

# SYSTEM FOR THE REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD OF TAG IMMOBILIEN AG IN ACCORDANCE WITH SECTION 87A OF THE GERMAN STOCK CORPORATION ACT (ITEM 7)

## A. Introduction and summary

The remuneration system for the members of the Management Board aims to support the sustainable development of the Group strategy of TAG Immobilien AG ("TAG") and contribute to its continued success.

For this reason, the members of the Management Board have for many years been receiving variable remuneration components in addition to fixed remuneration, consisting of a short term incentive plan ("STIP"), which is based on the Company's key performance indicators, and a long term incentive plan ("LTIP"), which is based on total shareholder return (TSR).

The STIP is currently based on the increase in EPRA net asset value ("NAV"), funds from operations excluding sales results ("FFO I") and earnings before taxes net of fair value remeasurement gains and losses on real estate and derivatives ("EBT") compared to the previous year - calculated in each on a per-share basis. LTIP remuneration is currently based on TSR, i.e. the increase in the share price plus dividends paid, over a three-year period. Premiums or discounts are applied to the LTIP to allow for the relative performance of TAG stock compared to its peer group. The STIP remuneration components are paid in cash, while the LTIP remuneration components take the form of awards of TAG shares.

This existing remuneration system ("previous system") was adopted by the Supervisory Board on 29 November 2017 and approved by a majority of the shareholders at the annual general meeting on 23 May 2018.

Under the "Act on the Transposition of the Second Shareholder Rights Directive" ("ARUG II"), which came into force on 1 January 2020, and in compliance with the revised recommendations of the German Corporate Governance Code as published on 20 March 2020

“2020 Code”), the Supervisory Board of TAG passed a resolution on 11 December 2020 to update the previous system by making the changes described below and determined further details of the new remuneration system on 15 March 2021.

The criteria for the STIP have been reweighted, i.e. the proportion of FFO relative to NAV (defined in the future as EPRA net tangible assets, “NTA”) has been increased and EBT replaced by a non-financial target. In addition, individually agreed targets provide for premiums or discounts on the STIP remuneration for individual members of the Management Board. The newly introduced non-financial target (“ESG target”) reflects TAG’s sustainability strategy, which takes into account aspects pertaining to the environment, social responsibility and good corporate governance. TAG considers sustainable management and action to be part of its corporate responsibility towards shareholders, employees and other interest groups (“stakeholders”).

Under the LTIP, the performance period was extended from three to four years and a vesting period of a further four years for the sale of the shares awarded under this programme introduced. Performance is determined solely in accordance with TSR in line with the previous remuneration system. The Supervisory Board reserves the right to additionally implement non-financial performance criteria within the LTIP, which, however, would not lead to any additional remuneration but reduce the proportion of TSR-based remuneration within the LTIP accordingly.

The annual target remuneration for the STIP was increased from EUR 125k to EUR 150k, and the cap on the STIP from EUR 125k to EUR 200k. The annual target remuneration for the LTIP was increased to EUR 250k (previously EUR 150k) and the cap to EUR 400k in 2021 and EUR 500k from 2022 (previously EUR 300k). These increases in the target and maximum STIP and LTIP remuneration are considered to be appropriate in view of TAG’s success, as the Supervisory Board believes that in the interests of the shareholders it is essential to continue providing the Management Board with performance-related incentives in line with market practices. On the other hand, the payment of retention bonuses to members of the Management Board is not in the interest of the shareholders as such bonuses are not directly linked to performance. Since the remuneration paid to the members of the Management Board is also low compared to the peer group, an increase in the target and maximum remuneration together with the definition of ambitious performance targets seemed appropriate. No changes were made with regard to the gross annual fixed remuneration, which was last increased uniformly for all members of the Management Board to EUR 420k p.a. in 2016, or with regard to benefits. It should be noted that even with these proposed increases the remuneration of the members of the Management Board will still be at the lower end of the peer group remuneration scale.

A minimum shareholding obligation for the members of the Management Board and negative bonus/clawback rules in the event of any breaches of duty were included in the remuneration system for the first time.

The new remuneration system will apply from 1 January 2021. The current members of the Management Board have agreed to an amendment to their service contracts prior to their expiry date and have accepted the new arrangements.

