Remuneration system for the members of the Executive Board of GRAMMER Aktiengesellschaft

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1. Principles of the remuneration system

In 2020, the Supervisory Board reviewed and revised the remuneration system for the Executive Board of GRAMMER AG to ensure conformity with the requirements of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code (the Code) and to provide an ambitious incentive structure aligned with the Company's strategy.

The new remuneration system follows a clear performance-oriented approach, setting ambitious targets in line with the corporate strategy. In addition, the remuneration system is more closely oriented to the capital market by offering a revised long-term incentive in the form of a performance share plan. At the same time, the short-term incentive now incorporates ESG objectives, i.e. environmental aspects, social objectives and responsible corporate governance, in order to provide an incentive for sustainable development at GRAMMER AG.

The Executive Board's remuneration system therefore provides an important control element and is geared towards achieving the key objectives defined in the corporate strategy. The performance criteria of the remuneration system create incentives for successful and sustainable corporate growth and link the remuneration of the Executive Board to the Company's short-term and long-term sustainable development.

2. Procedures for establishing, implementing and reviewing the remuneration system

In accordance with section 87a (1) AktG, the Supervisory Board, acting on a proposal submitted by the Personnel and Mediation Committee, adopts a clear and comprehensible system for the remuneration of the members of the Executive Board. The remuneration system is submitted to the shareholders for approval at the Annual General Meeting after the Supervisory Board has passed a resolution adopting it. If the remuneration system is not approved, the Supervisory Board must submit a revised remuneration system to the shareholders for approval at the next Annual General Meeting at the latest. In addition, the Supervisory Board submits the remuneration system to the shareholders at the Annual General Meeting for approval in the event of any significant changes, however at least once every four years.

3. Determination of specific target total remuneration and appropriateness of Executive Board remuneration

When determining the specific target total remuneration of the members of the Executive Board, the Supervisory Board ensures that it is commensurate with the duties and performance of the member of the Executive Board in question and the Company's situation and thus conforms to the requirements of the German Stock Corporation Act and the recommendations of the German Corporate Governance Code. The target total remuneration is set at a level that ensures competitiveness in the market for highly qualified executives but does not exceed the customary remuneration in the absence of any special justification.

To ensure this, the Supervisory Board regularly reviews the target total remuneration of the members of the Executive Board of GRAMMER AG. External as well as internal comparisons are applied for this purpose: On the one hand, an external comparison is made with companies that are comparable in terms of size, country and sector. In addition, an internal comparison is used to assess the remuneration structure within GRAMMER AG. For this purpose, the remuneration of the Executive Board is compared with the two highest pay scale groups and the non-pay scale employee remuneration, and the status quo of and changes in these ratios over time are analyzed.

4. The remuneration system at a glance

4.1 Components of the remuneration system

The following table presents the basic components of the remuneration system.

