

Remuneration system for Executive Board members at RATIONAL AG

A. Main features of the remuneration system for Executive Board members at RATIONAL AG

The remuneration system for members of the Executive Board makes an important contribution to promoting and implementing RATIONAL AG's corporate strategy and to the company's ongoing development. The Supervisory Board and Executive Board of RATIONAL AG pursue a long-term strategy that is sustainably geared to customer benefit as the basis for growth and profitability. Customer benefit is achieved particularly through the quality, superior technology, and reliability of the company's products and services. The Supervisory Board is convinced that long-term corporate responsibility and sustainability rely only to a limited extent on complex variable remuneration components. The remuneration system is geared towards clarity and transparency.

The remuneration system for members of the Executive Board sets incentives that are consistent with and support the corporate strategy:

The main component of remuneration is the fixed salary as the basis for the company's long-term success.

The short-term one-year variable remuneration is based on the financial performance criterion of earnings after taxes as reported in the consolidated financial statements of RATIONAL AG. This encourages the Executive Board to focus its activities on continuous growth with high earnings power.

To align the remuneration of Executive Board members towards the company's sustainable, long-term success, total remuneration includes a multi-year variable remuneration component. The multi-year variable remuneration is based on a three-year performance period. The majority of the multi-year variable remuneration depends on the return on capital employed (ROCE) of RATIONAL AG.

A smaller portion of the long-term variable remuneration is linked to non-financial performance criteria, which are generally set for the whole Executive Board but in some cases also as individual targets. The setting of non-financial performance criteria particularly incorporates social, customer- and employee-focussed as well as ecological goals (ESG goals). This supports the company's sustainable strategic development.

The two components of long-term variable remuneration take account of shareholders' interests in the profitability of RATIONAL AG and promote the achievement of central strategic objectives set within the company.

The remuneration system for members of the Executive Board is designed to be clear and understandable. It meets the requirements of the German Stock Corporation Act (Aktiengesetz, AktG) as amended by the Act Implementing the Second Shareholders' Rights Directive of 12 December 2019 (Federal Law Gazette Part I 2019, No. 50 of 19 December 2019) and takes account of the recommendations of the German Corporate Governance Code in the version that entered into force on 20 March 2020, unless indicated otherwise in the declaration of conformity.

The new remuneration system will come into effect two months after it is first approved by the General Meeting of Shareholders for all Executive Board members whose employment contracts are newly concluded or renewed after this time.

