### Management Board and Supervisory Board remuneration

Revision of the remuneration system



# Management Board remuneration: Premises and guiding principles



Promotion of the corporate strategy

Enhance focus on long-term development

Foster equity culture

Shareholder and stakeholder alignment

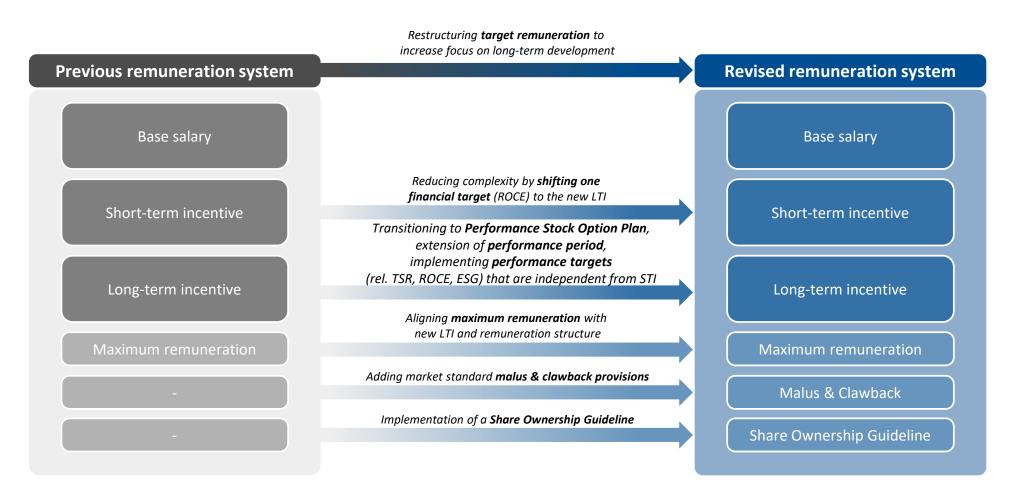
Consequent implementation of sustainability targets

Regulatory conformity

Revision of Management Board remuneration system

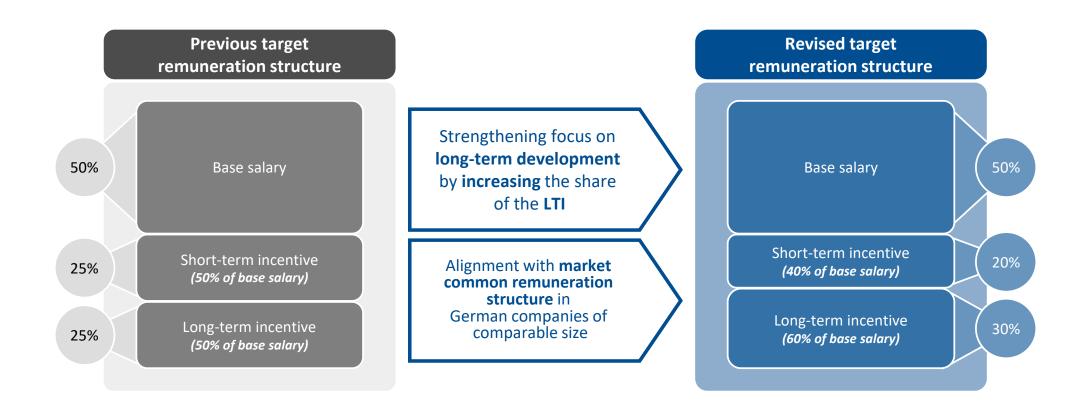
# Management Board remuneration: Overview of the changes





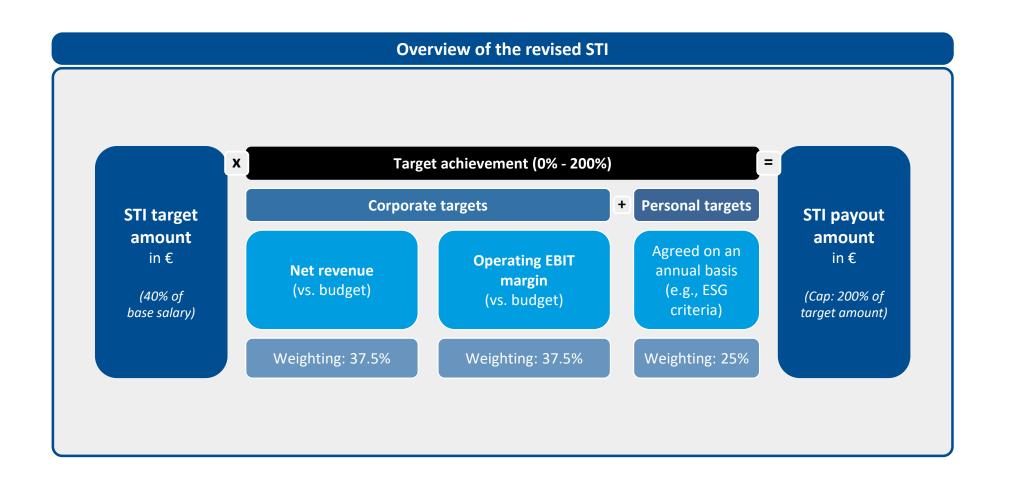
# Management Board remuneration: Strengthening the long-term focus