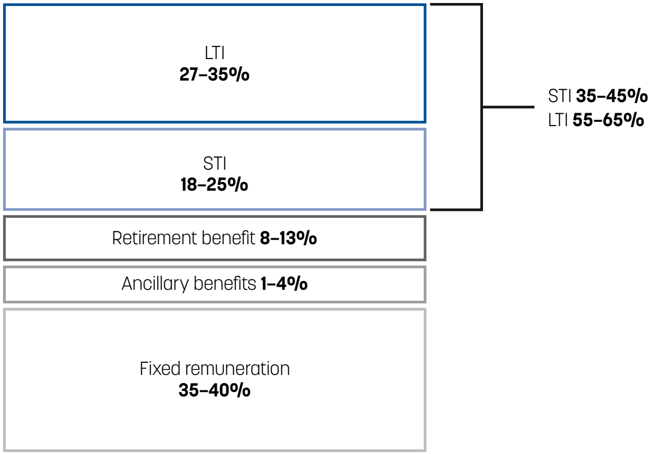
Fixed components	
Fixed remuneration	Contractually agreed fixed remuneration paid in twelve equal monthly installments
Ancillary benefits	Standard ancillary benefits (including company car and insurance cover)
Retirement benefits	Cash amount that can be used by the member of the Executive Board for private pension savings
Variable components	
Short-term incentive (STI)	
Plan type	Annual target bonus plan
Cap	170% of the target amount
Performance criteria	• Net income, EBIT or EBT (determined annually by the Supervisory Board) • Free cash flow (FCF) • Strategic and ESG goals, e.g. compliance, environmental protection, economic stability and growth
Payment	In cash after the end of the financial year
Long-term incentive (LTI)	
Plan type	Performance share plan
Cap	200% of the target amount
Performance criteria	• Total shareholder return (TSR) relative to the SDAX • ROCE
Performance period	Four years
Payment	In cash after four-year performance period
Further contractual provisions	
Maximum remuneration	• EUR 2,700,000 for the Chairman of the Executive Board • EUR 1,800,000 for the other members of the Executive Board
Penalty/claw-back	Possibility of reducing or reclaiming performance-related remuneration in the event of serious breaches of duty or misstatements in the consolidated financial statements
Cap on termination benefits	Termination benefits may not exceed the value of two years' total remuneration

4.2 Remuneration structure

The target total remuneration of the members of the Executive Board consists of both fixed and variable components. In this context, a high proportion of the remuneration is performance-related, underlining the clear orientation to performance in the remuneration structure. The variable remuneration components comprise a short-term incentive (STI) and a long-term incentive (LTI). The ratio of the short-term to the long-term incentive is between 35–45% and 55–65%, meaning that long-term performance criteria always predominate in the variable remuneration.

The fixed remuneration accounts for approximately 35–40% of the target total remuneration, the ancillary benefits for approximately 1–4% and the payments towards retirement benefits for approximately 8–13%. The target STI amount accounts for approximately 18–25% of the total target remuneration and LTI for approximately 27–35%.

REMUNERATION STRUCTURE AS A PERCENTAGE OF TARGET TOTAL REMUNERATION



4.3 Maximum total remuneration

Appropriate remuneration for members of the Executive Board is ensured by two types of caps: Firstly, a maximum cap of 170% on the STI and 200% on the LTI relative to the respective target amount is set for the variable components.

Secondly, pursuant to section 87a (1) sentence 2 No. 1 AktG, the Supervisory Board has defined maximum remuneration which caps the total amount of remuneration paid out for a given financial year irrespective of the date of payment. The maximum remuneration amounts to EUR 2,700,000 for the Chairman of the Executive Board and EUR 1,800,000 for the other members of the Executive Board.

5. Remuneration components in detail

5.1 Fixed components

5.1.1 Fixed remuneration

The fixed remuneration is paid in twelve equal monthly installments less any statutory deductions in arrears at the end of each month.

5.1.2 Ancillary benefits

The members of the Executive Board receive the standard ancillary benefits (e.g. provision of a company car, which may also be used for private purposes, and standard insurance benefits).

In individual cases, the Supervisory Board has the option of granting new members of the Executive Board a one-time payment when they take up office. This allows a new member of the Executive Board to be compensated for any loss of remuneration already granted by the former employer that is forfeited upon joining GRAMMER. In this way, the Supervisory Board ensures that it retains the necessary flexibility in finding the best possible candidates.

5.1.3 Company pension scheme

The members of the Executive Board of GRAMMER AG receive payments towards retirement benefits. This cash amount can be used by the members of the Executive Board for private pension savings. There is no company-funded pension plan.

5.2 Variable components

5.2.1 Short-term incentive (STI)

5.2.1.1 Basic features of the STI

The short-term incentive is structured as a target bonus system and includes financial as well as strategic and ESG targets. The financial performance criteria are derived directly from the corporate strategy and thus take into account the Company's profitability and liquidity. In addition, the strategic and ESG goals are intended to ensure the sustainability of the Company's development.

