

Remuneration system for Board of Management members

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The following remuneration system for the Board of Management members – presented by the Supervisory Board of Leifheit AG, based on the recommendation of its Personnel Committee – was approved by the Annual General Meeting on 2 June 2021.

1 Guiding principles

The remuneration system of Leifheit AG is geared as a whole to sustainable corporate development and is closely aligned with the business strategy. It provides clear performance incentives both for the individual members of the Board of Management and for the Board of Management as a whole through substantial yet differentiated variable remuneration, without creating undue risks.

The remuneration system reflects the provisions of the German stock corporation act and takes the recommendations of the German corporate governance code into account. It also considers the requirements of institutional investors and proxy advisors.

Members of the Board of Management receive a fixed basic remuneration and a variable component. The variable remuneration is divided between a short-term incentive (STI) and a long-term incentive (LTI). Within variable remuneration, the focus is on the LTI.

The remuneration system presented below applies to all Board of Management service contracts that are newly entered into or prolonged after the Annual General Meeting in 2021.

2 Maximum remuneration

The system provides for a maximum remuneration for all members of the Board of Management. The maximum amount is set out in their respective contracts of employment.

The maximum total remuneration is limited by means of an end-to-end definition of all remuneration components in the employment contracts and a cap on the two variable components. The short-term incentive (STI) is limited to a maximum of 150% of the target amount stipulated in the contract of employment. The long-term incentive (LTI) is limited to a maximum of 200% of the target amount stipulated in the contract of employment.

In detail, the (theoretical) annual maximum remuneration for the members of the Board of Management amounts to:

- Chairperson of the Board of Management m€ 2.0 gross
- Other members of the Board of Management m€ 1.5 gross

3 Remuneration and business strategy

The remuneration of the members of the Board of Management is aligned with the business strategy and long-term development of Leifheit AG through a fixed basic remuneration and a substantial variable remuneration; variable remuneration is in turn based on financial and non-financial targets appropriate for Leifheit AG, with an emphasis on long-term key performance indicators.

Using the respective budget approved by the Supervisory Board as a starting point, the short-term incentive (STI) helps to promote the growth of Leifheit AG and secure its liquidity by defining financial performance targets. The non-financial performance targets set in advance in annual target agreements serve to encourage the individual performance of each Board of Management member and the collective performance of the Board of Management as a whole, as well as stakeholder targets and other relevant goals.

The long-term incentive (LTI) helps to promote the business strategy, particularly the long-term development of Leifheit AG, by measuring corporate success against the two performance targets of EPS growth and ROCE, based in each case on medium-term planning approved by the Supervisory Board. Using and combining these two internal key performance indicators ensures a sustainable business strategy. Furthermore, the share price development over a four-year period is a decisive factor in establishing the amount of the LTI – which also contributes to the company's sustainability and long-term development. Granting the LTI on a rolling basis (instead of all at once) also encourages the members of the Board of Management to act sustainably and creates the same incentives for all members. Furthermore, a requirement for members of the Board of Management to make a personal investment in Leifheit shares, without which the LTI is forfeited, ensures that they actively promote the business strategy and long-term development.

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4 Remuneration structure

The overall remuneration of the Board of Management consists of three components:

1. fixed annual basic remuneration
2. short-term variable remuneration (STI)
3. long-term variable remuneration (LTI)

The fixed annual basic remuneration is based on the area of responsibility and the individual performance of each respective Board member, considering the company's situation. Of the total target remuneration (fixed basic remuneration plus target STI plus target LTI), it accounts for

- 43% to 55% for the chairperson of the Board of Management and
- 43% to 55% for the other members of the Board of Management.

Assuming 100% target attainment, the annual STI amounts to

- 12% to 20% of total target remuneration for the chairperson of the Board of Management and
- 12% to 20% of total target remuneration for the other members of the Board of Management.

Assuming 100% target attainment, the annually granted LTI tranches, extending over a period of four years each, account for

- 33% to 40% of total target remuneration for the chairperson of the Board of Management and
- 33% to 40% of total target remuneration for the other members of the Board of Management.