B. The remuneration system in detail

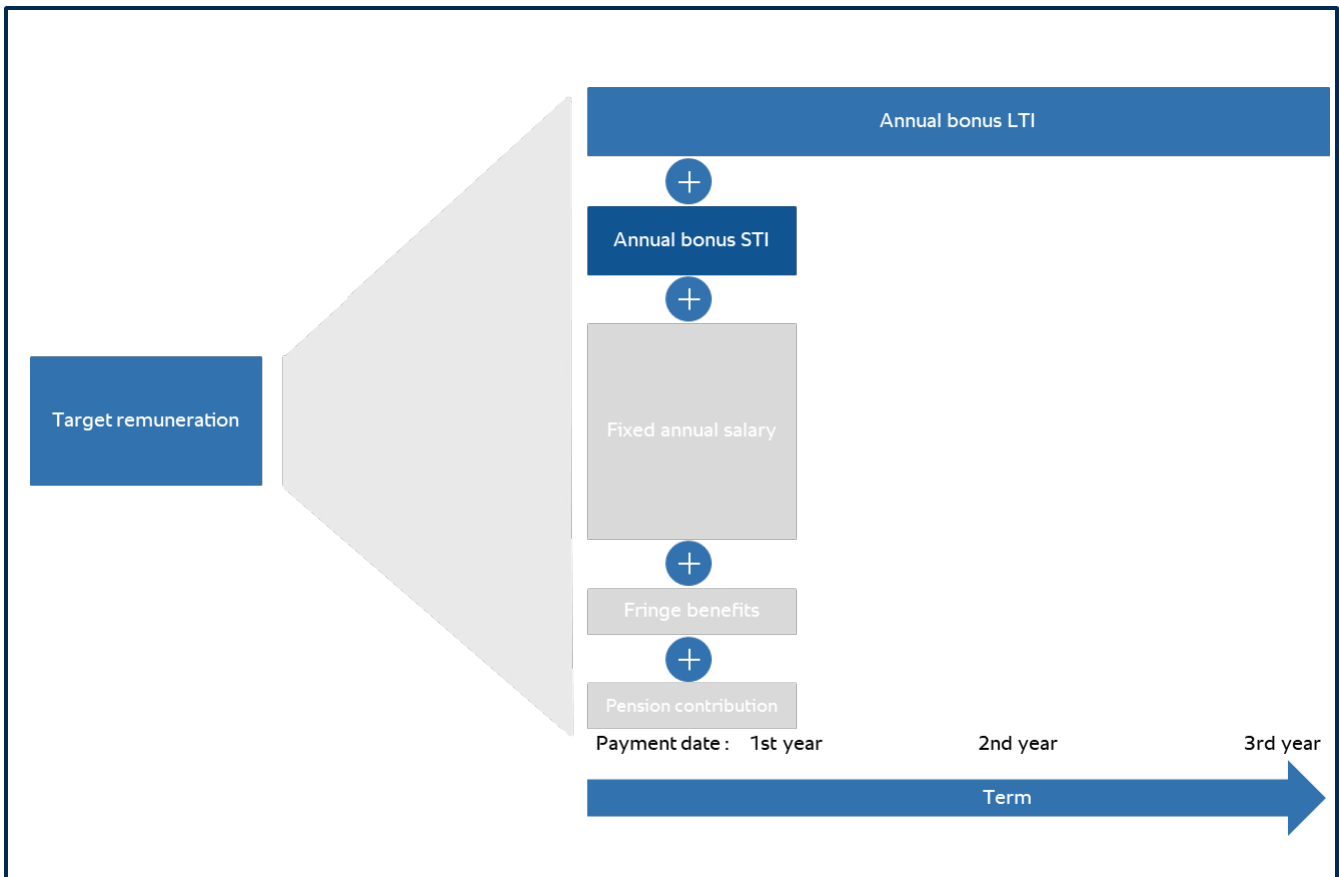
I. Components of remuneration

1. Overview of the remuneration components and their relative share of remuneration

The remuneration of Executive Board members comprises fixed and variable components. The fixed components of Executive Board members' remuneration are the fixed annual salary, fringe benefits, and pension contributions. The variable components are the one-year variable remuneration (Short Term Incentive, "STI") and the multi-year variable remuneration (Long Term Incentive, "LTI"). The remuneration system does not specify any share ownership requirements for the Executive Board members.

Remuneration component	Assessment basis/parameters
Fixed remuneration components	
Fixed annual salary	In 12 equal monthly instalments at the end of each calendar month
Fringe benefits	<u>Especially:</u> Private use of company car Accident insurance
Pension contributions	Plan type: Defined contribution plan for annual payments Contribution: 15% of fixed annual salary each year
Variable remuneration components	
STI	Type: Target bonus Cap: 200% of the target amount Performance criteria: Earnings after taxes as reported in the consolidated financial statements Assessment period: Next year Payment date: In the month following adoption of the consolidated financial statements
LTI	Plan type: Performance cash plan Cap: Financial LTI component: 200% of the target amount Non-financial LTI component: 100% of the target amount Performance criteria: Return on capital employed (75%) Non-financial targets (25%) Performance period: Next three years Payment date: In the month following adoption of the consolidated financial statements for the last fiscal year of the performance period, or no later than the following month

Based on the remuneration system, the Supervisory Board sets a specific target total remuneration for each Executive Board member. This is commensurate with the tasks and performance of the Executive Board member and the company's situation and may not exceed customary remuneration without specific reason. Target total remuneration comprises the sum of all remuneration components relevant for total remuneration. For the STI and LTI, target total remuneration is based on the target amount for 100% target achievement.



The share of long-term variable remuneration in the target total remuneration exceeds the share of short-term variable remuneration in the target total remuneration. The relative shares of the fixed and variable remuneration components are shown below in relation to target total remuneration.