The Supervisory Board determines annually whether the financial performance criteria are to be based on net income, earnings before interest and taxes (EBIT) or earnings before taxes (EBT) for the year in question. In addition to the earnings indicator selected, free cash flow (FCF) is always used as a further financial performance criterion. The financial performance criteria are measured as a percentage of revenue in each case.

The Supervisory Board determines the weighting of the STI performance criteria on an annual basis with the stipulation that the financial performance criteria must account for a combined total of 80% and each individual performance criterion must total at least 20%. The weighting of the component for strategic and ESG objectives is always 20%.

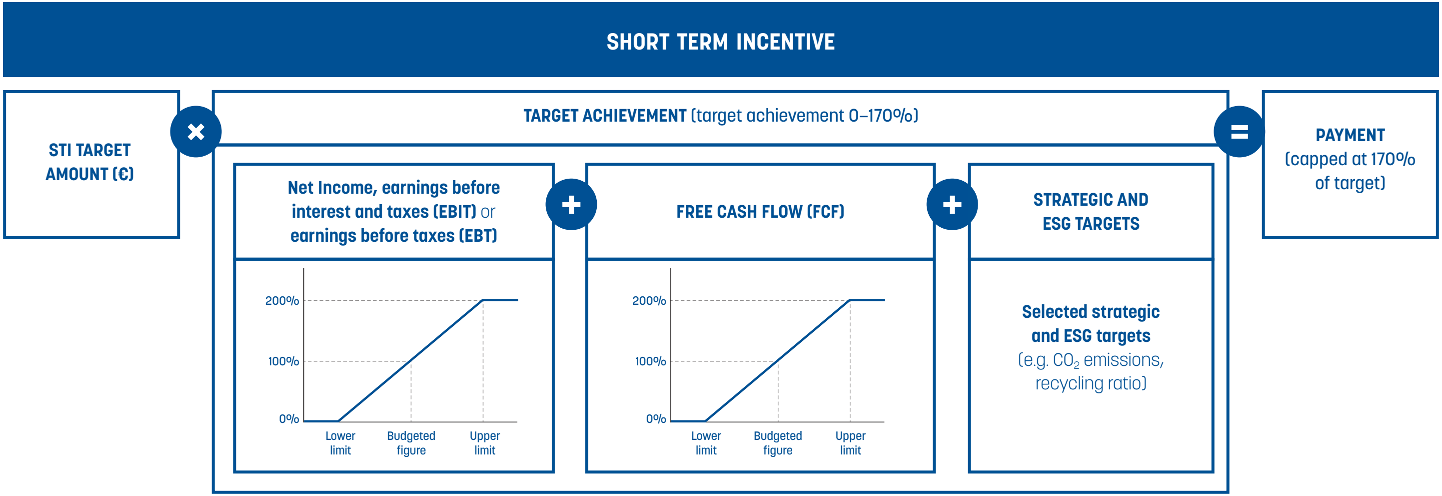
Target achievement of between 0% and 200% applies to all performance criteria. However, the final payout is capped at 170% of the STI target amount. The Supervisory Board determines the target and threshold values relevant for target achievement on an annual basis.

The basis for STI payments is the STI target amount specified in the service contracts, which is multiplied by overall target achievement of the financial as well as strategic and ESG performance criteria. The STI payment is made in cash and capped at 170% of the STI target amount.

In determining target achievement, the Supervisory Board has the option of taking into account significant extraordinary effects or developments. Such effects or developments may, for example, include changes in accounting or the scope of consolidation and the occurrence of significant special effects and/or extraordinary developments within the meaning of section 87 (1) 2nd half of sentence 3 AktG

5.2.1.2 STI financial performance criteria

The STI financial performance criteria reflect GRAMMER AG's profitability and liquidity.



The Supervisory Board decides annually whether profitability is to be determined on the basis of net income, earnings before interest and taxes (EBIT) or earnings before taxes (EBT) for the year in question. In addition to the earnings indicator selected, free cash flow (FCF) is always used as a further financial performance criterion. The use of these core management parameters supports GRAMMER AG's corporate strategy effectively.

