



# **Remuneration system of the Management Board members of the hGears AG according to Section 87a AktG**

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## **A. PRINCIPLES OF THE REMUNERATION SYSTEM AND CONTRIBUTION IN SUPPORT OF THE BUSINESS STRATEGY AND THE LONG-TERM DEVELOPMENT OF THE COMPANY**

The remuneration system for the Management Board aims to remunerate the members of the Management Board appropriately in line with their duties and responsibilities and to take into account the performance of each member of the Management board and the success of the Company. Accordingly, the remuneration system includes variable remuneration components in addition to fixed remuneration components.

It is the Company's goal to grow in the coming years by expanding existing offerings and establishing new product offerings and to sustainably increase the value of the Company in the interests of its shareholders. The remuneration of the Management Board makes an important contribution to supporting these strategic goals and the long-term development of hGears AG

The orientation towards the two control parameters Group revenue and Group-EBITDA in the framework of the short-term variable remuneration component obliges the Management Board to pay attention to growth and profitability at the same time and thus promotes the strategic goal of profitable growth of hGears AG. The additional consideration of non-financial sustainability criteria emphasizes the social and ecological responsibility of the Company as well as the goal of sustainable corporate development.

The share-based component of long-term variable remuneration allows Management Board members to participate in the development of the share price, thus further aligning the objectives of management with the interests of shareholders. This gives the Management Board an incentive to increase the value of the Company in the long term and on a sustainable basis.

The system for the remuneration of Management Board members is designed to be simple, clear and comprehensible and complies with the requirements of the German Stock Corporation Act ("**AktG**"). Where it deviates from the recommendations of the German Corporate Governance Code ("**GCGC**"), such deviation is explained and justified in accordance with the statutory requirements in the Declaration of Conformity.

## **B. THE REMUNERATION SYSTEM IN DETAIL**

### **I. REMUNERATION COMPONENTS**

#### **1. OVERVIEW OF THE REMUNERATION SYSTEM**

The total remuneration of each individual Management Board member comprises the following components:

- Non-performance-related remuneration (fixed remuneration plus fringe benefits)
- Short-term variable remuneration (Short Term Incentive or "**STI**")
- Long-term variable remuneration (participation in the long-term incentive program, "**LTI**")
- Possible special remuneration for special merits or achievements.

The following table provides an overview of the main components of the Management Board remuneration system:

Remuneration Component		Factors
Basic remuneration (monthly, cash)	Fringe benefits (yearly, cash)	Management Service Agreement
Short-term variable remuneration (STI) (yearly, cash)		<ul style="list-style-type: none"> <li>• Performance target / proportion: <ul style="list-style-type: none"> <li>◦ Group sales (50%)</li> <li>◦ Group-EBITDA (25%)</li> <li>◦ ESG-target (25%)</li> </ul> </li> </ul>
Long-term variable remuneration (LTI) (Stock options plan)		<ul style="list-style-type: none"> <li>• granting of stock option in three tranches on a yearly basis</li> <li>• Performance target met regardless of share price development</li> <li>• Waiting period for exercise of stock options: 4 years after granting</li> </ul>
Special remuneration (if paid, yearly, cash)		Special merits or achievements that are economically advantageous for the company

## 2. REMUNERATION COMPONENTS IN DETAIL

### a. Fixed remuneration

#### *Basic remuneration*

The fixed, non-performance-related remuneration component consists of a fixed amount as the basic remuneration. The basic remuneration is paid to the Management Board member on a monthly pro-rata basis as a salary. It will be contractually agreed with the respective Management Board members, regularly reviewed and, if necessary, adapted by mutual agreement with the Management Board member concerned.

#### *Fringe benefits*

In addition to the basic remuneration, Management Board members are granted certain monetary and non-monetary fringe benefits to an appropriate extent. These include in particular subsidies for health and pension insurance, the conclusion of accident insurance for the benefit of the Management Board member, and the provision of a company car for appropriate business and private use. The Company bears the operating and maintenance costs for the company car. In addition, the Management Board members receive reimbursement of expenses for travel and other expenses. All benefits in kind are appropriately taxed by the company.