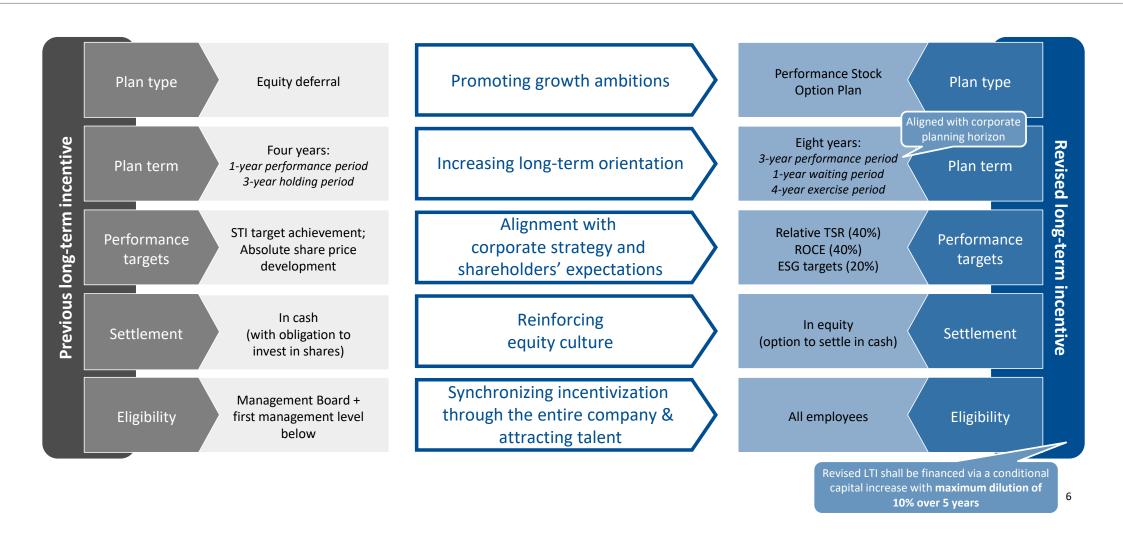
## Management Board remuneration: Revised STI – Reducing complexity through the shift of ROCE in LTI





## Management Board remuneration: Revised LTI – Alignment with corporate strategy and shareholders' expectations (1/2)





## Management Board remuneration: Revised LTI – Alignment with corporate strategy and shareholders' expectations (2/2)





### Management Board remuneration: Further contractual aspects – In line with best practice



#### **Share Ownership Guidelines**

Introduction of Share Ownership Guideline

SOG target of 100% of gross base salary

Obligation to invest in shares of LPKF of at least 50% of net STI payout per year until SOG target is met

Performance Stock Options from the LTI cannot be exercised until the SOG target is met

#### Malus / Clawback

Introduction of malus and clawback regulations

Applicable on **entire variable** remuneration

In cases of variable remuneration was paid out based on incorrect financial statements

("performance clawback")

In cases of deliberate gross violations of material duties by a Management Board member ("compliance malus / clawback")

#### **Maximum remuneration**

Adjustment of maximum remuneration

Alignment with adjusted remuneration structure and new LTI

Different risk profile compared to the previous LTI due to use of Performance Stock Option Plan

EUR 2 million for each member of the Management Board (previously EUR 1.1 million)

### **Supervisory Board remuneration**



# **Supervisory Board remuneration:** Reasoning for adjustment



No adjustment for several years

Current remuneration low compared to market

Workload increased significantly (e. g. due to new strategy)

Best possible candidates needed to accompany and oversee the implementation of the corporate strategy

Competitive remuneration vital to attract right candidates

Adjustment necessary to fully comply with GCGC

Reasoning for adjustment of the Supervisory Board remuneration system

# **Supervisory Board remuneration: Proposal**



Remuneration element		Current remuneration system	Proposed remuneration system
Fixed remuneration		• €32,000 p.a.**	• <b>€35,000</b> p.a.
Differentiation	Chairman	• 2 times fixed remuneration: €64,000 p.a.	• 2 times fixed remuneration: <b>€70,000</b> p.a.
	Deputy Chairman	• 1.5 times fixed remuneration: €48,000 p.a.	• 1.5 times fixed remuneration: <b>€52,500</b> p.a.
Committee remuneration	Audit and Risk Committee	<ul><li>Chair: €5,000 p.a.</li><li>Members: -</li></ul>	<ul> <li>Chair: €15,000 p.a.</li> <li>Members: €7,500 p.a.</li> </ul>
	Other committees	<ul><li>Chair: €3,500 p.a.</li><li>Members: -</li></ul>	<ul> <li>Chair: €10,000 p.a.</li> <li>Members: €5,000 p.a.</li> </ul>
Meeting fees		• -	<ul> <li>€1,000 per Supervisory Board meeting</li> <li>€500 per committee meeting*</li> </ul>

<sup>\*</sup> Meeting fee for committee meetings shall only be paid if the respective meeting is not held on the same day as a Supervisory Board meeting.