The main changes in the remuneration system are summarised below:

<b>Overview of the main changes to the remuneration system</b>		
<b>Remuneration system until 31 December 2020</b>	<b>Component</b>	<b>Remuneration system from 1 January 2021</b>
Previous remuneration system approved by the shareholders on 23 May 2018	Remuneration system	Revisions to the remuneration system in line with the Act on the Transposition of the Second Shareholder Rights Directive and the 2020 Code
Based on: <ul style="list-style-type: none"> <li>NAV per share</li> <li>FFO I per share</li> <li>EBT per share</li> <li>No individual targets</li> </ul> Target + cap: EUR 125k p.a.	STIP - cash payment -	Based on <ul style="list-style-type: none"> <li>NTA per share</li> <li>FFO I per share</li> <li>ESG goal</li> <li>Individual target remuneration leads to an increase or decrease of up to 10%</li> </ul> Target: EUR 150k p.a. Cap: EUR 200k p.a.
Based on TSR performance over 3 years: <ul style="list-style-type: none"> <li>Target TSR of 30% leads to remuneration of EUR 150k p.a. (= target remuneration)</li> <li>If the actual TSR is above or below the target TSR, a straightline adjustment is made</li> <li>Performance relative to the peer group leads to an increase or decrease of 25%</li> <li>No restriction on sale of shares awarded under the LTIP</li> </ul> Cap: EUR 300k p.a.	LTIP - share award -	Based on TSR performance over 4 years: <ul style="list-style-type: none"> <li>Target TSR of 40% leads to remuneration of EUR 250k p.a. (= target remuneration).</li> <li>If the actual TSR is above or below the target TSR, a straightline adjustment is made</li> <li>Performance relative to the peer group leads to an increase or decrease of 25%</li> <li>Vesting period of 4 years from date of award of shares</li> </ul> Cap: EUR 400k for 2021 Cap: EUR 500k p.a. as of 2022
Not contractually agreed	Share retention obligation	TAG shares worth at least one gross annual fixed salary
Not contractually agreed	Negative bonus/clawback	Negative bonus and clawback contractually agreed for STIP and LTIP

## **B. Basic elements of the remuneration system for the members of the Management Board**

### **1. Objective**

The purpose of the variable remuneration components is particularly to (i) provide incentives for TAG's sustainable and long-term development and the creation of sustainable enterprise value along the value chain, (ii) additionally align the interests of the shareholders with those of the Management Board and (iii) strengthen the long-term commitment of the members of the Management Board.

As before, the strategic and operational performance indicators derived from these goals are applied as performance criteria for determining the variable remuneration of the members of the Management Board.

The long-term components of the variable Management Board remuneration should exceed the short-term components and reflect the development of the Company's value in a short-term period aligned to the year in question and a long-term four-year period. In order to do justice to the growing importance of sustainability as an element of the corporate strategy, the achievement of non-financial targets is taken into account when determining variable remuneration.

### **2. Procedures for determining and reviewing the remuneration system**

The Personnel Committee of TAG's Supervisory Board prepares the decisions of the Supervisory Board on the remuneration system and the determination of the specific remuneration. Based on the Committee's proposal, the full Supervisory Board then adopts this system and the amount of remuneration for the Management Board, including the maximum remuneration, and decides annually on the remuneration for the individual members of the Management Board based on the performance targets set before the beginning of the year in question and the extent of target achievement. If the Supervisory Board engages external consultants to determine the remuneration system, it must first satisfy itself of the independence of such consultants. The Personnel Committee regularly reviews the Management Board remuneration system and the Supervisory Board decides on any changes that may be necessary.

The precautions provided for in the rules of procedure of the Supervisory Board to avoid any conflicts of interest also apply to the procedure for establishing, implementing and reviewing the remuneration system.