Fixed remuneration	Variable remuneration	
Fixed annual salary + Fringe benefits + Contribution to the company pension scheme	STI	LTI
Approx. 70%	Approx. 10%	Approx. 20%

For all Executive Board members, the share of fixed remuneration (fixed annual salary, fringe benefits and contributions to the company pension scheme) makes up approximately 70% of target total remuneration, while variable remuneration makes up approximately 30% of target total remuneration. The share of the STI (target amount for 100% target achievement) in target total remuneration is approximately 10%, and the share of the LTI (target amount for 100% target achievement) in target total remuneration is approximately 20%.

The above shares may differ slightly for future fiscal years due to changes in the costs of contractually agreed fringe benefits and for any new appointments. Any payments granted on the occasion of a new member taking office may also result in a deviation from the above shares.

2. Fixed remuneration components

The members of the Executive Board receive a fixed annual salary in twelve monthly instalments.

The Executive Board members are also awarded fringe benefits: in particular, each member of the Executive Board is provided with a company car which may also be used privately. RATIONAL AG takes out accident insurance (death and disability) for the Executive Board members.

Defined contribution pension plans are in place for the individual members of the Executive Board. RATIONAL AG pays annual contributions to these plans for the Executive Board members. These annual contributions to the external provident fund are capped at 15% of fixed annual salary.

In individual cases, on the occasion of a new Executive Board member taking office, the Supervisory Board may award a payment in the first or second year of the new member's appointment. A payment of this kind may, for example, serve to compensate an Executive Board member for the loss of variable remuneration from a former employer incurred as a result of moving to RATIONAL AG.

3. Variable remuneration components

The following section describes the variable remuneration components. It explains the link between achievement of the performance criteria and the amount of variable remuneration paid out. It also sets out when and in what form Executive Board members have access to the variable remuneration components they have been granted.

3.1 One-year variable remuneration (STI)

The STI is a performance-based bonus with a one-year assessment period. The STI depends exclusively on a financial performance criterion: earnings after taxes as reported in the consolidated financial statements. This performance criterion incorporates all the key success factors for the company. It therefore sets incentives to continuously improve profitability, and also recognises the collective performance of the Executive Board. The Supervisory Board sets the target for this financial performance criterion at the beginning of the fiscal year.

For each fiscal year, the Supervisory Board sets the level of earnings after taxes that will represent 100% target achievement and a target amount for the STI to be paid out for 100% target achievement. This target amount for the STI represents 10% of gross annual salary. Following presentation and adoption of the audited consolidated financial statements for the fiscal year, the level of target achievement is determined by comparing the actual figure in the audited consolidated financial statements with the targets for the respective fiscal year. The STI is then calculated.

Calculation of the annual STI is as follows:

- For every full 2 percentage points by which earnings after taxes as reported in the consolidated financial statements fall short of the target figure, the STI is reduced by 10 percentage points of the target amount, down to a target achievement of 80%. If earnings after taxes as reported in the consolidated financial statements are below 80% of the target figure, no STI is paid out.
- For every full 2 percentage points by which earnings after taxes as reported in the consolidated financial statements exceed the target figure, the STI is increased by 10 percentage points of the target amount, up to a target achievement of 120%. If earnings after taxes in the consolidated financial statements are above 120% of the target figure, the STI is capped at 200% of the target amount.

Payment of the annual STI is due in the month following adoption of the consolidated financial statements of RATIONAL AG for the fiscal year to which the STI relates.

The financial performance criterion may not be changed retrospectively. The Supervisory Board is entitled, should any extraordinary events or developments occur, e.g. the acquisition or sale of part of the company, to temporarily adjust the terms of the STI plan appropriately at its reasonable discretion.

If an appointment begins or ends in the course of a fiscal year, the target amount of the STI is reduced pro rata temporis based on the date on which the member's employment begins or ends. The same applies to periods for which an existing Executive Board member is not entitled to remuneration (e.g. because employment is suspended or the member is unable to work and not entitled to continue receiving pay). The payment due date and parameters for calculating the STI are not affected by the Executive Board member beginning or ending their appointment in the course of a fiscal year.

