

# CORPORATE GOVERNANCE REPORT AND DECLARATION ON CORPORATE GOVERNANCE

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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 as well as the composition and methods of the Management Board and Supervisory Board and Supervisory Board committees.

## 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 the corporate culture of TLG IMMOBILIEN AG comply with the statutory provisions and – with a few exceptions – the supplementary recommendations of the Code. The Management Board and Supervisory Board feel committed to ensuring good corporate governance, and all divisions of the Company adhere to this objective. The Company focuses on values such as expertise, transparency and sustainability.

In the 2016 financial year, the Management Board and Supervisory Board worked carefully to meet the requirements of the Code. They factored in the recommendations to the Code from 5 May 2015 and, in March 2017, pursuant to § 161 AktG, they issued their declaration of compliance with the recommendations of the Code for the 2016 financial year accompanied by statements regarding the few deviations. The declaration is available on the website of the Company <http://ir.tlg.eu/corporategovernance>.



## DECLARATION OF COMPLIANCE

In March 2017, the Management Board and Supervisory Board of the Company issued the following joint declaration of compliance pursuant to § 161 AktG:

“The Management Board and Supervisory Board of TLG IMMOBILIEN AG declare that, in the 2016 financial year, TLG IMMOBILIEN AG has fulfilled the recommendations of the amended Code dated 5 May 2015, with the exceptions of recommendation 4.2.1 (no spokesperson for the Management Board) and recommendation 5.4.1 (regular limit of length of membership for the members of the Supervisory Board). Furthermore, the Management Board and Supervisory Board of TLG IMMOBILIEN AG intend to meet all of the recommendations of the Code in the future, excluding the following exceptions described below.

**RECOMMENDATION 4.2.1 OF THE CODE:****THE MANAGEMENT BOARD SHALL HAVE A CHAIRPERSON OR SPOKESPERSON**

Recommendation 4.2.1 (1), line 1, of the Code recommends that the Management Board consist of several people and have a chairperson or spokesperson.

The Company does not believe that it would be advisable to appoint a Management Board chairperson or spokesperson in light of the corporate governance system in place within the Company. As the Management Board consists of just two members, and given their long-term, collegial collaboration, the members of the Management Board are able to work together closely and productively.

**RECOMMENDATION 5.4.1 OF THE CODE:****REGULAR LIMIT OF LENGTH OF MEMBERSHIP FOR THE MEMBERS OF THE SUPERVISORY BOARD**

In accordance with recommendation 5.4.1 (2), line 1, of the Code, the Supervisory Board should specify a regular limit of length of membership for the members of the Supervisory Board.

The Company does not consider such a regular limit appropriate. For the Supervisory Board to be functional and effective, it must consist of a healthy mixture of experienced and newly appointed members. Experienced, long-standing members of the Supervisory Board lose neither their independence nor their access to new ideas through the passage of time alone. The general diversity for which recommendation 5.4.1 of the Code calls must also apply in terms of the length of membership of members of the Supervisory Board and therefore the experience of its members. The specification of a regular limit of length of membership contradicts this call.

Furthermore, the Company voluntarily fulfils the recommendations of the version of the Code dated 5 May 2015, with the following exception:

Under recommendation 2.3.3 of the Code, the Company should make it possible for shareholders to follow the general meeting using modern communication media (e.g. the Internet).

In order to preserve the nature of the general meeting as a face-to-face meeting between the shareholders, the Company has opted not to follow this recommendation. Instead, the Company publishes the results of votes and the presentation of the Management Board on its website.

**MANAGEMENT PRACTICES**

The management practices of TLG IMMOBILIEN AG are as follows:

**WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD**

As an Aktiengesellschaft ("stock corporation") incorporated under German law, TLG IMMOBILIEN AG has a dual management system consisting of the Management Board and the Supervisory Board. The Management Board and Supervisory Board work closely together to further the interests of the Company. The Management Board manages the Company whilst the Supervisory Board advises and monitors it. The shareholders of TLG IMMOBILIEN AG exercise their rights in the general meeting.