When determining the specific remuneration of individual members of the Management Board, the Supervisory Board defines the extent to which the targets set for individual members of the

Management Board or for all members together are to be applied. The following criteria are considered:

- The remuneration of the member of the Management Board should be commensurate with his or her duties and performance as well as TAG's valuation and comply with customary market standards.
- The variable remuneration should primarily be based on strategic objectives.
- The remuneration of the member of the Management Board should not exceed the usual remuneration in the absence of any special reasons to the contrary. The Supervisory Board will assess the customary nature of the remuneration on the basis of an external comparison with the remuneration of members of peer-group management boards ("horizontal comparison") and internally with the remuneration of senior management and the entire workforce of TAG, taking into account general developments over time ("vertical comparison").
- The variable remuneration resulting from the achievement of long-term targets should exceed the share resulting from short-term targets in order to particularly align the remuneration of the members of the Management Board with the Company's long-term development.
- The individual performance of a member of the Management Board should be duly taken into account. Successes should be rewarded. Any failure to meet targets should result in an appropriate reduction of the variable remuneration. However, the remuneration structure must not encourage inappropriate risk-taking. No subsequent change of the targets or the comparison parameters is possible.

The Supervisory Board submits the remuneration system which it has adopted to the shareholders for approval at the annual general meeting - with this to be done for the first time at the annual general meeting in 2021. If the shareholders do not approve the system submitted, the Supervisory Board must present a revised version of the remuneration system for approval by no later than the following ordinary annual general meeting. The remuneration system is also submitted to the shareholders for approval in the event of any significant changes, however at least once every four years.

### **C. The remuneration system in detail**

#### **1. Determination of STIP and LTIP remuneration and details of target, maximum and total remuneration**

The total remuneration for each member of the Management Board consists of the following three components:

- The fixed remuneration payable in cash, which is paid monthly as non-performance-tied basic remuneration (gross annual fixed salary). The fixed remuneration also includes benefits, such as the provision of a company car, allowances for individual private health insurance and retirement benefits, accident insurance and liability insurance premiums as well as a season rail ticket, private use of communication devices and the reimbursement of company travel expenses.
- The variable and performance-based STIP remuneration payable in cash, which is determined on the basis of the agreed financial and non-financial performance indicators as well as on the basis of the achievement of individual targets and paid out after the approval of the annual financial statements for the year in question.
- The long-term LTIP remuneration paid in the form of TAG shares, which is measured by reference to TSR over a four-year period. In accordance with recommendation G.10 of the 2020 Code, the members of the Management Board may claim a cash payment up to the amount of the tax liability arising from the share award, which, however, is then offset in full against their individual income tax liabilities (including solidarity surcharge and church tax), so that as a result no cash payment is made under the LTIP.

The Supervisory Board will determine the target total remuneration for the individual members of the Management Board for the first time for 2021. The total target remuneration per member of the Management Board equals the sum of the fixed remuneration and the expected STIP and LTIP amounts.

The targets set and achieved and the resulting remuneration for each member of the Management Board will be explained in the annual remuneration report, which is to be submitted to the shareholders for approval on a regular basis from 2022 for the first time and duly audited by the auditor.

##### **a) Short-term variable remuneration (STIP)**

The STIP is determined on the basis of the performance indicators and targets listed below:

- NTA per share during the year, determined by comparing the base value in the previous IFRS consolidated financial statements as of 31 December and the extent of any change as of 31 December of the year in question. NTA is increased for these purposes by an amount equalling the dividend paid in the previous year. The increase by 1 cent in NTA per share is multiplied by EUR 200.
- FFO I per share based on the IFRS consolidated financial statements over the course of a year, determined by comparing the FFO I of the previous year determined as of 31 December with that determined as of the end of the year in question. The increase by 1 cent in FFO I per share is multiplied by EUR 17,750.00.
- ESG targets over the course of a year, which are redefined annually by the Supervisory Board, including the remuneration criteria. For 2021, the ESG targets are defined on the basis of the risk assessment developed by external rating agency "Sustainalytics" and rated according to the categories "negligible", "low", "medium", "high" or "severe". Depending on the category, this results in remuneration of between zero and EUR 25,000.00. The Supervisory Board is free to define further or alternative targets for sustainability and to include them in the specific catalogue of criteria for a new year in the future.

Before the beginning of each year, individual targets are agreed between the Chairman of the Supervisory Board and each member of the Management Board based on TAG's current activities and its business strategy, which is aligned towards achieving sustainable corporate development. After the end of each year, the Supervisory Board then determines the amount of the individual remuneration in a comprehensible manner on the basis of specific target-achievement. Depending on the degree of target achievement, the Supervisory Board has the option of increasing the STIP remuneration for the respective member of the Management Board by up to 10%, of leaving it unchanged or of reducing it by up to 10%.

