



# CREATING VALUE

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## Sustainability Report 2018

## VIB Vermögen AG – 25 years of sustainable growth

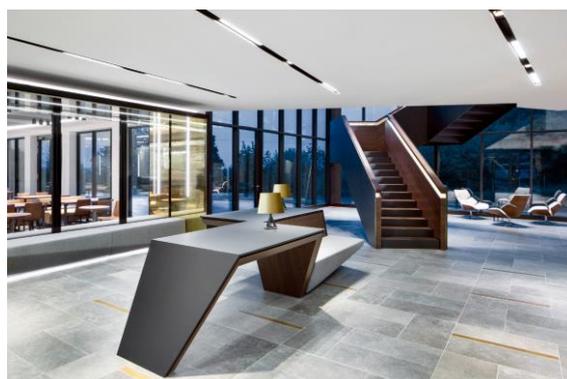
We have been committed to the sustainable development of our property portfolio for 25 years. Our top priority has always been healthy growth and sustainable, long-term returns. For us, it is paramount that our economic objectives go hand in hand with environmental and social responsibility, which we take extremely seriously. Our success proves us right: over the past 25 years, VIB has grown into one of the most successful developers and portfolio managers of properties in the logistics, light industry and retail sectors in Germany.

Whilst VIB was breaking new ground for the company back in 1993 when it built its first logistics property (for a major automotive supplier), we now handle such projects with experience and passion. In 2018 alone, we completed three logistics properties with a total useful area of 57,000 m<sup>2</sup> and an investment volume of EUR 41 million – and handed these properties over to the tenants on schedule. Since 2013, we have completed properties with an aggregate value of around EUR 300 million and a total area of 315,000 m<sup>2</sup>. As a company, we are very proud of our track record.

Our business model, which we pursue as a portfolio manager of commercial properties, is characterised by a long-term planning horizon in respect of both in-house developments and direct acquisitions. This is reflected in the fact that our tenants usually remain in our properties for several decades. Accordingly, we invest in maintenance and modernisation measures across the entire life cycle. In respect of a potential change of tenant, we ensure that our properties offer versatile usability and remain in a good condition. Furthermore, we pursue a financing strategy that is largely dominated by long-term annuity loans.

[The head office of VIB Vermögen AG in Neuburg/Danube meets the highest standards in terms of sustainable and energy-efficient construction](#)

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*Efficient cooling and air conditioning technology combined with heat pumps, a photovoltaic system, a ventilation system with heat recovery technology, LED lighting and charging points for electric vehicles*

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Attractive project development and sustainable portfolio management have been the hallmarks of VIB for more than 25 years.

**1993 – where it all began:**



**VIB's first-ever property, Neuburg/Danube:**  
Development project in the logistics segment for an automotive supplier, fully let, useful area of 12,400 m<sup>2</sup>, total term of the rental agreement with the inaugural tenant: 30 years

**2018 – completion of three development projects:**



**Schwarzenbruck near Nuremberg:**  
Development project in the logistics segment, property fully let, useful area of 31,000 m<sup>2</sup>, investment volume of EUR 20.5 million, rental agreement terms: ten/five years



**Vaihingen, Stuttgart metropolitan region:**  
Development project in the logistics segment, property fully let, useful area of 11,800 m<sup>2</sup>, investment volume of EUR 10.9 million, rental agreement term: nine years



**Kopernikusstrasse 2, Interpark near Ingolstadt:**  
Development project in the logistics segment, property fully let, useful area of 13,700 m<sup>2</sup>, investment volume of EUR 9.8 million, rental agreement terms: nine/five years

## Sustainability – a dialogue with our stakeholders

As a publicly traded company, we maintain relations with a variety of stakeholder groups. By virtue of our many years of experience and our regional focus on southern Germany, we know these stakeholders very well indeed. Regular communication with these groups helps us understand their views and expectations, identify room for improvement and devise specific courses of action.