In addition, the Company provides directors' and officers' liability insurance (D&O insurance) for the members of the Management Board with the usual coverage for the event that a Management Board member is held liable, for a breach of duty committed in the course of his

duties, by a third party or by the Company on the basis of statutory liability provisions under private law for a pecuniary loss. The insurance conditions are specified in the respective insurance policy. The deductible corresponds to the minimum deductible pursuant to section 93(2) sentence 3 of the AktG, as amended. If statutory provisions require a change in the conditions of the insurance, the Supervisory Board may adjust the conditions of the insurance accordingly at any time.

#### **b. Short-term variable remuneration (STI)**

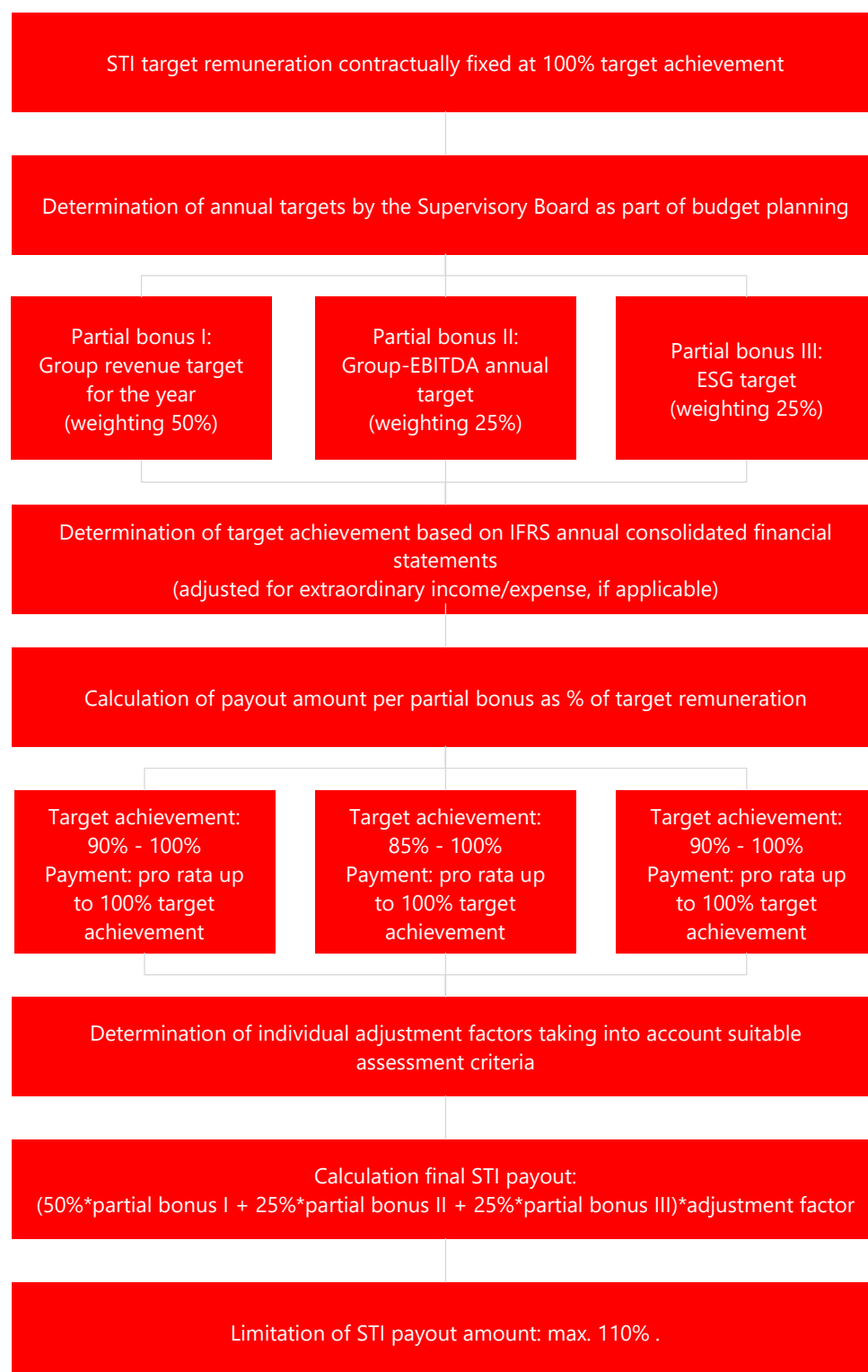
Each Management Board member receives an annual performance-related bonus ("**Short-Term Variable remuneration**", "**Short-Term Incentive**," or "**STI**") if certain targets are achieved.