The members of the Board of Management do not receive remuneration for their work on the Board of Management, Administrative or Supervisory Boards at subsidiaries in addition to the remuneration for their activities as members of the Board of Management of Leifheit AG.

There are no share option programmes. There are no defined benefit obligations under IFRS.

Leifheit AG does not provide fringe benefits other than the use of a company car and the reimbursement of travel expenses.

Except for fringe benefits, the remuneration components are granted in cash.

5 Variable remuneration assessment criteria

a) STI

The annual STI is based on earnings before interest and taxes (EBIT) and the sum of cash flow from operating activities and cash flow from investment activities, adjusted for incoming and outgoing payments in financial assets as well as, if existing, from the acquisition and divestiture of divisions (free cash flow), as well as on non-financial performance targets via a modifier.

The EBIT target and free cash flow target are defined in advance for the respective financial year by the Supervisory Board at its own discretion, taking into particular account the budget planning prepared annually by the Board of Management and approved by the Supervisory Board. Except for extraordinary developments, there are no subsequent changes to the target values or other parameters of comparison.

The degree of achievement regarding the two financial performance targets mentioned above is determined according to a target achievement curve defined in advance and laid down in the employment contracts. If the target value achieved falls short of the set target value by 20% or more, the degree of target achievement is 0%. If the target value achieved exceeds the set target value by more than 20%, the degree of target achievement is a maximum of 150%. Intermediate values between target achievement from 0% to 100% and from 100% to 150% are interpolated on a linear basis in each case. This applies to both performance targets, i.e. both the EBIT target and the free cash flow target.

The two above-mentioned performance targets are given equal weighting.

By applying the performance targets EBIT and free cash flow, the focus is put on operating earnings while ensuring liquidity and the ability of Leifheit AG to pay dividends.

A modifier is used to apply the non-financial performance targets in the STI, particularly the respective individual performance of each member of the Board of Management, the collective performance of the Board of Management and the attainment of stakeholder targets, as well as other targets where applicable. The modifier influences the amount of the STI within a range of plus and minus 20% and is capped at the maximum target amount. A target agreement, to be concluded annually in advance, ensures that the use of the modifier is clear and comprehensible. This target agreement sets out the non-financial performance targets, their weighting and the associated measures for promoting the business strategy and long-term development of the company for each individual member of the Board of Management.

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b) LTI

The LTI is granted to the members of the Board of Management in annual tranches, each with a term of four years, and is linked to the two ROCE and EPS criteria as reported in the respective consolidated financial statements as well as to the performance of the Leifheit AG share price.

The targets for ROCE and EPS are set in advance for each four-year performance period by the Supervisory Board at its own discretion, taking into particular account the respective medium-term planning approved by the Supervisory Board, and communicated to the members of the Board of Management. The same applies to defining the minimum ROCE and minimum EPS for target attainment as well as the maximum ROCE and EPS for the cap. Except for extraordinary developments, there are no subsequent changes to the target values or other parameters of comparison.

The degree of achievement in relation to the two financial performance targets mentioned above is determined according to a target attainment curve defined in advance and laid down in the employment contracts. If the average ROCE achieved in the respective four-year period is less than the minimum ROCE, the degree of target attainment is 0%; if it is the minimum ROCE, the target attainment is 50%; and if the average ROCE achieved in the respective four-year period is the maximum ROCE or more, this corresponds to a target attainment of 150%. Intermediate values between a target attainment of 50% to 100% and 100% to 150% are interpolated on a linear basis in each case. If EPS growth in the respective four-year period is less than the minimum EPS, the degree of target attainment is 0%; if it is the minimum EPS, the target attainment is 50%; and if EPS growth in the respective four-year period is the maximum EPS or more, this corresponds to a target attainment of 150%. Intermediate values between a target attainment of 50% to 100% and 100% to 150% are interpolated on a linear basis in each case.

The two above-mentioned performance targets are given equal weighting, resulting in "overall target attainment" as one key indicator for calculating the payout amount for the respective LTI tranche.