Our most important stakeholders are employees, tenants, shareholders and analysts, as well as public interest groups from the fields of politics, society and the media and our service providers and financing banks. They all make an important contribution to the successful development of the company.

### VIB stakeholder approach: five categories

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### Shareholders and analysts

For our private and institutional investors, it is important that they are invested in a company whose business model is geared towards sustainable, long-term value appreciation. As owners and investors, they wish to ensure that their capital commitment is invested both securely and profitably. We meet these expectations. We have recorded continuous growth in both revenue and earnings over the past 25 years – a positive trend that is also reflected in the dividend. The VIB Vermögen AG share is now one of Germany's most reliable dividend-paying stocks.

Alongside shareholders, our analysts represent a key stakeholder group in their capacity as opinion leaders for the financial markets. By systematically collecting, collating and analysing company-related information, they provide transparency for our investors in terms of evaluating VIB Vermögen AG.

We are in direct and open contact with both stakeholder groups – investors and analysts. Alongside the publication of financial reports and company news, information is also exchanged, for instance, at capital market conferences and roadshows, where we present both our property portfolio and our corporate strategy.



## **Tenants**

Reliable tenants with excellent credit ratings constitute another important stakeholder group for the company. Our tenant base includes both medium-sized, regional companies and multinational corporations. We maintain lasting business relations, based on a spirit of trust, with our tenants, which is reflected in long-term rental agreements and, consequently, predictable rental incomes. A good example is our long-standing partnership with our largest existing tenant, garden centre chain Dehner. We are particularly delighted that, thanks to strong relations with the tenant, we have been able to secure early renewals of the rental agreements until 2032 for all 15 sites.

In order to foster and maintain strong customer relations, we are in particular committed to managing our properties in-house. With an experienced team of property managers, we work closely with our tenants and know their requirements inside out. As a result, we not only gain a clear picture of the condition of our properties, but are also in a position to find tailored solutions. And this is exactly what our tenants value. It is also reflected in the vacancy rate, which has been very low for many years and which stood at 0.7% as of the end of 2018.

Our tenants in the logistics/light industry segment include companies such as the Rudolph Group, Audi and Continental. In the retail segment, our tenants include companies such as Rewe, Edeka, garden centre chain Dehner and Baywa Gartenmärkte GmbH & Co. KG.

## **Service providers and financing banks**

Our service providers expect transparent business relations in a spirit of partnership and trust, in which the interests of both parties are given sufficient weight. We are particularly reliant on close partnerships with our general contractors, especially when it comes to developing our own logistics properties. With investment volumes that can exceed EUR 50 million for a single property, it is vital that you have an experienced and reliable partner on your side.

Financing is pivotal to any real estate project. Thanks to our close ties to the financial and capital markets, we are always able to strike just the right balance between equity and debt financing. On the debt financing side, we work successfully with regional savings banks and mutual banks from the outset. On a national scale, selected state banks and major property financiers complete our financing portfolio. Annuity loans are a key pillar of our sustainable financing strategy. Due to the stable repayment amounts, this classic form of financing is not only extremely predictable over its term, but the ongoing repayments also increase the net asset value of the company. However, promissory note loans and short-term variable loans, such as those based on EURIBOR, are also used and represent a sensible addition to our debt financing mix.

On the equity side, we use the entire spectrum of available capital measures as required, such as the issuance of mandatory convertible bonds and the carrying out of traditional capital increases.



## **The public**

As a business partner for regional and national firms, VIB Vermögen AG also finds itself in the public eye. We are expected to comply with laws and social norms and meet high ethical and moral standards that go beyond laws and regulations.

As regards the planning and development of new construction projects, both close cooperation with future tenants and close consultation with local authorities and communities play an important role. After all, economic interests run parallel not only to location development and the safeguarding and creation of jobs in a region, but also a need to avoid or at least mitigate any potential impacts for local residents due to construction work.

