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VIII. REPORT ON THE COMPANY'S REMUNERATION SYSTEM IN ACCORDANCE WITH SECTION 315A (2) NO. 4 OF THE GERMAN COMMERCIAL CODE (REMUNERATION REPORT)

Remuneration scheme for the Supervisory Board

For each full financial year of their membership on the Supervisory Board, members of the Supervisory Board receive fixed compensation in the amount of EUR 20,000.00 plus the premiums for appropriate D&O insurance. The Chairman's Deputy receives 1.5 times this fixed fee, and the Chairman of the Supervisory Board receives a fixed fee in the amount of TEUR 175 for each financial year.

In addition, members of the Audit Committee receive separate compensation. The Chair receives EUR 75,000.00, and each member, except the Chair of the Supervisory Board, receives EUR 5,000.00. The members of the HR Committee receive an attendance fee of EUR 500.00 per meeting.

No variable remuneration based on the company's success or other criteria is granted.

The remuneration paid to the Supervisory Board in the year under review came to TEUR 365 (previous year TEUR 365), plus expenses and VAT, and breaks down as follows:

| Supervisory Board Member | 2017 TEUR | 2016 TEUR |
|---------------------------------|----------------------|----------------------|
| Rolf Elgeti | 175 | 175 |
| Lothar Lanz | 105 | 105 |
| Dr Philipp K. Wagner | 20 | 20 |
| Dr Hans-Jürgen Ahlbrecht | 25 | 25 |
| Harald Kintzel | 20 | 20 |
| Marco Schellenberg | 20 | 20 |
| Total | 365 | 365 |

Remuneration scheme for the Management Board

Basic remuneration system

The members of the TAG Management Board receive a basic remuneration that is not contingent on performance, as well as a variable remuneration, which is paid out partly in cash and partly in the form of TAG shares.

The non-performance-based remuneration takes the form of a fixed annual salary paid out in twelve equal monthly instalments. Some members of the Management Board use a company car, which is taxed accordingly as a non-cash benefit. The members of the Management Board also receive further benefits as other remuneration, some of which are classified as non-cash benefits and are taxed accordingly. In particular, these include a Bahncard (for discounted rail travel), accident and liability insurance, private use of communications devices, and compensation for expenses incurred during business travel. The contracts with the members of the Management Board do not provide for any pension entitlements. Some Management Board members still have pension entitlements from a time before they began to work for the TAG Group. While these are non-forfeitable, they do not entail any new claims since then.

There are fixed calculation schemes for the variable remuneration. Only in exceptional cases can the Supervisory Board resolve a divergent procedure in view of extraordinary situations and/or extraordinary achievements by the individual Management Board member. In the event of any extraordinary development in the individual criteria, the Supervisory Board may change their individual weighting.

Members of the Management Board are not entitled to claim any additional bonuses or duplicate remuneration if they simultaneously serve on the Management Board or Supervisory Board of other companies in the Group. Variable remuneration is determined solely at the TAG Immobilien AG level and charged to TAG Immobilien AG. All ancillary activities are subject to approval.

Upon the ordinary termination of office of any member of the Management Board, such member is entitled to payment of any part of the variable remuneration not yet paid out to them, or to any share-based compensation not yet allocated to them. In the event of any change of control, i.e. if a single shareholder or several shareholders acting jointly acquire a majority of the voting rights or a controlling influence over TAG, the members of the Management Board are entitled to terminate their service contract subject to advance notice of six months (special right of termination). If this special right of termination is exercised, the Company undertakes to pay a gross settlement amount on the date of departure that is equal to the annual gross salary, provided that the service contract still has a remaining period of at least 24 months as of the date of termination. If the remaining term is shorter at the time of termination of the Management Board contract, the Management Board contracts contain provisions that provide either the amount that is the gross salary for the remainder of the remaining term, or a gross settlement that is reduced pro rata temporis over the last 24 months based on a full gross annual salary as gross compensation. In the event of a premature termination of Management Board contracts for other reasons, the contracts contain the provision that the compensation payable to them is to be capped at a value equalling two annual salaries, and shall not exceed the amount due for the remaining period of the contract.