The STIP target is EUR 150,000 p.a. if 100% of the target is achieved and is capped at EUR 200k.

In accordance with the recommendation in G.11 of the 2020 Code, the Supervisory Board reserves the right to take extraordinary developments into account within reasonable limits, e.g. to take into account an industry-wide redefinition of performance indicators or to revise or shift the weighting of criteria if they do not reflect the Company's usual and actual performance and changes in all or individual criteria are due to factors that can neither be foreseen nor lie within the control of the members

of the Management Board. Details of this exception and the rationale for the change must be documented in writing and explained to the shareholders at the annual general meeting during the presentation of the remuneration report and duly submitted for approval.

The Supervisory Board determines whether and in what amount a STIP is to be paid on the basis of the Company's accounts (in the case of targets based on financial performance indicators, such as NTA per share and FFO I per share), on the basis of the risk assessment of the external rating agency "Sustainalytics" (in the case of the currently applicable ESG targets) or on the basis of information to be provided by the company for this purpose (in the case of non-financial targets of an actual (e.g. contract conclusion) or other (e.g. compliance status) nature).

#### **b) Long-term variable remuneration (LTIP)**

The LTIP is determined by reference to TSR performance, which is calculated over a period of four years from the increase in the share price plus dividends paid, also relative to the performance of the peer group:

The absolute performance of TAG shares is measured on the basis of the volume-weighted average price (VWAP) of the shares over a period of two months prior to the beginning and at the end of each year. For example, if a performance period commences on 1 January 2019, the relevant opening price is the volume-weighted average price in November/December 2018 and if a performance period ends on 31 December 2021, the relevant closing price is the volume-weighted average price in November/December 2021.

The target TSR for the 4-year performance periods is set at 40%.

- If the actual TSR corresponds to the target TSR, the LTIP remuneration equals EUR 250k p.a. ("target remuneration") per Management Board member.
- If the actual TSR is above or below the target TSR, the amount is calculated or adjusted accordingly on a straight-line basis. For example, an actual TSR of 20% in a 4-year performance period results in LTIP remuneration of  $20/40 \times \text{EUR } 250\text{k} = \text{EUR } 125\text{k}$ .
- No remuneration is paid if the actual TSR is negative.

The relative performance of TAG shares is determined by comparing this figure with the peer-group TSR and - if the actual TSR is at least 2% higher or lower - duly taken into account by applying premiums or discounts as the case may be. If the



actual TSR is better than the peer-group average, a premium of 25% is applied; if it is worse, a discount of 25% is applied.

The peer group, which is also used for the aforementioned “horizontal comparison” of Management Board remuneration, is composed of listed real estate companies which, as portfolio holders, own significant residential properties in Germany. The peer group currently comprises the following companies: Vonovia SE, Deutsche Wohnen SE, LEG Immobilien SE, Grand City Properties S.A. and Adler Group S.A. These companies are given an equal weighting for the purpose of comparing the TSR on TAG shares with the peer-group TSR.

The Supervisory Board will regularly review the comparability and appropriateness of the peer group and, in individual cases, alter its composition if necessary, particularly as a result of acquisitions, changes in business models or a relocation of business activities abroad. The Supervisory Board will state this in the annual remuneration report.

The Supervisory Board can supplement the LTIP remuneration with long-term non-financial performance indicators or ESG targets and share-based remuneration based on these with effect for the future. This additional remuneration must not result in the target and maximum LTIP remuneration being exceeded. The share of this remuneration in total LTIP remuneration should not exceed 20%. The duplicate use of the performance indicators for calculating STIP and LTIP remuneration should be avoided. The ability to measure the targets to be agreed upon is an essential requirement. Further details are determined by the Supervisory Board in consultation with the Management Board.

The Supervisory Board determines whether and in what amount LTIP remuneration is awarded on the basis of the actual performance of TAG shares and the peer-group companies as well as the actual dividend payments distributed by TAG and the peer-group companies. This data is gained from databases maintained by financial intelligence providers (such as Bloomberg). If the LTIP is supplemented with non-financial performance indicators, target-achievement is determined on the basis of other external sources (e.g. risk assessments by rating agencies or actual information provided by the company), depending on the relevant target.