As a commercial enterprise, we are also conscious of our obligations to the society in which we have been able to grow so successfully for 25 years. We want to give something back. Alongside our support in establishing a real estate teaching programme at Ingolstadt University of Applied Sciences, we regularly help charitable centres and initiatives in the region. We also increasingly look towards regional companies and tradespeople when awarding contracts connected to our core business, such as the maintenance and modernisation of our properties.

As a publicly traded company, VIB Vermögen AG is expected to maintain exceptionally open and transparent communication with the media. This still very much applies in terms of questions that throw a critical light on our company and our business operations. We attach great importance to a transparent information policy and conduct regular discussions and interviews with press representatives and other multipliers, at both regional and national level.

## **Employees**

Our employees are one of the key success factors of our business model and play a significant role in our positive course of business on account of their knowledge, dedication and loyalty.

We therefore do everything in our power as an employer to ensure that our employees are happy at the company, can make the most of their talents and deploy their experience and specialist knowledge on our behalf for a long time to come. We offer our workforce an attractive and motivational working environment at our modern office space in Neuburg. We are delighted by the long average length of service and low staff turnover, which we also see as evidence of the excellent working environment at VIB Vermögen AG. We also help employees safeguard their future, which is why we support all members of staff with an occupational pension scheme.

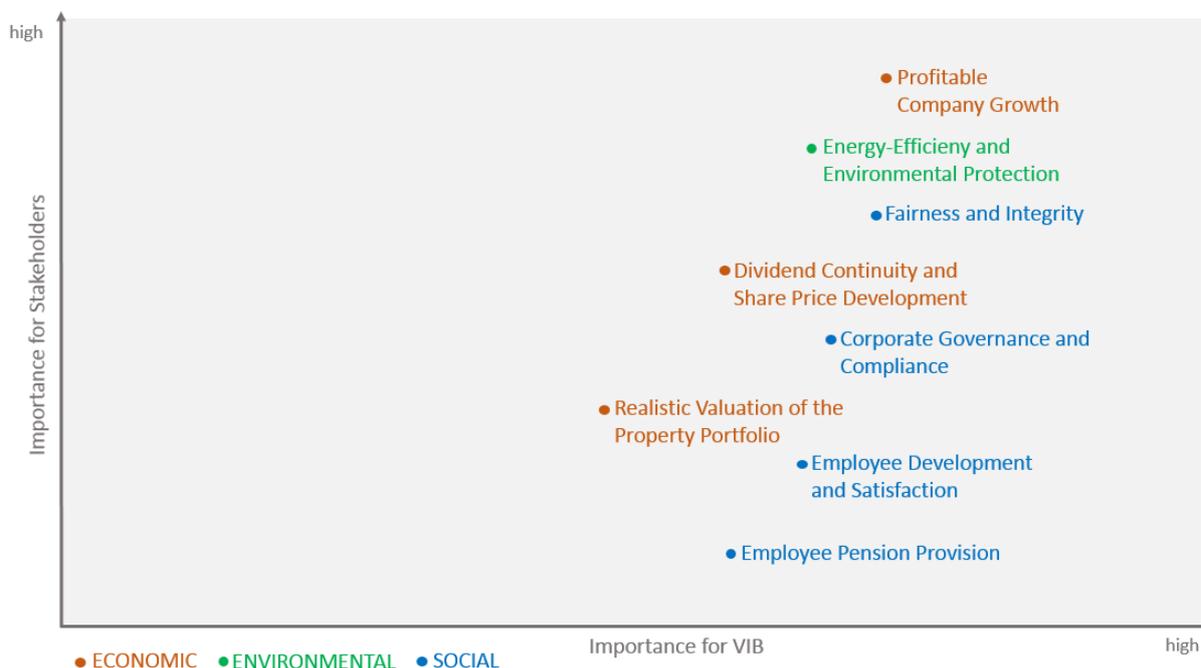
Furthermore, we also attach great importance to the training and professional development of our people. Alongside the range of trainee programmes and needs-based training and professional development events it offers, VIB Vermögen AG is also certified as an apprenticeship provider for property professionals by the *Industrie- und Handelskammer* (IHK, German Chamber of Industry and Commerce). Equal opportunities and diversity also play a role at the company. Alongside a balanced ratio of younger and more experienced colleagues, the share of female employees currently stands at around 70 per cent.