Variable remuneration for the 2017 financial year

In the 2017 financial year, as in the previous year, the variable remuneration was granted as 50% in cash and 50% in the form of TAG shares (using treasury shares purchased from the market). The criteria for this variable remuneration are as follows:

- Increase in the share price during the financial year (after deduction of the dividend paid out during the year)
- Increase in the EPRA net asset value (NAV) per share during the year (after deduction of the dividend paid out during the year)
- Increase in the FFO I per share during the year
- Increase in the EBT (earnings before taxes) per share during the year, not taking into account any results from reassessments of the investment properties and from the fair-value reassessment of derivative financial instruments.

These figures are calculated relative to the figures for the previous year as at 31 December and based on the IFRS consolidated financial statements. The number of shares to be granted to the members of the Executive Board is calculated based on the volume-weighted average price (VWAP) of the TAG share over a period of two months before the balance sheet date of the financial year in question.

The maximum variable remuneration is TEUR 250.

60% of the cash component of the variable remuneration is paid after the Supervisory Board's resolution on the variable remuneration of the relevant financial year, and 40% in the following year. In the event of a future negative development and failure to meet the aforementioned criteria, the Supervisory Board can reduce the cash component which has not yet been paid out.

Members of the Management Board can access the TAG shares granted to them as part of their variable remuneration only after a vesting period of three years. The Supervisory Board Chairman's approval is required for the transfer of the shares. Until the end of the vesting period, Management Board members are not entitled to access the treasury shares that TAG may have already acquired for the purpose of variable compensation; they may not resell, pledge or assert any other rights arising from these shares. By law, the shares – as treasury shares of TAG – are not entitled to any voting or dividend rights during this period. No interest accrues on the cash amount of the variable compensation, nor on the value of the shares to which the members of the Management Board are entitled.

Remuneration paid to the Management Board in the 2017 financial year

Remuneration accruing to the Management Board in the year under review (benefits granted) came to TEUR 2,129 (previous year: TEUR 1,955). The amounts paid to the members of the Management Board in the year under review, some of which include remuneration earned in earlier years as well, amount to TEUR 1,743 (previous year: TEUR 1,600).

| in TEUR | Claudia Hoyer COO | | | | Martin Thiel CFO | | | | Dr Harboe Vaagt CLO | | | |
|----------------------------------|----------------------|------------------|----------------|----------------|---------------------|------------------|----------------|----------------|------------------------|------------------|----------------|----------------|
| | 2016 (Actual) | 2017 (Actual) | 2017 (Min.) | 2017 (Max.) | 2016 (Actual) | 2017 (Actual) | 2017 (Min.) | 2017 (Max.) | 2016 (Actual) | 2017 (Actual) | 2017 (Min.) | 2017 (Max.) |
| Granted | | | | | | | | | | | | |
| Fixed remuneration | 375 | 420 | 420 | 420 | 375 | 420 | 420 | 420 | 420 | 420 | 420 | 420 |
| Ancillary benefits | 14 | 14 | 14 | 14 | 7 | 7 | 7 | 7 | 14 | 14 | 14 | 14 |
| Total | 389 | 434 | 434 | 434 | 382 | 427 | 427 | 427 | 434 | 434 | 434 | 434 |
| One-year variable remuneration | 75 | 75 | 0 | 75 | 75 | 75 | 0 | 75 | 75 | 75 | 0 | 75 |
| Multi-year variable remuneration | 175 | 175 | 0 | 175 | 175 | 175 | 0 | 175 | 175 | 175 | 0 | 175 |
| Total | 250 | 250 | 0 | 250 | 250 | 250 | 0 | 250 | 250 | 250 | 0 | 250 |
| Total remuneration | 639 | 684 | 434 | 684 | 632 | 677 | 427 | 677 | 684 | 684 | 434 | 684 |
| Inflow | | | | | | | | | | | | |
| Fixed remuneration | 375 | 420 | 420 | 420 | 375 | 420 | 420 | 420 | 420 | 420 | 420 | 420 |
| Ancillary benefits | 14 | 14 | 14 | 14 | 7 | 7 | 7 | 7 | 14 | 14 | 14 | 14 |
| Total | 389 | 434 | 434 | 434 | 382 | 427 | 427 | 427 | 434 | 434 | 434 | 434 |
| One-year variable remuneration | 83 | 75 | 0 | 75 | 83 | 75 | 0 | 75 | 83 | 75 | 0 | 75 |
| Multi-year variable remuneration | 63 | 118 | 0 | 118 | 0 | 58 | 0 | 58 | 83 | 118 | 0 | 118 |
| Total | 146 | 193 | 0 | 193 | 83 | 133 | 0 | 133 | 166 | 193 | 0 | 193 |
| Benefit expenditures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total remuneration | 535 | 627 | 434 | 627 | 465 | 560 | 427 | 560 | 600 | 627 | 434 | 627 |