The STI is linked to the achievement of certain financial corporate targets for the respective fiscal year, which are determined on the basis of key figures from the consolidated financial statements ("**Financial STI**"), and to the achievement of a non-financial corporate target in the area of Environmental, Social and Governance (ESG) ("**Non-Financial STI**"). The respective STI targets are set annually as part of the Supervisory Board's approval of the budget for the relevant fiscal year, but no later than the end of March of the fiscal year for which the respective STI tranche will be granted.

The financial STI is divided into two partial bonuses for the achievement of budgeted IFRS consolidated net sales ("**Partial Bonus I**") and for the achievement of budgeted adjusted IFRS consolidated EBITDA ("**Partial Bonus II**"). The orientation towards the two target figures of Group sales and Group EBITDA obliges the Management Board to pay attention to growth and profitability at the same time and thus promotes the strategic goal of profitable growth of the Company.

As part of the non-financial STI, a further partial bonus is granted for achieving the ESG annual target ("**Partial Bonus III**"). The additional consideration of non-financial sustainability criteria as part of the STI emphasizes the social and environmental responsibility of the company as well as the goal of sustainable corporate development.

The STI is structured as follows:



The target achievement corridors of the Partial Bonuses of the STI are defined as follows:

*Partial bonus I:*

If 90% of the budgeted annual IFRS Group sales target is not achieved, the target achievement is 0% and there is no entitlement to partial bonus I. If 100% of the budgeted annual IFRS Group sales target is achieved, the target achievement is 100% and 100% of Partial Bonus I is earned. If 90% of the budgeted annual IFRS Group sales target is achieved or exceeded, Partial Bonus I is earned on a pro rata basis up to 100% target achievement (straight-line pro rata). The relevant target achievement corridor is between 90% and 100% of the target.