## Sustainability issues of material importance

As an experienced property developer and portfolio management company, we have built up a close-knit network with our key stakeholder groups. On the basis of our day-to-day work and our long-standing dialogue with them, we have identified various issues that have a notable influence on the sustainable development of VIB. We have presented the most significant of these issues in the form of a materiality matrix. In order to take the differing levels of significance of the individual issues into account, we have performed individualised weighting of the issues for each individual stakeholder. The materiality matrix comprises what we regard as the most important economic, environmental and social issues; these play a material role in both the sustainable business success of VIB and the acceptance of VIB on the part of our stakeholders.

In 2018, VIB presented a materiality matrix for the first time as part of its Sustainability Report. We regard assessment of the individual issues as a dynamic process, meaning that the priorities of the stakeholders and those of VIB may change over time. The most significant change has been witnessed in the area of energy efficiency and environmental protection. We have attached greater importance to environmental aspects, largely due to the current political and social debate in Germany, but also following the many discussions we have had with our shareholders, major investors and voting rights consultants.

### The materiality matrix of VIB Vermögen AG



## Three dimensions of sustainability

### Economic sustainability

In our opinion, the cornerstone of sustainable company development is always built on economic factors, as there can be no lasting positive development in environmental and social issues without economic success.

Profitable growth represents one of the main economic criteria in this regard. Growth in the revenue (i.e. income) that we generate by letting our properties plays a central role in this area. After all, only companies that post continuous growth can hold their own in the long term. We have always attached great importance to healthy growth in this regard, which is why our development and acquisition decisions are always taken against the background of profitable individual properties that fit seamlessly into our portfolio as a whole. In recent years, our property portfolio has grown to the tune of some EUR 50 million per annum, which equates to “healthy” average growth of around five per cent.

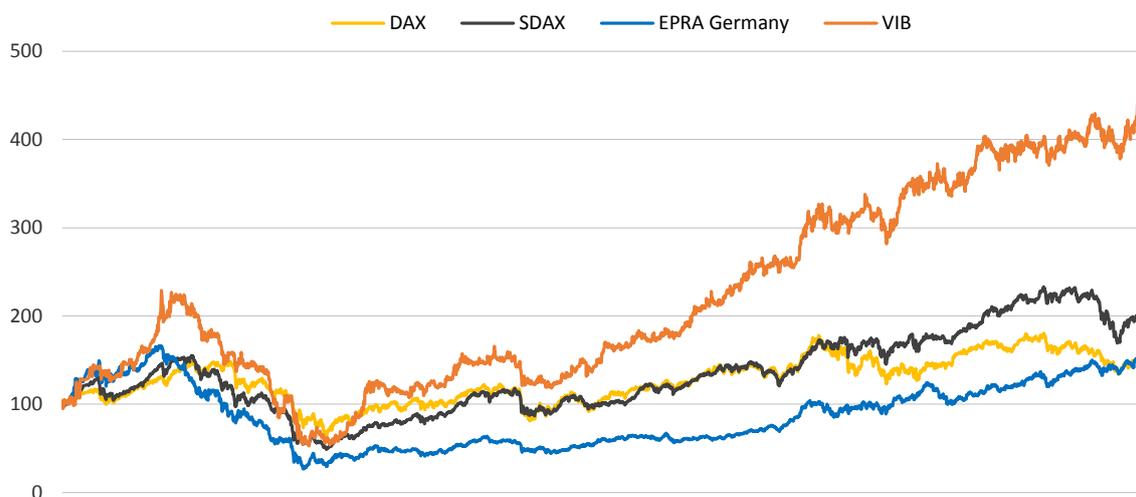
This selective growth strategy is also important to us in terms of meeting our ambitious profitability targets, as our acquisition and development yields average 7%. When efficient cost management (including the in-house administration of our properties) is factored in, we have thus recorded increases in profit year after year – to the delight of our shareholders.