<sup>\*\*</sup> By resolution of the Annual General Meeting on 2<sup>nd</sup> June 2016, the remuneration of the Supervisory Board was reduced to EUR 32,000 as of 1<sup>st</sup> January 2017 and has remained constant at that level until today.

### **Appendix**



### Management Board remuneration: Relative TSR

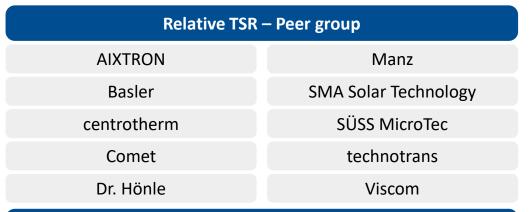


Derivation from peer group for horizontal assessment of remuneration levels

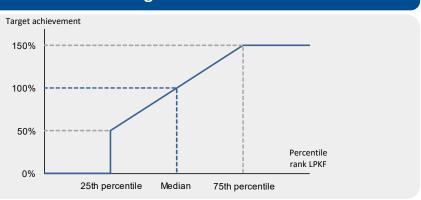
Transparent disclosure

Common design in German market

Symmetric performance corridor



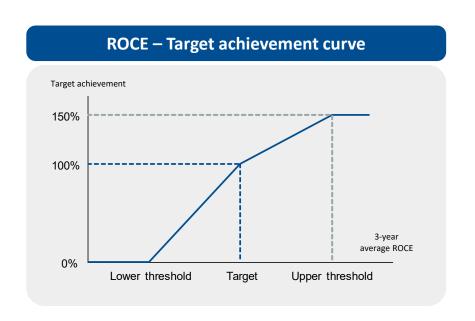
#### Relative TSR – Target achievement curve



## **Management Board remuneration: ROCE**



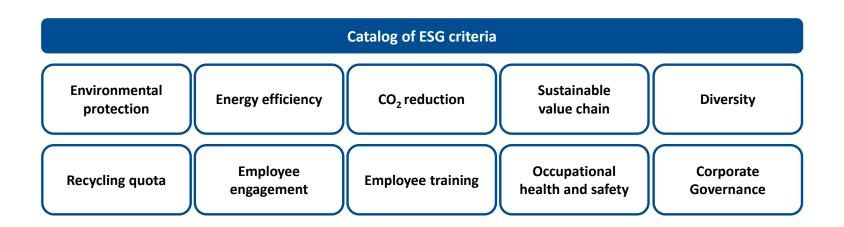
- The relevant figure is the average ROCE over the three fiscal years of the performance period.
- Target and threshold values are defined at the beginning of each LTI tranche and are disclosed ex-post.



# Management Board remuneration: ESG catalog



- The Supervisory Board determines the relevant ESG criteria based on the predefined catalog and defines comprehensible and measurable targets as well as their weighting at the beginning of each LTI tranche.
- ESG targets as well as target and threshold values are disclosed ex-post.



### Management Board remuneration: Necessary performance to reach maximum remuneration – Example



• 2022 **total target remuneration** of the CEO was **€600,000** (not considering fringe benefits). Under the new remuneration structure, the total target remuneration divides into

• Base salary: €300,000

• Target STI: €120,000

• Target LTI: €180,000

- Assuming maximum target achievement of 200% in the STI, the LTI payout from exercising Performance Stock Options would have to be €1,460,000 to reach the maximum remuneration.
- Assuming a share price at grant and strike price\* of €10 and a fair value at grant of one Performance Stock Option of €5\*\*, the **necessary performance** for a LTI payout of €1,460,000 would require, for example:
  - Target achievement of 100% and share price appreciation of around 405% (share price at exercise ca. €50.50)
  - Target achievement of 150% and share price appreciation of around 270% (share price at exercise ca. €37.00)

A payout at the maximum remuneration is always accompanied by an outstanding development of LPKF as well as significant returns for shareholders.

<sup>\*</sup> Strike price equals the average closing price during the 30 trading days prior to the grant date.

<sup>\*\*</sup> Approximation for the fair value at grant calculated via Black-Scholes formula.