*Partial bonus II:*

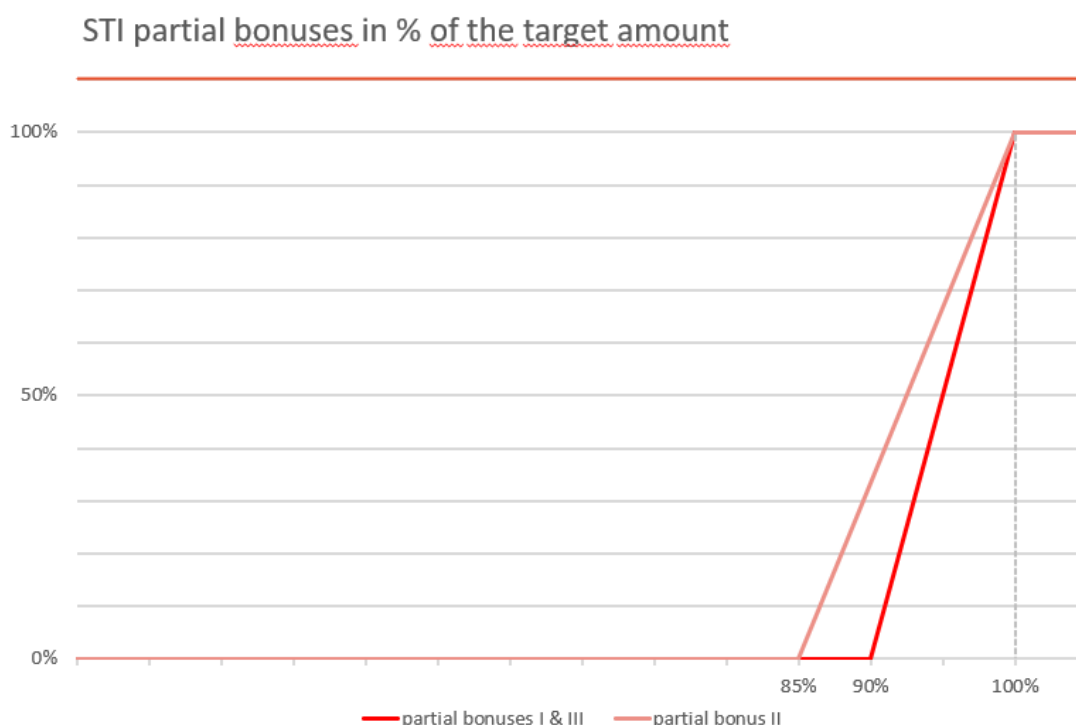
If 85% of the budgeted adjusted IFRS Group EBITDA target for the year is not achieved, the target achievement is 0% and there is no entitlement to Partial Bonus II. If 100% of the budgeted adjusted Group EBITDA target for the year is achieved, the target achievement is 100% and Partial Bonus II is 100% earned. If 85% of the budgeted adjusted consolidated EBITDA annual target is achieved or exceeded, Partial Bonus II is earned on a pro rata basis up to 100% target achievement (*straight-line pro rata*). The relevant target achievement corridor is between 85% and 100% of the target.

*Partial bonus III:*

If 90% of the defined ESG annual target is not achieved, target achievement is 0% and there is no entitlement to Partial Bonus III. If 100% of the defined ESG annual target is achieved, the target achievement is 100% and 100% of Partial Bonus III is earned. If 90% of the defined ESG annual target is achieved or exceeded, Partial Bonus III is earned on a pro rata basis up to 100% target achievement (linear pro rata). The relevant target achievement corridor is between 90% and 100% of the target.

The target remuneration (granted if 100% of target is achieved) is defined in the respective Management Board service contracts.

The relationship between target achievement and the amount of the respective STI partial bonuses is shown in the following chart:



The Supervisory Board may increase or decrease the calculated individual STI gross amount for a fiscal year by a maximum **10%** in order to create an overall picture that is consistent with the personal performance contribution of the Management Board member. Such an adjustment and the determination of the specific individual percentage adjustment factor shall be made solely by the Supervisory Board in its due discretion, taking into account suitable assessment criteria based on the given target parameters (e.g. leadership quality, contribution to the achievement of strategic, financial, technical or product-related targets, sustainable increase in the value of the share or comparable parameters).

The maximum total amount of the STI for a fiscal year thus ranges between 0% and a maximum of 110% of the STI target for a member of the Management Board.

The achievement of the STI target for the past financial year shall be determined by the Supervisory Board no later than at the meeting of the Supervisory Board to adopt the annual financial statements and approve the consolidated financial statements for the past financial year of the Company.

The Supervisory Board is entitled to exclude from the basis for calculating the STI extraordinary income/developments which have led to non-recurring additional income not attributable to an increase in operating business (e.g. sale of part of the company and/or assets, sale of shares, raising of hidden reserves, book profits and comparable influences). The same applies to extraordinary expenses/developments that have resulted in non-recurring additional expenses not attributable to a decline in operating business. Eliminations can be made at any time, but no later than the time when the targets are determined to have been achieved.

The STI for the past fiscal year is paid out annually in cash to the individual Management Board members after the Annual General Meeting of the Company.