#### Growth in revenue and adjusted EBT (in EUR millions)



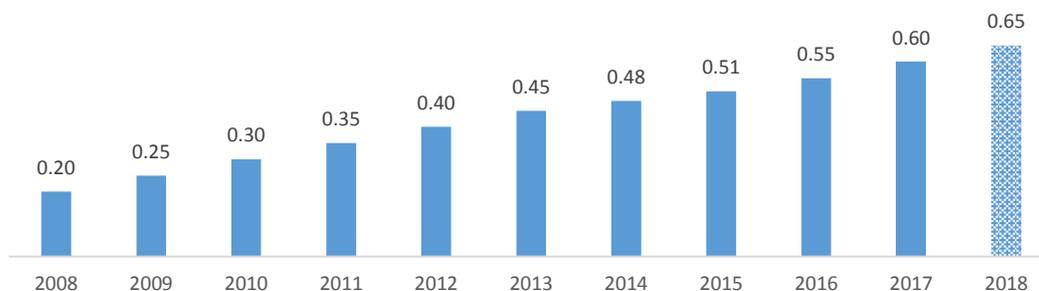
What’s more, our investors have cause to be pleased with the positive development of our share price. Since the company was floated on the stock exchange in 2005, the share price has increased more than fourfold, significantly outperforming the EPRA Germany property index and the DAX and SDAX comparative indices.

### Development of the VIB share price since the IPO (in %)



Alongside share price development, growth in the dividend also matters to shareholders – and the VIB share has been a reliable stock in this regard for many years. That’s because a dividend has been paid every single year since the flotation, even during the global financial crisis. And that’s not all: at the VIB Annual General Meeting held on July 4, 2019, a dividend of EUR 0.65 per share was approved, representing the tenth dividend increase in a row. This equates to an attractive year-on-year rise of EUR 0.05, or 8.3%.

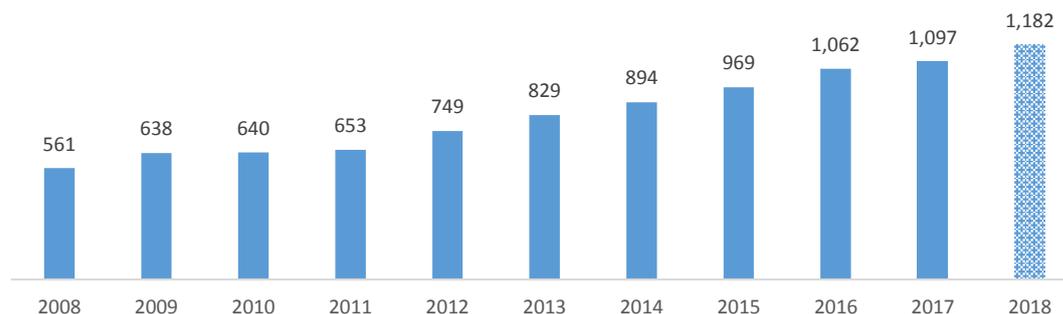
### Dividend growth per share (in EUR)



Our properties represent our largest and most important asset item, with a total value of some EUR 1.2 billion as of December 31, 2018. Alongside the development and acquisition of new properties, it is no less important for us to maintain the quality standard of existing properties. On average, some 5% of our net rental income goes into modernisation and maintenance measures each year.

We are also sustainable and transparent in terms of the valuation of our properties and have our portfolio valued once a year by an external property appraiser using the generally accepted discounted cash flow method.

## Development of investment properties (in EUR millions)



VIB Vermögen AG has been a member of the European Public Real Estate Association (EPRA) since 2011. Based in Brussels, the organisation represents the interests of listed European property companies vis-à-vis the general public and helps them raise their profile. Furthermore, the uniform reporting standards set out by the EPRA seek to achieve the greatest possible transparency, both for the capital market and the general public.