**MANAGEMENT BOARD**

The Management Board is responsible for the management of the Company in line with the statutory provisions, the Articles of Association and the rules of procedure for the Management Board. It is obliged to serve 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 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 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 rules of procedure for the Management Board. In line with the rules of procedure, Mr Peter Finkbeiner is responsible for finance, controlling, accounting, investor relations, legal, IT/organisation and human resources. 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 the Supervisory Board most recently updated in May 2016. The rules of procedure stipulate that the strategic orientation of the Company and the strategic allocation of resources are determined by the entire Management Board. Additionally, measures and transactions which are of extraordinary significance to the Company and/or Group companies, or which involve an extraordinarily high economic risk, require the prior approval of the entire Management Board. Furthermore, the rules of procedure and Articles of Association require certain transactions of fundamental significance to be approved by the Supervisory Board or one of its committees in advance.

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 and advises the Management Board. It works closely with the Management Board to further the interests of the Company and is involved in all decisions of fundamental importance.

Its rights and duties are determined by the statutory provisions, the Articles of Association, the rules of procedure for the Supervisory Board dated 8 September 2014 and the rules of procedure for the Management Board. 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 (more details below). The committees work to improve the efficiency of the Supervisory Board's activities. The chairpersons 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 whenever the interests of the Company require it. Four Supervisory Board meetings are currently scheduled for the 2017 calendar year.

In particular, the members of the Supervisory Board are selected by virtue of their expertise, abilities and professional suitability. 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 out the requirement that at least one independent member of the Supervisory Board must be an expert in either accounting or auditing (§ 100 (5) clause 1 AktG). According to § 100 (5) clause 2 AktG, all of the members of the Supervisory Board must also be familiar with the sector in which the company operates. 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 IMMOBILIEN Group company in which the Management Board activities are being performed. Additionally, members of the Supervisory Board may not perform any executive functions or serve as consultants for major competitors of the TLG Group. Diversity must also be taken into account with regard to the composition of the Supervisory Board. The Company has followed 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, with the exception that there is no limit for the term of membership on the Supervisory Board pursuant to recommendation 5.4.1 (2), line 1, of the Code.

### PROPORTION OF WOMEN

In its meeting on 25 September 2015, the Supervisory Board set the target proportion of women on the Supervisory Board at 16.67%. The minimum target proportion of women on the Management Board of TLG IMMOBILIEN AG is zero. These targets are to be met continuously until 30 June 2017.

In its meeting on 30 September 2015, the Management Board set the minimum proportion of women on the first management level below the Management Board at 11.11% 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 2017.

### COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Pursuant to the Articles of Association, the Management Board consists of at least two people. The Supervisory Board specifies the number of members. In the 2016 financial year, the Management Board consisted of two equal members, each of whom was responsible for the divisions to which they had been assigned.

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. Mr Alexander Heße resigned from his position as a member of the Supervisory Board effective from the end of the 2016 general meeting. Mr Frank D. Masuhr was appointed as a member of the Supervisory Board by a court order dated 10 February 2017. All of the members of the Supervisory Board are also familiar with the commercial real estate sector.

Pursuant to § 285 No. 10 HGB, more information on the members of the Management Board and Supervisory Board can be found in the notes to the annual financial statements of TLG IMMOBILIEN AG (pages 10, 11: [www.tlg.eu](http://www.tlg.eu) > *Investor Relations* > *Financial reports & presentations*).



### COLLABORATION BETWEEN THE MANAGEMENT AND SUPERVISORY BOARDS

The Management and Supervisory Boards work closely together to further the interests of the Company. The intensive and ongoing dialogue between the Boards is the basis for efficient and effective corporate governance. The Management Board develops the strategy of TLG IMMOBILIEN AG, 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 Chairperson 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 Chairperson 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 Chairperson 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 Board and Supervisory Board. This policy contains an excess that meets the requirements of § 93 (2), line 3 AktG and recommendation 3.8 of the Code.

## COMMITTEES OF THE SUPERVISORY BOARD

In the 2016 financial year, the Supervisory Board had three committees: the presidential and nomination committee, the audit committee and the capital measures committee. Other committees can be formed if necessary.