If the Management Board service contract begins or ends during a fiscal year, the STI is first determined according to the respective target achievement for the fiscal year in question and then reduced pro rata temporis.

### **c. Long-term variable remuneration (Participation in the Long Term Incentive program, "LTI")**

As long-term variable remuneration ("**Long Term Incentive**" or "**LTI**"), the members of the Management Board are granted option rights to shares in the Company under a stock option program.

Real stock option rights may only be issued to members of the Management Board by the Supervisory Board on the basis of a corresponding authorization by the Annual General Meeting of the Company pursuant to Section 192 (2) no. 3 AktG ("**Authorization**"). Pursuant to Section 193 (2) no. 4 AktG, the authorization of the Annual General Meeting must in particular specify the performance targets, acquisition and exercise periods and the waiting period for the first-time exercise of the stock option rights.

Subject to a corresponding authorization by the Annual General Meeting, the Supervisory Board will also introduce stock option programs for the members of the Management Board as LTI in the future (the stock option program hereinafter also "**SOP**"). The objective of SOP is to provide targeted incentives for members of the Management Board of the Company by issuing option rights to shares in the Company. The share subscription component of the LTI enables the members of the Management Board to participate in the development of the share price, thus bringing the objectives of management and the interests of shareholders even more closely in line with each other. This gives the Management Board an incentive to increase the value of the Company in the long term and on a sustainable basis.

The beneficiaries are members of the Management Board of the Company if they are in an employment relationship with the Company at the time the stock option rights are granted

#### *Content of the stock option rights*

Each stock option right granted under SOP entitles the holder of the stock option right in accordance with these terms and conditions to subscribe for one share of the Company representing a pro rata amount of the share capital of EUR 1.00 from Contingent Capital created for this purpose against payment of the exercise price. Alternatively, the Company may grant treasury shares against payment of the exercise price.

#### *Issue periods for the stock option rights*

The stock option rights in the context of the SOP will be issued in three annual tranches. Subject to a corresponding authorization by the Annual General Meeting, the Supervisory Board may, however, determine that the issue of stock option rights under the SOP be issued in one or two annual tranches or in more than three annual tranches.

#### *Waiting period and term of the stock option rights*

The stock option rights allocated to the beneficiary may be exercised at the earliest after the expiry of a waiting period of four years from the issue date of the respective stock option rights ("**Waiting Period**"). The term of the stock option rights begins on the issue date and ends 24 months after the end of the waiting period. Stock option rights that have not been exercised by the end of the term expire without replacement and without the need for a declaration by the Company.

#### *Exercise of stock option rights and exercise price*

Stock option rights may only be exercised during their term and after expiry of the waiting period. Exercise is only possible during certain exercise periods and on condition that the performance targets specified below are met.

When exercising the stock option right, the exercising beneficiary must pay the exercise price per share for each share to be subscribed. The exercise price per share ("**Exercise Price**") shall be determined by the Annual General Meeting within the scope of the authorization.

#### *Exercise periods*

After expiry of the waiting period, stock option rights for which the respective performance target has been achieved may be exercised within the exercise periods and outside any exercise blocking periods until the stock option rights expire. Exercisable stock option rights of a tranche may be exercised in full or in part in one or more exercise periods.

#### *Performance targets*

The performance target for each individual tranche of the stock option rights issued to the Management Board members under the SOP is to be a certain percentage increase in the share price compared with the exercise price, subject to a corresponding stipulation in the authorization of the Annual General Meeting. For this reason, a share price hurdle above the exercise price is to be set which must be exceeded at a certain point in time after the issue of the stock option rights in order for the stock option rights to be exercised. As the share price directly reflects the valuation of the company on the capital market, in this way - as well as through an exercise price that exceeds the current share price - the exercisability of the stock option rights can be made dependent on a corresponding minimum increase in the value of the company.

#### *Limitation in the event of extraordinary developments*

The Supervisory Board is entitled to refuse the exercise of stock option rights to the extent that their exercise would lead to a disproportionately high remuneration of the beneficiary due to extraordinary, unforeseen developments. The Supervisory Board has sole responsibility for such refusal.