The relevant indicators for net income, earnings before interest and taxes (EBIT), earnings before taxes (EBT) and free cash flow are those approved by the Supervisory Board and reported in the annual financial statements on the basis of the consolidated statement of income. These figures are divided by the Group revenue as reported in the consolidated statement of income.

The annual target for the financial performance criteria is derived from the budget. In addition, the Supervisory Board sets a lower and upper limit for target achievement of the performance criteria for each financial year. Target achievement is deemed to be 100% if the respective budget figure is reached. The maximum target achievement of 200% is reached when the respective financial performance criterion reaches or exceeds the upper limit. If the applicable financial performance criterion equals or is less than the lower limit, target achievement is deemed to be 0%. Target achievement between the lower limit and the budget value as well as the upper limit is calculated by linear interpolation.

The target and threshold values set by the Supervisory Board for the respective financial year, the actual results achieved and the resulting target achievement as well as possible adjustments due to extraordinary effects or developments are published retrospectively in the remuneration report for each financial performance criterion.

5.2.1.3 STI strategic and ESG performance criteria

The strategic and ESG targets are selected annually by the Supervisory Board from a catalog of criteria derived from the materiality analysis used in sustainability reporting.

The catalog of criteria for the strategic and ESG targets includes economic stability & growth, compliance, responsible procurement, social commitment, environmental protection, product and process responsibility, employees and technology and engineering. Specific targets are defined on the basis of these criteria, e.g. the reduction of CO2 emissions as part of environmental protection. The number and weighting of the individual targets is determined annually by the Supervisory Board.

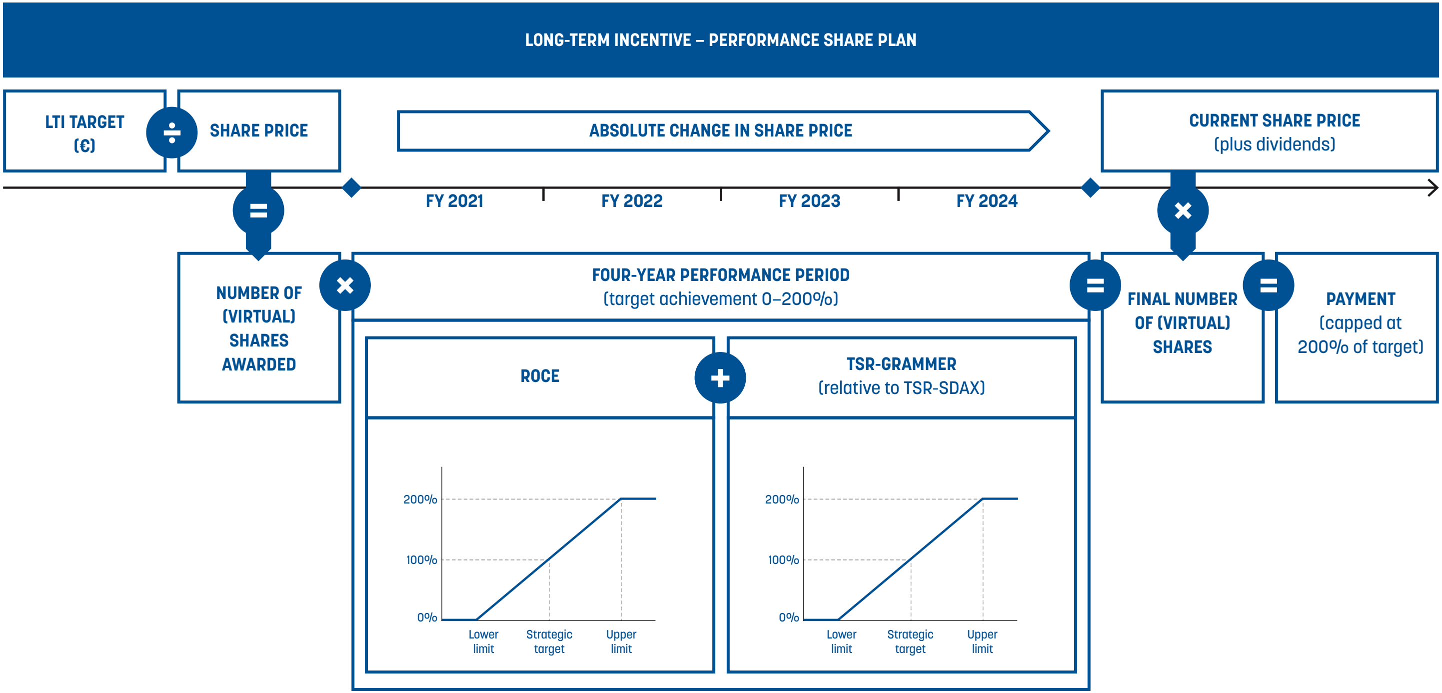
As with the financial performance criteria, a target, a lower and upper limit as well as a target achievement curve are defined in each case as a basis for determining target achievement of the performance criteria. Target achievement of 100% is deemed to have been reached when the defined target is achieved. The maximum target achievement of 200% is deemed to have been reached when the applicable financial performance criterion equals or exceeds the upper limit. If the applicable financial performance criterion equals or is less than the lower limit, target achievement is deemed to be 0%. Target achievement between the lower limit and the budget value as well as the upper limit is calculated by linear interpolation. Alternatively, individual targets may be assessed at the discretion of the Supervisory Board.