### PRESIDENTIAL AND NOMINATION COMMITTEE

The presidential and nomination committee provides advice on its areas of expertise and prepares resolutions for the Supervisory Board, especially concerning 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 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.

As at March 2017, the presidential and nomination committee consisted of Mr Michael Zahn, Dr Michael Bütter and Dr Claus Nolting. The Chairperson of the Supervisory Board is also the Chairperson 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. 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 2017 calendar year.

As at 9 March 2017, the audit committee consisted of Mr Helmut Ullrich (Chairman), Ms Elisabeth Stheeman and Dr Claus Nolting. 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) clause 1 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 European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), as well as the recommendations of the Code.

#### CAPITAL MEASURES COMMITTEE

In its meeting on 10 November 2016, the Supervisory Board formed a capital measures committee. The committee advises the Management Board on transactions relating to the capital markets and grants any necessary approvals in lieu of the plenary session.

The capital measures committee consists of Mr Michael Zahn (Chairman), Dr Michael Bütter and Mr Helmut Ullrich.

#### MANAGEMENT BOARD COMMITTEES

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

#### GENERAL MEETING AND SHAREHOLDERS

The shareholders of TLG IMMOBILIEN AG can exercise their rights in the general meeting, including their voting rights. Every share in the Company 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 the Company <http://ir.tlg.eu/corporategovernance>.

Fundamental resolutions are passed in general meetings. These include 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 capital measures. The general meeting is an opportunity for the Management Board and Supervisory Board 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 MATTERS OF 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 remuneration 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 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, which optimises the effects of risks and rewards of the variable remuneration.





The full remuneration report of TLG IMMOBILIEN AG for the 2016 financial year is available on the website of the Company <http://ir.tlg.eu/corporategovernance>.

#### 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 the development of external factors (e.g. the FTSE EPRA/NAREIT Europe Index) 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.

#### REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is set out in § 13 of the Articles of Association. In accordance with § 13, the members of the Supervisory Board receive fixed annual remuneration of EUR 30,000. The Chairperson of the Supervisory Board receives double this amount and the Vice Chairperson receives one and a half times this amount. The sum of all remuneration per member of the Supervisory Board may not exceed EUR 80,000 (excluding VAT) per calendar year.

Additionally, every member of the Supervisory Board receives fixed remuneration of EUR 5,000 per financial year for their membership in the audit committee or presidential and nomination committee of the Supervisory Board. The chairpersons of the respective committees receive double this amount. Every member of the Supervisory Board receives fixed remuneration of EUR 3,000 per financial year for each committee membership they have; committee chairpersons receive 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 or its committees in person. Expenses are reimbursed. Additionally, the Company has added the members of the Supervisory Board to a D&O group insurance policy for corporate bodies. This policy features an excess for the members of the Supervisory Board in accordance with recommendation 3.8 of the Code.

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 Article 19 (1) of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), the members of the Management Board and Supervisory Board 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 immediately, or within three working days of the date of the transaction at the latest. Pursuant to Article 19 (2) of the Market Abuse Regulation, the Company immediately publishes these transactions after having been informed of them, or within three working days of the transaction at the latest. The transactions are published on the Company's website at <http://ir.tlg.eu/directors-dealings>.



#### COMPLIANCE AS A SIGNIFICANT MANAGERIAL RESPONSIBILITY

In order to ensure adherence to the code of conduct 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 legal requirements. 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. The system is continuously enhanced and adapted based on the changing general conditions.

More detailed information on the risk monitoring system of the Company is available in the management report: the risk management of TLG IMMOBILIEN AG is presented from page 72, strategic opportunities are described on page 81 and information on Group accounting can be found on page 100 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.eu/financial-calendar>.



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 are published on the website of the Company immediately.

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 published by TLG IMMOBILIEN AG in line with the statutory provisions. These are also published on the Company's website at <http://ir.tlg.eu/directors-dealings>.



### FINANCIAL REPORTING

Once again, the Berlin office of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed auditor and Group auditor for 2016 by the general meeting. Before the general meeting, the auditor 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 bring the independence of the auditor into question.

### 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.