



## **GESCO AG, Wuppertal, Germany**

### **Remuneration system for the members of the Executive Board**

On 30 June 2021, the Annual General Meeting of GESCO AG approved the following Executive Board remuneration system with a vote of 86.61 %.

The remuneration system describes the basic features and components of the remuneration of the Executive Board of GESCO AG. It complies with the applicable legal requirements of the German Stock Corporation Act. It also takes into account the recommendations of the German Corporate Governance Code (GCGC) in the version dated 16 December 2019.

#### **1. Basic features of the remuneration system for the members of the Executive Board**

GESCO AG acquires successful industrial SMEs as a long-term investor. We see our activities as long-term and sustainable in that we continue and develop proven business models further. Our central task is to exploit growth potentials and secure the Group's viability in the long term. This allows us to create added value for everyone involved, from the shareholders to our employees, from customers to suppliers and business partners of all stripes. Acquiring, retaining and further developing healthy, industrial SMEs – that is GESCO AG's strategy. Under the umbrella of a lean holding the companies are independently operating entities, but with the support of GESCO AG. The goal: a strong group of hidden champions, market and technology leaders.

The remuneration system supports this corporate strategy and enables the sustainable and long-term development of the company by placing special emphasis on the promotion of a long-term and sustainable perspective for Executive Board activities. In particular, the orientation of the variable components based on the Group net income takes into account that the representation of other quantitative targets in the remuneration at a holding company is potentially subject to large and sometimes unpredictable fluctuations and should therefore be avoided. At the same time, this basis for the assessment of the variable component represents the greatest possible alignment with the interests of our shareholders, the company as a whole and the employees. The introduction of a multi-year and share-based component also aims in this direction and serves to best reflect the alignment between strategy, strategy implementation and shareholders' interests.

The remuneration system is designed to be clear and comprehensible, while also avoiding incentives to take disproportionate risks. Through the structuring of the remuneration system in this way, the Supervisory Board aims to offer an appropriate and competitive remuneration to the members of the Executive Board so as to guarantee that qualified Executive Board

members remain loyal to GESCO AG in the future and that new members of the Executive Board can be recruited for the company.

This remuneration system for the members of the Executive Board was resolved by the Supervisory Board on 13 May 2021 and applies to all Executive Board service contracts to be newly concluded or extended with effect from the Annual General Meeting on 30 June 2021. In accordance with the German Corporate Governance Code in the version dated 16 December 2019 (GCGC 2020) and Section 26j of the Introductory Act to the German Stock Corporation Act (EAGAktG), the previous remuneration system will continue to apply to the Executive Board service contracts in force at that time (see also the declaration of compliance by the Executive Board and Supervisory Board pursuant to Section 161 AktG from December 2020). The individual members of the Executive Board are remunerated in accordance with the remuneration system applicable to them.

## **2. Process for determining, reviewing and implementing the Executive Board remuneration system**

Pursuant to Section 87a of the AktG, the Supervisory Board as a whole decides on a clear and comprehensible system for the remuneration of the Executive Board and determines the remuneration of the member of the Executive Board in accordance with Section 87 para. 1 AktG. There is no delegation of tasks to a committee of the Supervisory Board regarding the Executive Board remuneration system. The remuneration system adopted by the Supervisory Board is submitted to the Annual General Meeting for approval in accordance with the requirements of the German Stock Corporation Act. If the Annual General Meeting does not approve the remuneration system, the Supervisory Board shall submit a revised remuneration system to the next Annual General Meeting for resolution at the latest.

On the basis of the remuneration system presented to the Annual General Meeting, the Supervisory Board shall determine the concrete target total remuneration of the members of the Executive Board. Taking into account the requirements of Section 87 para. 1 AktG, the Supervisory Board determines the appropriateness of the remuneration with regard to the tasks of the respective member of the Executive Board, their personal performance, the financial situation, the success and the future prospects of the company.

The remuneration system is regularly reviewed by the Supervisory Board concerning its appropriateness and traditional structure as well as its compliance with legal requirements. If necessary, the Supervisory Board will decide on changes. The remuneration system is submitted to the Annual General Meeting for approval in the event of significant changes to the remuneration system, at least every four years. In the event that the Supervisory Board draws on an external remuneration expert to develop the remuneration system and assess the appropriateness of the remuneration, it shall ensure that the expert is independent of both the Executive Board and the company.