3.2 Multi-year variable remuneration (LTI)

The LTI is structured as a performance cash plan. It consists of two components, one of which is linked to a financial performance criterion ("Financial LTI Component") and the other to non-financial performance criteria ("Non-Financial LTI Component"). Based on a target achievement of 100% for each component ("LTI Full Target Achievement"), the Financial LTI Component is given a 75% weighting and the Non-Financial LTI Component a 25% weighting. The LTI is awarded on a rolling basis in annual tranches. Each tranche of the performance cash plan has a three-year term ("Performance Period"). Each Performance Period begins on 1 January of the first fiscal year of the Performance Period ("Fiscal Year of Award") and ends on 31 December of the third fiscal year of the Performance Period.

After the end of the Performance Period, the target achievement for the LTI is calculated and the amount of the payment for each member of the Executive Board is determined based on the level of target achievement. Payment is due in the month following adoption of RATIONAL AG's consolidated financial statements for the last fiscal year of the Performance Period, or no later than the following month.

The relevant financial performance criterion for the Financial LTI Component is the return on capital employed (ROCE) at Group level. The performance indicator ROCE is defined as $EBIT / (\text{equity} + \text{interest-bearing borrowings} + \text{pension provisions})$. ROCE is a key performance indicator that measures how efficiently the capital tied up in the company is being used. Linking the LTI to ROCE sets a long-term incentive to generate lasting profitable growth.

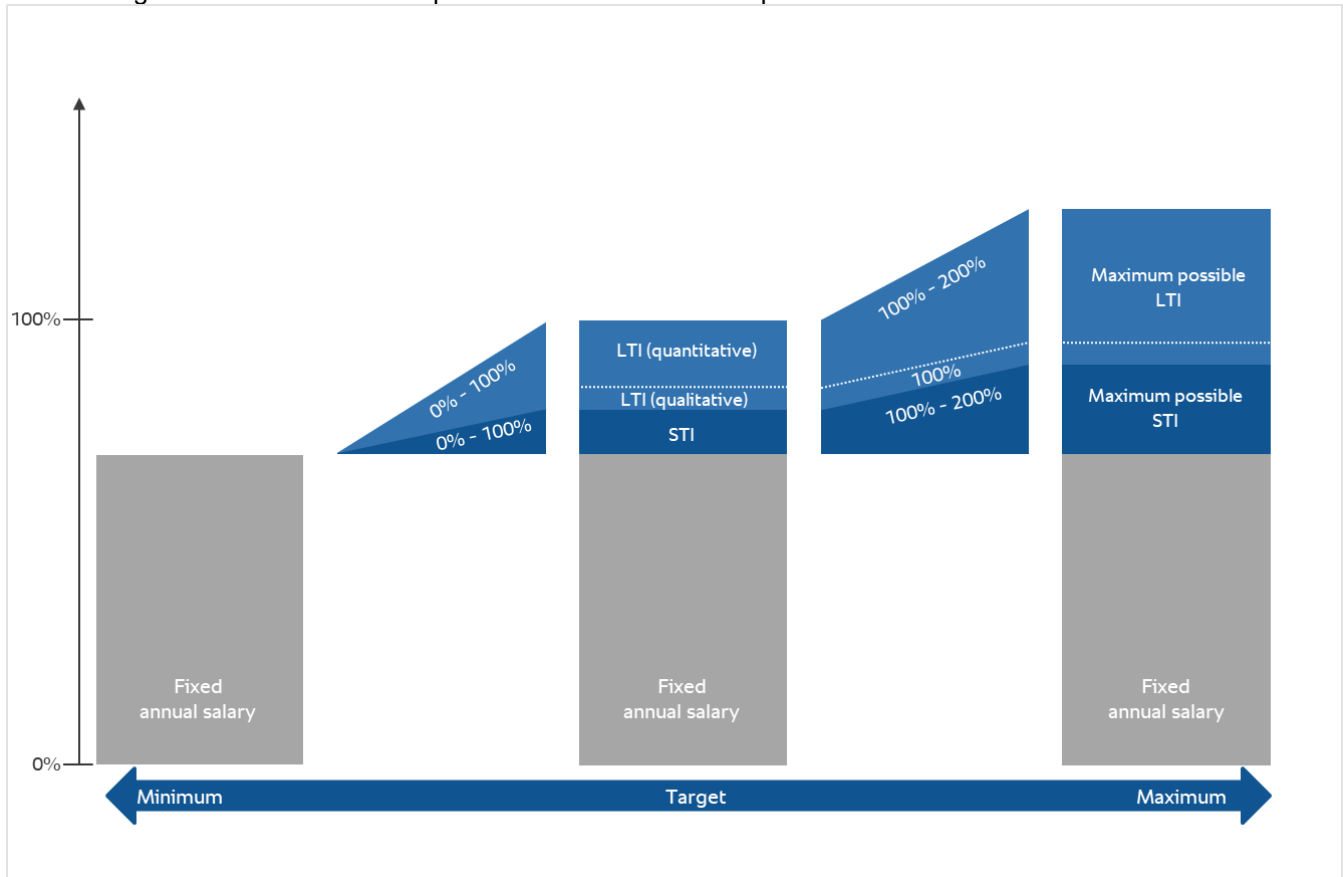
At the beginning of a Performance Period, the Supervisory Board decides, based on the multi-year planning, how high average ROCE should be at the end of the three-year Performance Period ("Target ROCE"). The Supervisory Board also sets a target amount for the Financial LTI Component. This figure, which is set for the Fiscal Year of Award, equates to 75% of the LTI in the event of LTI Full Target Achievement. To calculate target achievement for the Financial LTI Component, the arithmetic average of the ROCEs actually achieved in the three years of the Performance Period is calculated at the end of the Performance Period and compared to the Target ROCE. The following applies to the Financial LTI Component:

- For every full 1 percentage point by which ROCE falls short of the target figure, the Financial LTI Component is reduced by 10 percentage points of the target amount, down to a target achievement of 90% of Target ROCE. If target achievement is below 90% of Target ROCE, no Financial LTI Component is paid out.
- For every full 1 percentage point by which ROCE exceeds the target figure, the Financial LTI Component is increased by 10 percentage points of the target amount, up to a target achievement of 110% of Target ROCE. If target achievement is above 110% of Target ROCE, the Financial LTI Component is capped at 200% of the target amount.

The relevant non-financial performance criteria for the Non-Financial LTI Component are established by the Supervisory Board, predominantly through the setting of social, customer- and employee-oriented, and

environmental goals. This supports the company's sustainable development. The non-financial performance criteria are generally set for the Executive Board as a whole but may also be set as individual targets in some cases. Based on long-term planning of a strategic or operational nature, the Supervisory Board sets one or more long-term targets for the three-year Performance Period. It also sets a target amount for the Non-Financial LTI Component, which equates to 25% of the LTI in the event of LTI Full Target Achievement.

At the end of the Performance Period, the level of target achievement in relation to the non-financial performance criteria is determined by the Supervisory Board, which, at its own discretion and exercising all due care and diligence, compares the actual outcome to the target outcome. The target amount set is not increased in the event that the targets for the non-financial performance criteria are outperformed.



Payment of the LTI depends on the target achievement for both performance criteria. In the event of LTI Full Target Achievement, the LTI equates to 100% of the target amount. The amount of the LTI to be paid out is calculated after the end of the Performance Period. However, at the end of the first two fiscal years of a Performance Period, the Executive Board members receive a prepayment of 25% of the LTI payment amount for the relevant Performance Period, assuming an overall target achievement of 100%. If the overall target achievement calculated at the end of the Performance Period is so far below 100% that the prepayments already received by Executive Board members exceed the LTI payment to which the members are entitled for that Performance Period, RATIONAL AG is entitled to reimbursement of the excess amount paid and may deduct the corresponding amount from any remuneration components due to be paid out.

The performance criteria may not be changed retrospectively. However, the Supervisory Board is entitled, should any extraordinary events or developments occur, e.g. the acquisition or sale of part of the company, to temporarily adjust the terms of the LTI plan appropriately at its reasonable discretion.

If the term of office of an Executive Board member begins or ends in the course of a Fiscal Year of Award, the target amount is reduced pro rata temporis based on the date on which the member's term of office begins or ends.

The same applies to periods for which an existing Executive Board member is not entitled to remuneration (e.g. because employment is suspended or the member is unable to work and not entitled to continued remuneration). The payment due date and parameters for calculating the LTI are not affected by the Executive Board member beginning or ending their appointment in the course of a fiscal year.

All claims in relation to a current Performance Period are forfeited without replacement or compensation if RATIONAL AG terminates the employment contract before the end of the Performance Period for cause on grounds for which the Executive Board member is responsible, if the Executive Board member's appointment is revoked due to a gross breach of duty, or if the Executive Board member resigns from office without cause and without the consent of RATIONAL AG.