In 2017, each member of the Management Board acquired the right to receive 8,085 TAG shares (previous year: EUR 10,617) on a future date, on the basis of the volume-weighted average XETRA price of the TAG share in November and December 2017 of EUR 15.46 (previous year: EUR 11.7732). Including a discount to allow for the absence of a dividend entitlement, this translates to a fair value of TEUR 112 (previous year: TEUR 115) per member of the Management Board as at 31 December 2017.

Variable remuneration from the 2018 financial year

In light of the amendment to the German Corporate Governance Code in 2017, which recommends a multi-year, future-oriented assessment basis for variable compensation, in 2017 the Supervisory Board addressed updating the Management Board's variable remuneration and adopted a new regulation at its meeting on 29 November 2017, which is effective starting from the 2018 financial year. This new regulation differentiates between the

- Short-term Incentive Plan (STIP), which is based on the development of financial KPIs and is intended as immediately payable cash compensation, and the
- Long-term Incentive Plan (LTIP), which is assessed on total shareholder return (TSR) over a 3-year period and is paid in TAG shares.

The STIP is determined on the basis of the following criteria:

- Increase in EPRA NAV per share in the financial year (after elimination of the dividend paid in the financial year)
- Increase in FFO I per share in the financial year
- Increase in EBT per share in the financial year, not taking into account the results from the revaluation of the investment properties and from the revaluation of derivative financial instruments

The STIP cash remuneration is paid out in full following the Supervisory Board's resolution on the variable remuneration of the financial year in question, and is capped at TEUR 125.

The multi-year variable compensation (LTIP), on the other hand, is granted in TAG shares, the number of which is assessed based on the TSR over a three-year period. The TSR performance is assessed on the one hand based on the performance of the TAG share over a three-year period that begins anew each year, and on the other hand relative to the performance of a selected group of competitors (peer group) during this period.

The basis for calculating the share price performance is the volume-weighted average price (VWAP) of the TAG share over a period of two months prior to the reporting date of the financial year at the beginning and the end of a three-year period. To ensure that the measurement basis relates to the future, the target TSR for the 3-year performance period is set at 30%:

- If the actual TSR corresponds to the target TSR, the LTIP amounts to TEUR 150 p.a.
- If the actual TSR is above or below the target TSR, the amount is calculated or adjusted linearly in accordance with the target TSR (an actual TSR of 20%, for example, results in an LTIP of $20/30 \times \text{TEUR } 150 = \text{TEUR } 100$).
- If the actual TSR is negative, the LTIP is TEUR 0.

The actual TSR is compared with the result of the peer group and, if the actual TSR is at least 2% better or 2% worse, this is taken into account by making allowances or deductions. If the actual TSR is better than the performance of the peer group, a supplement of 25% is applied, and in the case of a poorer performance a deduction of 25% is applied.

The peer group is made up of listed real estate companies that, as portfolio holders, have substantial residential real estate in Germany. The peer group currently comprises the following companies: Vonovia SE, Deutsche Wohnen SE, LEG Immobilien AG, Grand City Properties S.A., ADO Properties and Adler Real Estate AG. The values within the group are given equal weighting. In individual cases, the Supervisory Board may change the composition of the peer group if comparability no longer exists due to takeovers or changes in business models, or if the companies shift their focus abroad, or if the inclusion of a given competitor is no longer appropriate for other reasons.

The variable share-based remuneration in the form of the LTIP is capped at TEUR 300. The assignment of the TAG shares that the Management Board is entitled to through the LTIP takes place after the end of the respective three-year period following the Supervisory Board's resolution of the variable remuneration.

Hamburg, 1 March 2018



Claudia Hoyer
COO



Martin Thiel
CFO



Dr. Harboe Vaagt
CLO