sessions of the Supervisory Board.

The contracts of the members of the Management Board of TLG IMMOBILIEN AG contain fixed and variable components. For all members of the Management Board, the variable remuneration is adapted to the requirements of § 87(1) line 3 AktG. It is contingent on the achievement of economic targets for the Company and is predominantly based on multi-year assessment principles. The variable remuneration is only payable if the course of business was sufficiently positive. The remuneration structure has been designed to ensure sustainable corporate development and it optimises the risks and rewards of the variable remuneration.

The full remuneration report of TLG IMMOBILIEN AG for the 2014 financial year is available on the website of the Company at <http://ir.tlg.eu/websites/tlg/English/7400/remuneration-report.html>.

### REMUNERATION OF (EXECUTIVE) EMPLOYEES

In January 2015, a long-term incentive programme was introduced for executives and other individual employees whose incentives, like a share option scheme, are based on external factors such as the performance of the FTSE EPRA/NAREIT Europe Index and the development of its factors, over a period of four years. The calculations and defined targets of this programme comply with the long-term incentive regulations of the Management Board, which are set out in the remuneration report published at <http://ir.tlg.eu/websites/tlg/English/7400/remuneration-report.html>.

### REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board was set out in § 13 of the Articles of Association by the general meeting. The members of the Supervisory Board receive fixed annual remuneration of EUR 30,000. The Chairman of the Supervisory Board receives double this amount and the Vice-chairman receives one-and-a-half-times this amount. Additionally, every member of the Supervisory Board receives fixed remuneration of EUR 5,000 per financial year for their membership in the audit committee of the Supervisory Board. The Chairman of the Supervisory Board receives double this amount. Every member of the Supervisory Board receives fixed remuneration of EUR 5,000 per financial year for their membership in the presidential and nomination committee of the Supervisory Board. The Chairman of the Supervisory Board receives double this amount. Additionally, every member of the Supervisory Board receives an attendance fee of EUR 1,500 every time they attend a physical meeting of the Supervisory Board and its committees in person. Expenses are reimbursed. Additionally, the Company provides the members of the Supervisory Board with insurance cover at its own expense as part of a D&O group insurance policy for corporate bodies and managers. In this context, an excess in line with the requirements of § 93(2) AktG was agreed for the members of the Supervisory Board.

No performance-based remuneration is paid to the members of the Supervisory Board. The remuneration report contains a breakdown of the remuneration of the Supervisory Board for each member.



## **REPORTABLE SECURITY TRANSACTIONS AND SHAREHOLDINGS OF THE MANAGEMENT AND SUPERVISORY BOARDS**

Under § 15a of the German Securities Trading Act (WpHG), the members of the Management and Supervisory Boards of TLG IMMOBILIEN AG, including related parties, are obliged to disclose transactions involving shares of TLG IMMOBILIEN AG or financial instruments relating to said shares within five working days. The Company immediately publishes these transactions after they are reported to it. These transactions are published on the Company's website at [http://ir.tlg.de/websites/tlg/English/3400/directors\\_-dealings.html](http://ir.tlg.de/websites/tlg/English/3400/directors_-dealings.html).

## **COMPLIANCE AS A SIGNIFICANT MANAGERIAL RESPONSIBILITY**

In order to ensure adherence to the code of conduct and standards of the Code, as well as the statutory provisions, TLG IMMOBILIEN AG has appointed a compliance officer and a capital market compliance officer. The former informs the management and employees of any relevant general legal circumstances. The latter maintains the insider list of the Company and informs the management, employees and business partners of the consequences of breaches of insider trading regulations.

## **REASONABLE RISK AND OPPORTUNITY MANAGEMENT**

For TLG IMMOBILIEN AG, responsible conduct in the face of opportunities and risks is of fundamental importance. This is ensured by comprehensive opportunity and risk management which identifies and monitors significant opportunities and risks. This system is continuously enhanced and adapted based on the changing general conditions.

More detailed information is available in the management report: the risk management of TLG IMMOBILIEN AG is presented from page 72 of the management report, strategic opportunities are described on pages 81 and information on Group accounting can be found on page 98 of the notes.

## **COMMITTED TO TRANSPARENCY**

As part of ongoing investor relations, at the start of the year all dates of importance to shareholders, investors and analysts are marked in the financial calendar for the duration of each financial year. The financial calendar, which is updated continuously, is available on the Company's website at <http://ir.tlg.de/websites/tlg/English/6000/financial-calendar.html>.

The Company provides information to shareholders, analysts and journalists in line with holistic criteria. The information is transparent and consistent for all market participants. Ad-hoc announcements, press releases and presentations of press and analysts' conferences and roadshows are immediately published on our website.

Insider information (ad-hoc publicity), voting rights notifications and security transactions involving members of the Management and Supervisory Boards or their related parties (directors' dealings) are immediately published by TLG IMMOBILIEN AG in line with the statutory provisions. These are also published on the Company's website at [http://ir.tlg.de/websites/tlg/English/3400/directors\\_-dealings.html](http://ir.tlg.de/websites/tlg/English/3400/directors_-dealings.html).

## **FINANCIAL REPORTING**

Once again, EY Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was appointed auditor for 2014 by the general meeting. Before the general meeting, EY Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft issued a declaration that there were no business, financial, personal or other relationships between the auditor, its bodies or audit managers and the Company or the members of its bodies which could throw its independence into question.

As set out in the declaration of compliance with recommendation 7.1.2 of the Code, TLG IMMOBILIEN AG intends to adhere to the Code's publication deadlines of 90 days after the financial statements for the consolidated financial statements and 45 days after the end of the reporting period for interim reports.

## **MORE INFORMATION**

More information on the activities of the Supervisory Board and its committees, and on its collaboration with the Management Board, is available in the report of the Supervisory Board.