3.3 Malus and clawback provision for variable remuneration components

3.3.1 Malus

The Supervisory Board may, at its own discretion and exercising all due care and diligence, reduce by up to 100% the payment amount calculated for the variable remuneration components in the event of misconduct by the Executive Board member ("Grounds for Malus") during the assessment period (for the STI during the relevant one-year assessment period and for the LTI during the relevant three-year assessment period).

Grounds for Malus will be deemed to exist particularly in the event of significant breaches of the duty of care within the meaning of section 93 of the AktG on the part of the Executive Board member during the assessment period. The basis for the Supervisory Board's decision as to whether and to what extent there are Grounds for Malus will include, in particular, the degree to which the Executive Board member was at fault, the significance of the breach of duty, the weight of the member's own contribution to the incident in question, the degree of any damage, the record or otherwise of any individual misconduct or organisational negligence in the last three fiscal years preceding the assessment period, and any official sanctions.

In the event of Grounds for Malus in a fiscal year that is part of the assessment period for multiple variable remuneration components, the malus may be applied to each of these variable remuneration components, i.e. multiple variable remuneration components with multi-year assessment periods may be subject to a malus on identical grounds.

3.3.2 Clawback

RATIONAL AG is entitled to receive (pro rata) reimbursement from the Executive Board member of an STI and/or LTI payment if it has emerged, after the payment, that published consolidated financial statements relating to the assessment period for the STI and/or LTI were objectively incorrect and therefore in need of subsequent correction under the relevant accounting standards and that the STI and/or LTI payment would have been lower or non-existent had it been calculated based on the corrected consolidated financial statements.

The Supervisory Board may exercise this entitlement to reimbursement at its own discretion, with all due care and diligence. The entitlement to reimbursement equates to the difference between the actual payments made and the payments that would have been due to the Executive Board member under the rules of the STI and LTI based on the corrected consolidated financial statements. As a general rule, the Executive Board member must reimburse the gross amount in the event of such a claim.

II. Maximum remuneration

The total remuneration to be awarded to the Executive Board members for a fiscal year (the sum of all of the remuneration amounts paid for a fiscal year, including fixed annual salary, variable remuneration components, pension contributions and fringe benefits) – irrespective of whether they are paid out in that fiscal year or at a later point in time – is subject to a cap (“maximum remuneration”).

The maximum remuneration is

- 2,750,000 euros for the Chief Executive Officer and
- 2,000,000 euros each for the ordinary members of the Executive Board.

On the occasion of a new Executive Board member taking office, maximum remuneration may differ in the first or second year of the new member’s appointment from the set maximum remuneration if, in exceptional cases, the Supervisory Board awards payments to the newly appointed member as compensation for the loss of remuneration from the member’s former employer. In such cases, the maximum remuneration for this one fiscal year is increased by up to 50% for the Chief Executive Officer and by up to 25% for ordinary members of the Executive Board.

If remuneration exceeds the maximum remuneration, the LTI payment amount is reduced for the relevant fiscal year. If, after this reduction, remuneration still exceeds the maximum remuneration, the Supervisory Board may reduce other remuneration components at its own discretion, exercising all due care and diligence.

Irrespective of the maximum remuneration set, the payment amounts for the individual variable remuneration components are also capped. The payment amount for the STI is capped at 200% of the STI target amount. The payment amount for the Financial LTI Component is capped at 200% and the payment amount for the Non-Financial LTI Component at 100% of the respective target amount.

III. Remuneration-related legal arrangements

1. Duration of remuneration-related legal arrangements and prerequisites for their termination

The Executive Board members’ employment contracts are valid for the duration of their current appointments. At the time of adopting the resolution on the remuneration system, the contract durations are as follows:

- Dr Peter Stadelmann: until 30 November 2022
- Peter Wiedemann: until 31 August 2022
- Markus Paschmann: until 30 November 2021.