#### **d. Special remuneration for special merits or achievements**

The Supervisory Board may, at its reasonable discretion, set "**special remuneration**" for each Management Board member for special services or achievements not covered by the remuneration otherwise granted (e.g. within agreed STI targets) and which have a significant economic benefit for the Company.

- an exceptionally high workload and/or exceptional success in connection with M&A activities of the company; or
- exceptional success in the sustained strategic, technical, product or structural development of the company; or
- exceptional performance and/or success in connection with reorganizations of the Company; or
- other comparable exceptional merits or achievements. Die Höhe der Sondervergütung hat sich nach dem für die Gesellschaft erzielten wirtschaftlichen Vorteil zu richten und ist vertraglich begrenzt.

The amount of the special remuneration shall be based on the economic benefit achieved for the Company and shall be contractually limited.

#### **e. Imputation of remunerations**

Any additional employment - whether paid or unpaid - requires the prior written consent of the Supervisory Board. The Supervisory Board also decides whether remuneration received by the Management Board member for additional employment outside the hGears Group is to be offset against the remuneration owed by the hGears Group.

#### **f. Possibilities of reducing or reclaiming variable remuneration components (Malus/Claw-Back).**

If the Company's economic situation deteriorates, the Supervisory Board is entitled pursuant to Section 87 (2) AktG to reduce the remuneration of the Management Board members to an appropriate level to ensure appropriate remuneration with an effect for the future.

In addition to this statutory provision, Malus provisions exist in both the STI and the LTI. The STI can be reduced by up to 10% at the discretion of the Supervisory Board (cf. the explanations in section 2. b.).

With regard to the LTI, the Company is entitled to refuse the exercise of stock option rights to the extent that their exercise would lead to disproportionately high remuneration for the beneficiary due to extraordinary, unforeseen developments. The Supervisory Board has sole responsibility for such rejection.

## **II. TARGET TOTAL REMUNERATION: RATIO OF FIXED AND VARIABLE REMUNERATION COMPONENTS**

The Supervisory Board determines a specific target-total remuneration for each individual Management Board member in accordance with the Management Board member's duties and responsibilities. The target-total remuneration relates in each case to a full fiscal year and is made up of the sum of all remuneration components relevant to the total remuneration which - irrespective of the time of payment - are granted for the fiscal year in question. In the case of benefits in kind granted as fringe benefits, the relevant value for income tax purposes is applied in each case.

The relative share of fixed annual remuneration, i.e. non-performance-related remuneration (fixed basic remuneration and fringe benefits), in the target total remuneration for each Management Board member is generally between 20 % and 30 %, and the relative share of

variable remuneration is between 70 % and 80 %. The relative share of the STI in the target total remuneration is between 20 % and 30 %, and the relative share of the LTI in the target total remuneration is between 50 % and 60 %.

In the case of one-time benefits or benefits granted for a limited period, the above relative shares of the individual remuneration components in the target total remuneration may also be deviated from for individual fiscal years.

### **III. MAXIMUM REMUNERATION FOR INDIVIDUAL MEMBERS OF THE MANAGEMENT BOARD**

The maximum remuneration for each Management Board member is the sum of the maximum values of the individual remuneration components fixed remuneration, short-term variable remuneration (STI), long-term variable remuneration (LTI), and any special remuneration, as determined on the basis of the individual contractual agreements.

Notwithstanding this, the maximum remuneration is generally limited to EUR 2,600,000.00 gross for the CEO position and to EUR 1,400,000.00 gross for other Management Board members. The Supervisory Board observes that these limits are not reached in any of the current Management Board contracts. In addition, the maximum remuneration does not represent the level of remuneration for the members of the Management Board sought by the Supervisory Board or considered appropriate. It merely sets an absolute limit to avoid disproportionately high Management Board remuneration and is hence to be clearly distinguished from the target total remuneration based on ambitious targets. The maximum remuneration includes all fixed and variable remuneration components.