### **c) Target remuneration, maximum remuneration and total remuneration**

The current gross annual fixed salary for all members of the Management Board is EUR 420k p.a. Benefits, such as the provision of a company car, amount to a maximum of EUR 20k p.a. per member of the Management Board.

Target STIP remuneration per member of the Management Board equals EUR 150k and is capped at EUR 200k.

Target LTIP remuneration per member of the Management Board equals EUR 250k. In connection with the transition from the previous remuneration system to this new one, a 3-year performance period with a cap of EUR 400,000 per member of the Management Board was defined for the period from 1 January 2019 to 31 December 2021 and will be settled in 2022, plus a cap of EUR 500,000 for all subsequent 4-year performance periods that will be settled in subsequent years.

The following summary shows the total annual target remuneration per member of the Management Board, also in comparison to the remuneration payable in 2020

	Target remuneration (2020)	Target remuneration (from 2021)
	EUR k	EUR k
Gross annual fixed salary	420	420
Benefits	20	20
STIP	125	150
LTIP	150	250
<b>Total</b>	<b>715</b>	<b>840</b>

The Supervisory Board believes that the proposed total target remuneration is commensurate with the tasks and performance of the members of the Management Board as well as the Company's position and does not exceed the standard remuneration levels. The remuneration of the members of the Management Board is at the lower end of the peer group remuneration scale.

The annual maximum remuneration per member of the Management Board is as follows, also in comparison to the remuneration payable in 2020:

	Maximum remuneration (2020)	Maximum remuneration (2021)	Maximum remuneration (from 2022)
	EUR k	EUR k	EUR k
Gross annual fixed salary	420	420	420
Benefits	20	20	20
STIP	125	200	200
LTIP	300	400	500
<b>Total</b>	<b>865</b>	<b>1.040</b>	<b>1.140</b>

In order to give the Supervisory Board an opportunity to grant one or more members of the Management Board a salary increase, by increasing either the gross annual fixed salary, the benefits or the variable remuneration components, the annual

maximum remuneration per member of the Management Board may be increased to up to EUR 1,200k from 2023.

The maximum remuneration does not represent the remuneration sought by the Supervisory Board or necessarily considered appropriate. It merely sets an absolute upper limit to avoid excessive remuneration of the Management Board. It differs from the aforementioned target remuneration and is higher than the target remuneration that has been or will be agreed with the individual members of the Management Board.

## **2. Further details**

### **a) Ratio of fixed and variable remuneration components**

As the individual components of the Management Board remuneration are to be determined individually, but the basis on which they are determined may vary from year to year, the expected relative shares of the individual remuneration components can only be expressed as percentage ranges.

The points of reference for the variable remuneration components should be selected in such a way that, during the term of the respective contracts, the total target remuneration breaks down by component as follows:

- fixed remuneration (gross annual fixed salary including benefits) roughly 50%,
- STIP roughly 20% and
- LTIP roughly 30%

of the total target remuneration. In any case, the long-term variable remuneration will exceed the short-term variable remuneration.

### **b) Restriction on sale of shares**

The members of the Management Board may only sell the shares awarded under the LTIP after a period of four years. They are placed in a blocked deposit account at a bank to be selected by the members of the Management Board. Voting rights and dividend entitlement are retained during the 4-year vesting period. This vesting period does not apply if the service contract with a member of the Management Board ends on or before 31 December 2021.

**c) Share retention obligation**

During their term of office, the members of the Management Board are each required to hold TAG shares with a value of at least one gross annual fixed salary.

**d) Negative bonus and clawback**

If in a given year there are any objectively determined, grossly negligent or deliberately committed serious violations of laws or internal compliance requirements for which individual members of the Management Board or the Management Board as a whole are responsible, the members of the Management Board concerned will be under an obligation to repay or transfer back to the Company, in full or in part, the variable remuneration components already paid out for the year in which the violations occurred, whether as cash remuneration under the STIP or as shares awarded under the LTIP ("clawback").