If the Supervisory Board revokes the appointment of an Executive Board member for good cause in accordance with section 84 of the AktG, the company or the affected Executive Board member are entitled to terminate the employment contract with six months’ notice to the end of the month. Good cause within the meaning of section 84 of the AktG will also be deemed to include the dissolution of the company or the termination or substantial curtailing of the company’s business activities, including for reasons unrelated to the Executive Board member or his/her conduct. In the event of early termination for the aforementioned causes, a notice period of nine months to the end of the month will apply to either party.

If the Executive Board member receives a disability pension or early retirement benefits, the employment contract will end automatically without termination at the end of the month in which the first such payment is received.

The employment contract will also end if the Executive Board member is permanently unable to work. The Executive Board member is deemed permanently unable to work if he/she has not pursued his/her employment in the last six months and is not expected to be able to do so within the next six months.

2. Severance payments

In case of early termination of an Executive Board member's office without cause, the amount of any severance payment is limited to the equivalent of two years' remuneration ("Settlement Cap"). Under no circumstances will severance payments exceed the remuneration due for the remaining term of the employment contract. Calculation of the Settlement Cap is based on total remuneration in the preceding fiscal year and, if appropriate, expected total remuneration for the current fiscal year. Executive Board members are generally subject to a post-contractual non-competition clause for a period of two years after the end of their employment contract.

For the duration of the post-contractual non-competition clause, Executive Board members receive a compensation payment for each year they are subject to non-competition. The payment is equivalent to 50% of the total remuneration last paid to the member in question. Current payments from pension commitments and any transitional allowances or settlements are set off against this compensation.

Benefits awarded for the early termination of an Executive Board member's office due to a change of control will not exceed 150% of the Settlement Cap.

IV. Consideration of employees' terms of remuneration and employment when establishing the remuneration system

The Supervisory Board regularly reviews Executive Board remuneration. To assess the appropriateness of this remuneration, the Supervisory Board considers the company's internal remuneration structure using a vertical comparison. In this vertical comparison, the Supervisory Board examines the relationship between Executive Board remuneration and the remuneration of RATIONAL AG's senior management and overall workforce, as well as how this has changed over time.

In assessing the appropriateness of Executive Board remuneration, the Supervisory Board also regularly considers information on board remuneration at other companies (horizontal comparison). There is no direct comparison with a defined peer group, however, as RATIONAL AG's highly specialist nature and different economic situation and profitability prevent the creation of a meaningful peer group.

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

The Supervisory Board reviews the remuneration system at its own discretion, exercising all due care and diligence, at least every four years. As part of this process, the Supervisory Board performs a market comparison, looking in particular at changes in the business environment, overall economic situation, and corporate strategy and at the development of employees' terms of remuneration and employment as per section B.IV. If necessary, it consults external remuneration experts and other advisers. The Supervisory Board ensures that these external remuneration experts and advisers are independent from the Executive Board and company and takes precautions to avoid conflicts of interest. The remuneration system agreed by the Supervisory Board must be presented to the General Meeting of Shareholders for approval in the event of any material changes and at least every four years. If the General Meeting of Shareholders does not approve the system presented, the Supervisory Board must present a revised remuneration system for approval, no later than at the next annual general meeting.

The new remuneration system will come into effect two months after it is first approved by the General Meeting of Shareholders for all Executive Board members whose employment contracts are newly concluded or renewed after this time.

The Supervisory Board takes appropriate measures to ensure that potential conflicts of interest involving the Supervisory Board members who participate in the consultations and decisions on the remuneration system are

avoided and, if necessary, resolved. Every Supervisory Board member has an obligation to disclose conflicts of interest to the Chairman of the Supervisory Board. The Chairman of the Supervisory Board must disclose any conflicts of interest affecting him to his deputy. The Supervisory Board decides how to deal with an existing conflict of interest on a case-by-case basis. One particular option is for a member of the Supervisory Board affected by a conflict of interest not to participate in a meeting or in individual consultations and decisions of the Supervisory Board.

The Supervisory Board may temporarily deviate from the remuneration system (procedures and rules on remuneration structure) and its individual components and may temporarily deviate in respect of individual remuneration components or introduce new remuneration components if this is necessary in the interest of RATIONAL AG's long-term prosperity. The Supervisory Board reserves the right to deviate from the remuneration system in this way in exceptional circumstances such as an economic or company crisis. In the event of such exceptional circumstances, the Supervisory Board may deviate, in particular, from the terms of the STI and/or LTI plan.