### **IV. REMUNERATION-RELATED TRANSACTIONS**

#### **1. DURATION AND REQUIREMENTS FOR THE TERMINATION OF REMUNERATION RELATED TRANSACTIONS**

The service contracts of Management Board members are concluded for the duration of their appointment. Initial appointments are made for a maximum of three years; extensions of the term of appointment may be for up to five years.

In view of the fixed duration of Management Board service contracts, there is generally no provision for their ordinary termination. If the Management Board member becomes incapacitated for the purpose of work during the term of the service contract, the contract shall generally end three months after the end of the month in which the permanent incapacity for work was established.

Besides that, the respective Management Board service agreement may only be terminated before the end of its term by mutual consent through a termination agreement or through extraordinary termination for good cause. Extraordinary termination for good cause by the Company may also be effected in particular in the event of revocation of the appointment of a member of the Management Board by the Supervisory Board for good cause in accordance with Section 84 (3) AktG. In this case, the statutory periods of notice pursuant to Section 622 of the German Civil Code shall apply to the termination, unless there is, at the same time, good cause for immediate termination of the Management Board service agreement by the Company in accordance with Section 626 of the German Civil Code.

#### **2. REGULATIONS IN THE EVENT OF THE RESIGNATION OF MANAGEMENT BOARD MEMBERS**

##### **a. Fixed remuneration**

The fixed remuneration is paid for the last time for the month in which the employment contract ends..

## **b. STI**

If the employment contract ends during a fiscal year, the STI is first determined in accordance with the respective target achievement for the fiscal year in question and then reduced proportionally.

## **c. LTI**

With regard to the long-term variable remuneration, a distinction is made as to whether the selected Management Board member (hereinafter also referred to as the "**Beneficiary**") is a so-called "**Good Leaver**" or a "**Bad Leaver**".

If the beneficiary's employment relationship with the Company ends during the term of the stock option rights granted to him and if the beneficiary does not immediately thereafter enter into a new employment relationship with another affiliated company ("**Good Leaver**"), the following shall apply:

- The beneficiary has the right to exercise all stock option rights exercisable on the date of termination of employment until the end of the term during an exercise period.
- In addition, all stock option rights granted to the beneficiary which have not yet vested shall vest on the date of termination of employment and, to the extent that the stock option rights vest, may be exercised until the end of the term during an exercise period. If stock option rights can no longer be exercised in accordance with the above provision, they shall be forfeited without remuneration.

If the beneficiary's employment relationship with the Company or one of its affiliated companies ends due to death, receipt of an early or standard retirement pension or a pension due to full reduction in earning capacity, the above provision shall apply accordingly. If the employment relationship ends as a result of death, the heirs shall take the place of the beneficiary.

If the employment relationship of the beneficiary with the Company or one of its affiliated companies ends during the term of the stock option rights granted to him due to termination by the Company for good cause for which the beneficiary is responsible within the meaning of section 626 (1) of the German Civil Code ("**Bad Leaver**"), all stock option rights not yet exercised at the time of the declaration of termination shall be forfeited without remuneration.

## **d. Severance payment cap**

If the service agreement is terminated prematurely by ordinary termination or by justified extraordinary termination by the Management Board member for good cause for which the Company is responsible, the Management Board member shall be entitled to a severance payment.

The Management Board member shall not be entitled to severance pay in the event of justified extraordinary termination by the Company for a good cause.

In the event of premature termination of Management Board duties, payments to the Management Board member including fringe benefits may not exceed the value of one year's total remuneration; in addition, they may not exceed the total remuneration for the

remaining term of the Management Board member's service contract. The severance payment cap shall be calculated on the basis of the total remuneration for the past fiscal year and, where appropriate, also on the basis of the expected total remuneration for the current fiscal year.