The target and threshold values set by the Supervisory Board for the respective financial year, the actual results achieved and the resulting target achievement as well as possible adjustments due to extraordinary effects or developments are published retrospectively in the remuneration report for each strategic and ESG performance criterion.

5.2.2 Long Term Incentive (LTI)

5.2.2.1 Basic features of the LTI

The long-term incentive is structured as a performance share plan which, in addition to share price performance, takes into account the return on capital employed (ROCE) and the relative total shareholder return (TSR).



With a performance period of four years, the LTI is geared towards the long-term development of GRAMMER AG and, through its orientation to the share price, provides an incentive for achieving continuous growth in enterprise value. By additionally taking into account the Company's share performance relative to the SDAX, the interests of the Executive Board and shareholders are further aligned and GRAMMER AG's competitiveness in the capital market enhanced.

Under the performance share plan, a number of virtual shares are contingently allocated at the beginning of the performance period. The number of virtual shares is determined by dividing the LTI target by the arithmetic mean of the closing prices for the GRAMMER AG share over the last 60 trading days (initial reference price).

After the four-year performance period, this number of virtual shares is multiplied by target achievement to determine the final number of virtual shares. Target achievement is determined by two performance criteria cumulatively: return on capital employed (ROCE) and relative total shareholder return (TSR). The Supervisory Board determines the weighting of the long-term incentive targets on an annual basis. Target achievement of between 0% and 200% is possible for both performance criteria.

The final number of virtual shares reached at the end of the performance period is multiplied by the arithmetic mean of the closing prices of the GRAMMER AG share during the last 60 trading days prior to the end of the performance period plus dividends paid per GRAMMER AG share during the performance period. The resulting payout amount is capped at 200% of the LTI target amount. Payment is always made in cash.

In determining the amount of the payment, the Supervisory Board has the option of taking into account significant extraordinary effects or developments. Extraordinary effects or developments are rare special situations that are not adequately allowed for in the performance criteria. Generally unfavorable market developments are expressly not considered to be extraordinary developments.

5.2.2.2 ROCE performance criterion

ROCE is the ratio of operating earnings before interest and taxes (EBIT) reported for the applicable financial year to average operating assets in the same financial year, expressed as a percentage. ROCE provides an incentive for maximizing the long-term profitability and efficiency of GRAMMER AG's business activities.