The Supervisory Board may also withhold all or part of these remuneration components or reduce them in whole or in part ("negative bonus"). This also applies if any errors are identified in TAG's IFRS consolidated financial statements that formed the basis for determining the variable remuneration or had an impact on the underlying performance indicators, regardless of whether the members of the Management Board were at fault or not.

This also applies if the term of office or the employment relationship with the member of the Management Board has already expired when the clawback claim is asserted.

**e) Terms and termination of service contracts with members of the Management Board**

The service contracts are entered into with the members of the Management Board for a fixed term for the duration of their appointment to the Management Board and thus for a period of up to five years. The services contracts may provide for a corresponding extension in the event of a member of the Management Board being reappointed. If reappointment of a member of the Management Board is not planned by either the Company or that member of the Management Board or the Supervisory Board dismisses the member of the Management Board, the Supervisory Board may agree to release the him or her from his or her duties without terminating the contract in any other respects.

There is no provision for ordinary termination of the service contract. However, both the member of the Management Board concerned and the Company may terminate the service contract for good cause.

The service contracts with the members of the Management Board currently have terms expiring on 30 June 2022 (Claudia Hoyer), 31 March 2024 (Martin Thiel) and 31 December 2021 (Dr Harboe Vaagt).

**f) Departure from the Management Board and change of control**

In the event of the regular departure of a member of the Management Board, he or she is entitled to the time-proportionate settlement of his or her variable remuneration components. In the event of the early termination of the service contract, no payments may exceed the value of remuneration for two years or the value for the remaining term of the service contract.

In the event of a change of control, the members of the Management Board have the right to terminate their service contract subject to notice of up to 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 on which the Company is left equalling 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 term is shorter on the date on which the service contract is terminated, it contains provisions that stipulate the amount that would accrue as gross compensation for the remaining term or gross compensation that is reduced on a time-proportionate basis in relation to a full gross annual salary over the last 24 months. In the event of a change of control, each member of the Management Board is additionally entitled to an adjustment to the LTIP arrangements and the share retention obligation to take account of the change in the underlying conditions.

In all cases in which a member departs from the Management Board, the 4-year LTIP vesting period will continue to apply. However, the Supervisory Board may also enter into an agreement with the departing member of the Management Board that deviates from this if this is in the Company's interests.

**g) Miscellaneous**

There are currently no post-contractual non-competition agreements in force. However, they may be agreed upon in individual cases.

The service contracts with the members of the Management Board do not provide for any pension entitlement to accrue. In some cases, the members of the Management Board still hold retirement benefit entitlements arising from a period prior to their employment with the TAG Group, which have vested but do not give rise to any additional claims.

The members of the Management Board are not entitled to any further bonuses or double remuneration from the simultaneous exercise of a Management Board or Supervisory Board mandate in other Group companies. The variable remuneration is determined exclusively at the level of TAG and charged to it. All ancillary activities are subject to approval.

Please refer to the corporate governance statement at

<https://www.tag-ag.com/en/investor-relations/interim-reports/declaration-of-conformity>

for further information on D&O insurance, own contributions, etc.

#### **D. Temporary deviations from the remuneration system**

The Supervisory Board must determine the remuneration of the members of the Management Board on the basis of a remuneration system submitted to the shareholders for approval pursuant to Section 120a (1) of the German Stock Corporation Act (Section 87a (2) Sentence 1 of the German Stock Corporation Act). However, the Supervisory Board may temporarily deviate from the remuneration system in accordance with Section 87a Sentence 2 of the German Stock Corporation Act if this is necessary in the Company's long-term interests. Generally unfavourable market developments explicitly do not constitute an exceptional case entitling the Supervisory Board to deviate from the remuneration system.

In terms of procedure, such a deviation requires an express resolution of the Supervisory Board in which the duration of the deviation as well as the nature of and the rationale for the deviation (i.e. explaining why the deviation is in the Company's long-term interests) are described appropriately. The components of the remuneration system from which deviations are permissible in exceptional cases entail the procedure, the details of the remuneration structure and amount as well as the individual remuneration components and particularly the STIP and LTIP performance indicators. The Supervisory Board may alter the relative share of the individual remuneration components and the underlying requirements and may also temporarily change the fixed remuneration in individual cases if this is in the Company's long-term interests provided that this does not exceed the maximum remuneration approved by the shareholders.