### **3. PROCEDURES FOR DETERMINING, IMPLEMENTING AND REVIEWING THE REMUNERATION SYSTEM**

The system of Management Board remuneration is determined by the Supervisory Board in accordance with statutory requirements and is reviewed by the Supervisory Board on a regular basis.

In particular, the Supervisory Board also reviews the appropriateness of the remuneration in comparison with the remuneration of senior management and the rest of the workforce in relation to the Group companies (vertical appropriateness) and compares their respective remuneration with that of the Management Board. For these purposes, the Supervisory Board defines senior management as the group of executives at the first management level below the Management Board. The Supervisory Board looks not only at the current remuneration ratio, but also at how it has developed over time. The present remuneration system is also based on a review of vertical appropriateness in accordance with these principles.

In addition, the Supervisory Board also aims to review the appropriateness of the remuneration in comparison to the remuneration of the Management Board within a peer group (horizontal appropriateness). At present, however, the Supervisory Board has not yet been able to determine a suitable peer group, as in the view of the Supervisory Board, taking into account the business model and the size of the listed company, there are currently no companies that could be considered as a peer group for the purposes of assessing the horizontal appropriateness of Management Board remuneration. However, the Supervisory Board considers the Management Board remuneration under the present Management Board remuneration system to be appropriate, particularly in view of the level of Management Board remuneration in other listed companies.

If necessary, the Supervisory Board will engage an external remuneration consultant to review appropriateness. If an external remuneration consultant is engaged, the Supervisory Board shall ensure that the consultant is independent. If necessary, the Supervisory Board will engage an external remuneration consultant to review the appropriateness. In the event that an external remuneration consultant is engaged, the Supervisory Board shall ensure that the consultant is independent.

Any conflict of interest in the establishment, implementation and review of the remuneration system shall be treated by the Supervisory Board in the same way as other conflicts of interest in the person of a Supervisory Board member. The Supervisory Board member concerned must therefore disclose any conflict of interest and will not participate in the adoption of resolutions or in the deliberations. Early disclosure of any conflicts of interest ensures that the decisions of the Supervisory Board are not influenced by improper considerations.

The remuneration system adopted by the Supervisory Board is submitted to the Annual General Meeting for approval. If the Annual General Meeting does not approve the remuneration system put to the vote, a revised remuneration system will be submitted for resolution at the latest at the following Annual General Meeting in accordance with Section 120a (3) AktG.

The Supervisory Board regularly reviews the system for the remuneration of Management Board members and makes any necessary changes. Whenever there are significant changes to the remuneration system, but at least every four years, the remuneration system is submitted to the Annual General Meeting for approval in accordance with Section 120a (1) sentence 1 AktG.

The present system of remuneration for the Management Board is already fundamentally anchored in the employment contracts of the current members of the Management Board of hGears AG.

### **C. TEMPORARY DEVIATIONS FROM THE REMUNERATION SYSTEM**

The Supervisory Board may temporarily deviate from the remuneration system (procedures and regulations governing the remuneration structure) and its individual components, as well as with regard to individual remuneration components of the remuneration system, or introduce new remuneration components if this is necessary in the interests of the long-term well-being of the Company. The Supervisory Board reserves the right to make such deviations in exceptional circumstances such as an economic or corporate crisis. The possibility of deviation in this context covers the procedure, the regulations governing the remuneration structure and amount, and the individual remuneration components and in particular the performance criteria. The Supervisory Board may deviate from both the relative proportion of the individual remuneration components and their individual requirements. It may also temporarily set the fixed remuneration differently in individual cases if this is in the interests of the long-term well-being of the Company. In addition, the Supervisory Board may temporarily grant additional remuneration components or replace individual remuneration components with other remuneration components to the extent necessary to restore the appropriateness of Management Board remuneration in the specific situation. Such deviations may temporarily lead to a deviation from the maximum remuneration for the Chairman of the Management Board or other ordinary members of the Management Board.

Schramberg, 29 March 2022

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Volker Stauch  
(Chairman of the Supervisory Board)