It is measured as an average over the performance period. For this purpose, the ROCE for each financial year during a performance period is aggregated and the total subsequently divided by four. The figures in the approved and audited consolidated financial statements of GRAMMER AG are used as a basis for this. Extraordinary developments (e.g. due to disposals or acquisitions) may be taken into account by the Supervisory Board for this purpose.

In the case of ROCE, the target for each LTI tranche is derived from the long-term forecast. In addition, the Supervisory Board sets a lower and upper limit for each tranche as a basis for determining target achievement of ROCE. Target achievement of 100% is deemed to have been reached when the defined strategic target is achieved. The maximum target achievement of 200% is deemed to have been reached when ROCE equals or exceeds the upper limit. If ROCE equals or is below the threshold value, target achievement is deemed to be 0%. Target achievement between the lower limit and the strategic target value as well as the upper limit is calculated by linear interpolation.

5.2.2.3 Relative TSR performance criterion

The relative total shareholder return (TSR) is based on GRAMMER AG's share performance as well as (notionally) reinvested dividends in comparison with the SDAX and thus places a particular focus on the development of the Company's enterprise value as well as its capital market orientation. This particularly strengthens the alignment between the interests of the Executive Board and those of the shareholders.

GRAMMER AG's TSR is defined as the quotient of the closing reference price including dividends and the opening reference price. The final reference price is the arithmetic mean of the closing prices of the GRAMMER AG share over the last 60 trading days of the performance period, rounded to two decimal places. The relative TSR is calculated by subtracting the SDAX TSR from GRAMMER AG's TSR in percentage points.

The Supervisory Board defines the strategic target for each tranche as well as a lower and upper limit for the relative TSR. Target achievement of 100% is deemed to have been reached when the defined strategic target is achieved. The maximum target achievement of 200% is deemed to have been reached when relative TSR equals or exceeds the upper limit. If relative TSR equals or is below the threshold value, target achievement is deemed to be 0%. Target achievement between the lower limit and the strategic target value as well as the upper limit is calculated by linear interpolation.

The target and threshold values for ROCE and relative TSR determined by the Supervisory Board for the applicable tranche as well as the actual results achieved and the resulting target achievement are published retrospectively in the remuneration report.

5.3 Penalty and claw-back

In certain cases, the Supervisory Board may reduce the variable remuneration components that have not yet been paid (penalty) or reclaim variable remuneration components that have already been paid (claw-back).

In the event of a significant breach of duty or a compliance violation on the part of a member of the Executive Board, the Supervisory Board may reduce the variable remuneration components (STI or LTI) in part or in full at its due discretion (penalty). If variable remuneration components have already been paid, the Supervisory Board may in such cases also demand partial or full repayment of the variable remuneration amounts received (claw-back). If variable remuneration components are determined or paid on the basis of incorrect data, e.g. misstatements in the consolidated financial statements, the Supervisory Board may correct the determination or reclaim the remuneration components already paid.

This does not prejudice the Executive Board member's potential liability towards the Company for damages under section 93 (2) AktG.

6. Remuneration-related legal transactions

6.1 Contract term and termination options

The Executive Board service contracts are entered into for the applicable term of appointment, which is usually three years. There is no provision for ordinary termination. However, this does not prejudice either party's right of termination for good cause (section 626 of the German Civil Code (BGB)).

6.2 Arrangements for persons appointed to the Executive Board during the year

If a member of the Executive Board member enters or leaves GRAMMER AG's service during the current financial year, the target total remuneration for the applicable financial year (including STI and LTI) is reduced accordingly on a time-proportionate basis.

6.3 Arrangements in the event of premature termination of the service contract

6.3.1 Termination benefits

In the event of the premature termination of the service contract with a member of the Executive Board other than for good cause, payments to members of the Executive Board may not exceed the value of two years' worth of total remuneration and may not exceed the total remuneration for the remaining term of the service contract. The total annual remuneration as defined above comprises the fixed remuneration, the STI, the LTI and the payment towards retirement benefits. If the service contract is terminated for good cause for reasons for which the member of the Executive Board is responsible, no payments are made to him or her.