After VIB had already won an award for its EPRA communication in the previous year, we are particularly proud of the fact that we were honoured with the “Most Improved Annual Report” award amongst all participating companies for the 2018 financial year, demonstrating the greatest improvement in the implementation of EPRA best practice recommendations. Our reporting was also commended for the first time with the coveted EPRA Gold Award.



## Environmental sustainability

In terms of environmental sustainability, properties offer numerous starting points that go beyond existing statutory requirements, regardless of whether they are logistics, light industry, retail or office spaces. Both in terms of our new builds and our existing properties, we take into account ecological aspects such as resource-saving construction methods and good alternative usability.

Environmental standards can be implemented particularly efficiently on new-build projects. The development of new, state-of-the-art logistics properties has always been a core competency of VIB Vermögen AG and, in light of rising property prices, one that has grown in significance in recent years. Even when selecting the site, we consider important factors such as emission control and soundproofing, optimum use of the infrastructure and the creation of any necessary compensation areas.

During the construction phase, we are able to implement a series of measures that meet high environmental standards while still being cost-effective. Against a background of increasing electricity prices, for instance, it is becoming ever more important to minimise energy consumption, which is why our construction projects generally exceed all requirements of the German Energy Saving Ordinance (*Energieeinsparverordnung*).



And when it comes to the topic of energy efficiency itself, we are keenly aware of our responsibility as a portfolio manager. That is why, for example, solar installations measuring some 40,000 m<sup>2</sup> in total have been fitted on the roofs of our properties, with the energy generated annually by these installations corresponding to some 0.5 million litres of heating oil. As a company, we are therefore playing our part in reducing pollution and promoting the sustainable use of fossil fuels.

We also prefer the use of state-of-the-art and sustainable building technologies such as

- efficient insulation systems and heat pump-based air conditioning
- cutting-edge lighting systems and solar installations for electricity generation
- rainwater harvesting, roof lights to enable the use of daylight
- charging stations for electric vehicles

Together, all these measures ensure high standards in terms of environmental sustainability and CO<sub>2</sub> emissions, deliver environmental benefits for our tenants and, last but not least, offer us – as the property owner – good alternative usability.

Our largest-ever in-house development to date is currently under construction at Interpark near Ingolstadt. With a useful area of 27,000 m<sup>2</sup>, this development includes the completion of the first construction phase of a two-storey logistics complex, which – following completion of the entire construction project in late 2020 – will boast a total useful area of 115,000 m<sup>2</sup>. By building a two-storey complex, we are breaking new ground and attaching particular importance to the sustainability aspect, given the efficient use of the scarce resource of space.

Environmental sustainability also plays a central role in the more than 100 properties in our portfolio, with “maintenance”, “modernisation” and “redensification” the watchwords in this regard. With these measures, we not only safeguard the value of the properties themselves but also maintain the long-term usability and attractiveness of the site for our tenants. Measures include the retrofitting of modern lighting systems with dynamic light control and LED technology, with the resulting energy savings frequently exceeding the 80 per cent mark. The total costs of these investments are usually amortised within two to three years.

In total, we invested some EUR 3.5 million in suitable maintenance and renovation measures in 2018 in order to ensure that our properties exhibit a high quality standard in the long term. Energy-saving measures alone – e.g. efficient LED lighting systems, roof renovation to optimise insulation performance, the modernisation of heating systems, the installation of energy-efficient high-speed doors (low heat loss due to fast opening and closing speeds) – accounted for some 25% of this figure, coupled with the modernisation of fire safety equipment. These measures were funded either directly from the VIB capital expenditure budget or through improvement grants paid to our tenants.

Regardless of whether they are renting a newly developed or an existing property, our tenants are keenly aware that economic and environmental aspects are inextricably linked. Whether high-performance heat pumps, high-quality building insulation or energy-efficient lighting systems – anyone who thinks carefully about the sustainability of properties today can transform current cost drivers, such as high energy costs, into the profitability factors of the future.