When evaluating the appropriateness and traditional structure of the remuneration, the Supervisory Board also takes the relationship of the GESCO AG Executive Board remuneration in relation to other, comparable companies (horizontal comparison), as well as the appropriateness of remuneration within the company (vertical comparison), into account. The relevant comparable companies in the horizontal comparison are selected in terms of relevant criteria such as size, industry focus, and structure or strategy to ensure optimum

comparability with GESCO AG. When undertaking the vertical comparison, the Supervisory Board assesses the relationship of senior management remuneration and the relationship to the workforce remuneration on the whole, as well as employment conditions, including the development over time. The Supervisory Board defines senior management as the first level below the Executive Board at GESCO AG and the managing directors of the affiliated companies. The total workforce is made up of the entire GESCO AG workforce as well as those of its German subsidiaries.

The generally applicable regulations for dealing with conflicts of interest are also complied with during the process for determining, implementing and reviewing the remuneration system. Conflicts of interest that arise for members of the Supervisory Board must immediately be disclosed to the Chairman of the Supervisory Board. The handling of existing conflicts of interest will be reviewed individually. This means, specifically, that considerations will be made whereby the member affected by the conflict of interest will not participate in the affected deliberations and voting of the Supervisory Board. The Supervisory Board will report on any conflicts of interest that have arisen and how they were remedied within the scope of its annual report to the Annual General Meeting.

### **3. Components of the remuneration system**

#### **3.1 Overview of remuneration components and target total remuneration**

The remuneration of the members of the Executive Board is comprised of performance-independent (fixed) and performance-related (variable) components. The fixed components comprise annual base salary, additional benefits and pension commitments. The variable components are constituted from a performance-related, one-year component and a performance-related multi-year, share-based component with long-term incentives.

The total target remuneration is comprised of the sum of the fixed and variable components, with the variable components being based on a 100 % target achievement. The individual remuneration components account for the following share of the target total remuneration: Annual base salary contributes approximately 55-60 %, the performance-related one-year components roughly 13-16 %, the performance-related multi-year, share-based component 14-17 %, pension commitments constitute approximately 5-9 % and additional benefits some 3-5 %<sup>1</sup>.

<sup>1</sup> The share of additional benefits is the share of regularly granted additional benefits based on the empirical values from the previous years. The granting of further additional benefits in individual cases may lead to a higher share of additional benefits. These benefits should always be appropriate in scope. The amount thereof is limited due to the fact that they feed in to the determined target total remuneration.

#### **3.2 Fixed components**

The fixed remuneration is granted independently of performance and is comprised of the annual base salary, additional benefits and pension commitments.

##### **3.2.1 Annual base salary**

The members of the Executive Board receive an annual base salary, which is paid out at the end of each month in 12 regular instalments.

### **3.2.2 Additional benefits**

In addition to the annual base salary, the members of the Executive Board may be granted the common additional benefits in line with market conditions within the scope outlined above in Section 3.1. These include, in particular, the provision of a company vehicle also for private use, contributions to insurances or subsidies for insurance premiums, contributions to the employers' liability insurance association, provision of a mobile phone also for private use, benefits from bonus and reward programmes (such as frequent flyer miles, hotel reward programmes, credit card bonuses), as well as regular, preventative medical examinations. To the extent that the additional benefits for members of the Executive Board are subject to income tax, the incurred tax must be borne by the individual member of the Executive Board.

### **3.2.3 Pension commitments**

Members of the Executive Board are granted fixed contributions for the duration of their employment contract in the amount of a certain percentage of their annual base salary for the purpose of pension planning. The company pension plan is currently structured to allow the Executive Board to choose whether the company makes an annual contribution comprised of the aforementioned amount for the duration of the employment contract for a company Executive Board pension plan. In this case, the Executive Board is able to select the structure of the company pension plan as it sees fit. Alternatively, the Executive Board can choose to have the aforementioned amount paid out in twelve regular instalments as a gross amount within the scope of the monthly base salary payment. This allows them to utilise their pension provision within the scope of a private pension plan, such as by means of voluntary membership in the statutory pension plan.

### **3.3 Variable components**

Variable remuneration for members of the Executive Board – comprised of the performance-related one-year component and the performance-related multi-year share-based component – is linked to a performance criterion determined by the Supervisory Board. This is currently Group net income.

The variable remuneration is based on the year's result as this allows for the best interpretation and quantifiable assessment of the business strategy of a holding company with various different shareholdings and business models in its investment portfolio as well as the clear objective of sustainable organic and acquisitions-based growth.