6.3.2 Incapacity and death

In the event of incapacity due to illness or accident, the member of the Executive Board concerned receives fixed remuneration for a further nine months. If the member of the Executive Board is entitled to illness-related benefits from third parties (e.g. sick pay), the claims are reduced accordingly. In the event of protracted incapacity over more than six months, the target STI and LTI amounts are reduced on a time-proportionate basis.

In the event of the death of a member of the Executive Board, the surviving dependents (spouse and dependent children) continue to receive the fixed remuneration for the month of death (time-proportionate) as well as for a further period of six months starting at the end of the month of death as joint creditors.

6.3.3 Variable remuneration in the event of premature termination of the service contract

In the event of premature termination of the service contract, any outstanding variable remuneration components attributable to the period up until the date of termination of the contract are paid on the basis of the originally agreed targets and performance criteria on the due dates specified above. There is no early payout.

All entitlement accruing under outstanding LTI tranches lapse without any compensation if the service contract is terminated by the Company before the end of the performance period for good cause for which the member of the Executive Board concerned is responsible, his or her appointment is revoked due to gross breach of duty or he or she steps down other than for good cause and without the Company's consent. Notwithstanding this, all outstanding LTI tranches are settled immediately at the agreed targets (100% target achievement) and paid to the member of the Executive Board or his or her heirs if the service contract lapses due to disability or the death of the member of the Executive Board.

6.4 Secondary activities of the members of the Executive Board

The members of the Executive Board undertake to devote all their resources, experience and knowledge to the Company and its affiliates.

At the request of the Supervisory Board or the Executive Board, the member of the Executive Board is obliged to accept mandates at Group companies and in associations of which the Company is a member without any separate remuneration. If the member of the Executive Board receives any payment for holding such mandate, it will be offset against his or her remuneration. At the request of the Supervisory Board or the Executive Board, but no later than upon termination of the service contract – or in the event of early release from service, at the time of such release – the member of the Executive Board is obliged to resign from all offices which he or she has assumed by virtue of or in connection with his or her activities.

Any paid or unpaid secondary activity by a member of the Executive Board requires the Supervisory Board's prior written consent. This does not apply to unpaid private secondary activities that do not affect the Company's interests.

The acceptance of public offices or mandates on supervisory boards, administrative boards, advisory boards and comparable bodies outside the Group as well as appointments to business or scientific bodies require the Supervisory Board's prior written consent. The Supervisory Board will decide on whether any payments received for the acceptance such external offices are to be deducted from the remuneration.

7. Temporary deviations from the remuneration system

In special and exceptional circumstances, the Supervisory Board may temporarily deviate from the remuneration system in accordance with section 87a (2) sentence 2 AktG if this is necessary in the light of GRAMMER AG's long-term interests. Unfavorable market developments are explicitly not deemed to constitute such special and exceptional circumstances. Rather, these are cases, such as a severe corporate or economic crisis, in which an adequate incentive can no longer be achieved by means of the existing remuneration system, thus making a temporary deviation necessary. These special and exceptional circumstances are determined in a resolution passed by the Supervisory Board.

If an exceptional circumstance has been identified in a resolution passed by the Supervisory Board, it may temporarily deviate from the following components of the remuneration system: relative proportions of the remuneration components, STI and LTI performance criteria, performance periods and applicable target achievement ranges, secondary benefits in the event of a temporary requirement for exceptional secondary benefits. Furthermore, the Supervisory Board may in this case temporarily grant additional remuneration components or replace individual remuneration components with other remuneration components to the extent necessary to restore an appropriate level of incentive in the remuneration system for the Executive Board.

In the event of any temporary deviation from the remuneration system, the rationale for this and the procedure to be followed must be explained in the remuneration report and the remuneration components affected by this duly specified.

GRAMMER AG
Grammer-Allee 2
92289 Ursensollen, Germany
Phone +49 (0) 96 21 66 0
www.grammer.com