## Social sustainability

Within the scope of our business operations, we come into contact with a vast array of social groups. As part of the shared interaction, the focus is not only on economic and environmental issues, but also on social considerations. Our business relations, which are geared towards the long term, are always characterised by mutually responsible and fair dealings.

In the project development segment, which is so vital for VIB and which often involves handling investment volumes in excess of EUR 50 million, a trusting relationship with the general contractor responsible for construction is absolutely imperative. Wherever it is within our sphere of influence to do so, we – as the principal – ensure that our general contractors comply with all legally required standards, including in terms of their employees/subcontractors.

In addition to statutory regulations, our agreements with general contractors contain the following provisions as standard:

- The general contractor may only use approved and tested substances, materials, technical equipment and methods that are neither hazardous nor harmful to health. At the request of VIB, the general contractor undertakes to supply proof of the origin and composition of the materials and components used, as well as their quality control and construction approval.
- The general contractor will deploy all necessary equipment, issue all necessary instructions and take all necessary measures in accordance with German accident-prevention regulations in order to prevent accidents in connection with their services. The general contractor undertakes to comply with the generally accepted rules of safety and occupational health. In particular, the general contractor will observe the obligations imposed by the *Baustellenverordnung* (German construction site directive).
- The general contractor undertakes to require the personnel deployed on the construction site by the general contractor to wear the personal protective equipment (e.g. hard hats, protective footwear) stipulated by the relevant employers' liability insurance association. The general contractor must provide sufficient quantities of personal protective equipment. Employees of the general contractor who fail to meet their obligation to wear personal protective equipment may be expelled from the construction site.
- The general contractor undertakes to pay at least the statutory minimum wage to all employees working on the building site. This also applies to employees of subcontractors used by the general contractor.

For us, applicable legislation (particularly company and capital market law), the company's articles of incorporation and the rules of procedure of the Supervisory and Managing Boards form the foundation in terms of devising and practising sustainable corporate governance. In addition, there are a raft of internal guidelines and processes that apply across the VIB Group and that require each and every employee to conduct themselves in a legally and ethically upstanding fashion. The central element in this regard is the VIB Code of Conduct, which sets out explicit rules on fair competition and the avoidance of conflicts of interest, the non-discrimination of minorities and the prevention of corruption, as well as data protection and the conduct of VIB employees in public.

We also take the view, however, that good corporate governance includes the application of principles that go above and beyond statutory requirements. With this in mind, the ability of both the management and workforce to act in a proactive and committed fashion, and to respond flexibly and promptly to changes and challenges, is the cornerstone of sustainable company success. This requires a high degree of personal initiative and expertise, as well as a willingness to embrace change, on the part of our employees. Our executives treat their employees with great respect and



courtesy and always strive to inspire the necessary confidence. In day-to-day operations, individuality is respected and diversity of opinion fostered. Decisions are implemented with purpose and resolve in an atmosphere characterised by mutual acceptance and appreciation.

As a company, we are delighted by the long length of service of our employees, which averaged 6.6 years in 2018 (previous year: 6.0 years). The situation is also positive in terms of the indicators of staff turnover and sickness absence rate, which are both well below the national average at VIB. In the fiscal year under review, the staff turnover rate at VIB was 4.9% (previous year: 0.0%) and the sickness absence rate just 3.4% (previous year: 2.5%).

## **Conclusion**

Ever since VIB Vermögen AG was founded more than 25 years ago, sustainability has been a core component of the company's day-to-day operations and its values. Our aim is not only to generate added value for our shareholders and tenants; indeed, we are also committed to the general public, our business partners and, last but not least, our employees in everything we do. For us, responsible and transparent corporate governance is essential for the long-term success of our company.

Sustainability aspects are not only taken into consideration in dealings with our stakeholders, but are also at the heart of our growth strategy. Sustainable and profitable growth, on the basis of environmental and social aspects, will continue to shape our actions in the years to come.