The calculation base for the variable remuneration is the Group net income (after minority interests) for the financial year as reported in the approved consolidated financial statements, less loss carryforwards (after minority interests) from the previous year and less net profit for the year to revenue reserves in accordance with German law or the Articles of Association. The initial amount used for the calculation of the variable component for the remuneration of the members of the Executive Board is based in particular on the pre-determined percentage of the above-mentioned calculation base, what is known as the base amount, as calculated by the Supervisory Board.

The Supervisory Board sets a target value for the Group net income after minority interests for the coming financial year on the basis of the annual company planning, thereby also setting the target value of the calculation base for the performance-related components. Furthermore,

the Supervisory Board pre-determines a percentage base value of the calculation base and determines what portion of said base value will be allocated to the performance-related one-year component (see Section 3.3.1 below) as well as what portion of the base value will be allocated to the performance-related multi-year share-based component (see Section 3.3.2 below). The ratio of the performance-related one-year component and the performance-related multi-year share-based component to the remuneration is calculated in such a way as to favour the share-based component thereby placing the focus on the long-term perspectives of the company.

At the end of a financial year, the Supervisory Board determines the initial amount for variable remuneration of the members of the Executive Board for the respective financial year on the basis of the determined base amount. The Supervisory Board is therefore entitled, within the scope of its due discretion, to change the initial amount by upwards or downwards of 20 % so as to take account of extraordinary circumstances or personal performance. Due discretion shall specifically be exercised when taking into account non-financial, social and environmental perspectives with a view towards sustainability as practised by the company.

The initial amount of the variable remuneration determined in this way may be no larger than the annual base salary (cap). There may also be cases where the initial amount is zero. The initial amount of the variable remuneration for new members of the Executive Board can be guaranteed for the first year of activity as of the beginning of activity.

If Group net income after minority interest is negative, in other words the company has made a loss for the year, this loss is carried forward to the next year and reduces the basis for calculating the variable component of Executive Board remuneration. If Group net income after minority interest is negative in the financial year prior to an Executive Board member leaving or in the same year that a member leaves, this particular Executive Board member will share in the loss in the amount of a pre-determined percentage. This amount will not, however, exceed the total variable remuneration earned in the previous three financial years nor will it exceed the amount of the annual base salary granted in the completed financial year. Should the employment of the member of the Executive Board terminate during the financial year, the participation in shared losses shall be calculated on a pro rata basis. When determining the loss for the financial year in which a member has left, the loss carry-forwards from the previous financial year remain unconsidered. The company's claim for reimbursement is due for payment within a pre-determined period. Should expenses included in the basis of assessment relevant for the Executive Board's shared loss participation be reimbursed in whole or in part by minority party benefits following the end of the Executive Board member's employment contract, the loss relevant to the particular member of the Executive Board's shared loss participation will be recalculated taking into account these reimbursements and, where applicable, any reimbursements made in excess by the member of the Executive Board will be repaid to the Executive Board member.

The initial amount of variable remuneration determined for a financial year is granted in accordance with the weighting as determined by the Supervisory Board within the framework of the base amount as comprised of a performance-related one-year remuneration component as well as a performance-related multi-year share-based component.

### **3.3.1 Performance-related, one-year component**

The performance-related one-year component of the variable remuneration is due for payment in cash following approval of the consolidated financial statements by the Supervisory Board, at the latest eight months after the end of the financial year.

### **3.3.2 Performance-related, multi-year share-based component**

The performance-related, multi-year share-based component portion of the initial amount is granted in the form of a virtual share-option programme with a term of four years in accordance with the following requirements.

The initial amount attributable to the performance-related, multi-year share-based component is converted into a number of virtual shares by dividing the amount as at a reporting date by the average GESCO AG share price (average price of the GESCO share in the last three months before the reporting date). At the end of a four-year term, the number of virtual shares is multiplied by the average GESCO AG share price at the end of said term (average price of the GESCO share in the last three months before the end of the term), after which the total amount of dividends accrued during the four-year term is added to determine the amount to be paid. The total amount is paid out in cash in accordance following the corresponding approval by the Supervisory Board.

The share-based remuneration allows the members of the Executive Board to directly participate in the sustainable development of the company, as it is structured over several years. This ensures that Executive Board members have a significant interest in the positive development of the GESCO share, as they are the ones who can effectively influence it through the implementation of the business strategy.

### **3.4 Malus/clawback regulations**

The Executive Board's variable remuneration – both the performance-related one-year component and the performance-related multi-year share-based component – are subject to the malus and clawback regulations. In serious cases of a breach of due diligence duties by a member of the Executive Board pursuant to Section 93 AktG (including corresponding violations of the Code of Conduct constituted by a breach of Section 93 AktG) or their duties outlined in the service contract, the Supervisory Board may either partially or wholly withhold outstanding variable remuneration (malus) as well as demand repayment of variable remuneration which has already been paid (clawback). The Supervisory Board shall decide as to whether and in which scope this option will be exercised after due consideration.

### **3.5 Maximum remuneration**

The Executive Board remuneration is limited in consideration of all remuneration components pursuant to Section 87a para. 1 sentence 2 no. 1 AktG (maximum remuneration). Maximum remuneration limits the total of all remuneration payments to a member of the Executive Board for a financial year and comprises all remuneration components including annual base salary, all variable components, additional benefits and pension commitments. The maximum remuneration for members of the Executive Board is € 950,000.

## **4. Remuneration-related legal transactions**

### **4.1 Terms and termination of Executive Board service contracts – appointment or dismissal during the financial year**

The term of the Executive Board service contracts is based on the period of appointment of an Executive Board member and is extended by the corresponding period of re-appointment. The Executive Board contracts usually run for a term of between three and five years. Shorter terms are possible in individual, special cases.

An ordinary right to terminate is not included in the contracts, however, both parties may terminate the contract without notice given good cause.

In cases where a member of the Executive Board joins or resigns during a financial year, remuneration is generally granted on a pro rata basis.

Upon termination of the service contract, outstanding variable remuneration amounts – both performance-related one-year components and performance-related multi-year share-based components – will be settled and paid out in accordance with agreed remuneration parameters and due dates.

### **4.2 Benefits upon termination of the Executive Board position**

In the event of the dismissal of a member of the Executive Board, the Executive Board remuneration will continue to be granted until the expiration of the contract term at the latest. In the event of a dismissal, the company may release the Executive Board member from the obligation to render their services under consideration of existing leave entitlements, provided that employment is properly accounted for until the expiration of the contract.

All payments and additional benefits made by the company or third parties to the Executive Board member in relation to their position as a member of the Executive Board of the company, taking place in the period following their leaving the Executive Board, may not exceed a total value of two annual base salaries (as based on the total remuneration for the previous financial year and, where applicable, the anticipated total remuneration for the current financial year) and may not be granted in excess of the remaining term of the employment contract (payment cap).

The aforementioned provisions apply accordingly in the event of a mutually agreed termination of the employment relationship.

### **4.3 Remuneration in cases of secondary employment**

The Executive Board undertakes, within the scope of business requirements and upon request of the Supervisory Board, to take on positions on executive and supervisory boards, management or advisory boards, or any similar functions at companies affiliated to GESCO within the meaning of Section 15 AktG or in associations of which the company or an affiliated company is a member or in which the company or an affiliated company has another interest, and to do so without additional remuneration. Any remuneration received by the Executive Board member from intra-Group supervisory board mandates shall be deducted from their Executive Board remuneration. In the event of appointment to supervisory boards outside the Group, the Supervisory Board shall decide as to whether and what extent remuneration is to be deducted.

## **5. Temporary deviation from the remuneration system**

The Supervisory Board may temporarily deviate from the remuneration system if this is deemed necessary for the success of the company in the long term. Such cases may include, for example, the alignment of the remuneration system in the event of a significant change in the company strategy so as to ensure adequate incentives or in the event of a serious economic crisis. The procedure to enact such a deviation requires a resolution by the Supervisory Board stating and appropriately outlining the duration of the deviation, the nature of the deviation itself and the reasons necessitating it. Meaning, why the deviation is necessary to ensure the long-term success of the company. Materially, the Supervisory Board may deviate from the respective share of the individual remuneration components as well as the respective criteria. In certain cases, the annual base salary amount may also be temporarily determined otherwise if it is deemed necessary for the long-term success of the company. It may not, however, exceed the maximum remuneration as determined by the Annual General Meeting. The procedure and provisions determining the remuneration system and the amounts of the individual components constitute those elements of the remuneration system which allow for deviation. The Supervisory Board may, applying due discretion, temporarily reimburse expenditures for extraordinary additional benefits (such as security measures) in the event that a significant change of requirements is determined. Furthermore, the Supervisory Board also has the right to grant extraordinary payments to newly appointed members of the Executive Board as compensation for salary losses from a previous employment relationship or to cover costs occurring from relocation.

In the event that the position of the company deteriorates to such an extent as to make the continued remuneration of the Executive Board burdensome for the company, the Supervisory Board may reduce the remuneration to an appropriate amount in accordance with Section 87 para. 2 AktG.