The second step for calculating the payout amount for the respective LTI tranche is based on the performance of the Leifheit AG share price as follows: The performance of the Leifheit AG share is determined by the starting share price (measured over the last 90 trading days before the start of the respective performance period) and the ending share price, which is measured over the last 90 trading days before the end of the respective performance period. In this regard, the closing prices in the Xetra trading system of Deutsche Börse AG shall apply.

The LTI payout amount for each individual LTI tranche is calculated as follows: The target amount of the respective LTI tranche is converted into a number of conditionally granted virtual shares based on the starting share price. The number of virtual shares conditionally granted in this way is multiplied by the overall achievement of the ROCE and EPS targets described above, as shown in this notional example: If, for instance, 1,000 virtual shares are conditionally granted at the beginning of the respective four-year performance period of an LTI tranche and the overall achievement of target is 110%, this produces 1,100 virtual shares.

In the next step, the number of virtual shares calculated in this way (in this case, 1,100) is multiplied by the final share price.

Factoring in the share price performance over four years for each annually granted LTI tranche encourages both the individual Board members and the Board of Management as a whole to sustain their activities over the longer term. This incentive is given added weight by the fact that, in order to avoid losing the LTI, each member of the Board of Management is obliged to make a personal investment in Leifheit shares and to hold them for the duration of the LTI tranches, but for no longer than two years after the ending of their contract of employment (holding period). The amount of personal investment is linked to the amount of fixed basic remuneration for each member.

c) Extraordinary developments

In the event of extraordinary developments on the part of Leifheit AG (e.g. measures under reorganisation law, share buyback, capital measures, acquisition and/or sale of companies and businesses, leveraging of hidden reserves) that have a significant impact on the ability to achieve the target values of the STI and/or the LTI, the Supervisory Board is entitled to unilaterally adjust the contractual terms and other parameters of the STI and/or the LTI in order to neutralise the effects of the extraordinary developments in an appropriate way.

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6 Availability of variable remuneration components

The members of the Board of Management are free to do as they wish with the STI and LTI amounts paid out after their respective maturity dates.

The STI payments become due within four weeks of the Annual General Meeting's resolution on the appropriation of profits for the year for which the STI is granted. The individual LTI tranches become due four weeks after the Annual General Meeting's resolution on the appropriation of profits for the year in which the respective performance period ends.

No deferral periods are planned for the payment of variable remuneration components.

7 Forfeiture or clawback of variable remuneration components

The remuneration system allows for the forfeiture of LTI tranches which have not yet completed the respective four-year performance period at the time of termination of the appointment and/or employment contract if a "bad leaver" case arises. A bad leaver case applies if the employment contract and/or appointment are ended by Leifheit AG for good cause during their term, or if the appointment or employment contract are ended by the member of the Board of Management without good cause. Such a case also applies if the member of the Board of Management does not accept an offer to extend his/her employment contract and takes up an activity of any kind with a competitor of Leifheit AG within the term of the investment obligation without having good cause for refusing to accept.

The remuneration system does not currently allow for the reclaiming of variable remuneration already paid out (no clawback).

8 Share price dependence of parts of remuneration

As shown above in section 5 b), the share price performance plays an important role in determining the amounts paid out from the respective LTI tranches. No other share-based remuneration is included in the remuneration system of Leifheit AG.

9 No further legal transactions related to remuneration

The remuneration system does not allow for any remuneration-related legal transactions beyond the remuneration components depicted.

10 External (horizontal) and internal (vertical) comparison

The Supervisory Board considers the compensation data of comparable companies listed on the SDAX when assessing whether total remuneration is in line with market practice.

The Supervisory Board also considers employee remuneration in Germany when setting the overall remuneration. In the process, it considers the relationship between the remuneration of the Board of Management and the remuneration of the senior management team and the rest of the workforce. The Supervisory Board has defined the senior management team as follows: It consists of all employees who report directly to a member of the Board of Management.

The ratio of the total remuneration of the Board of Management to the average personnel expenditure is calculated using the average personnel expenditure based on the number of employees (not according to employee capacity).

Procedural issues and conflicts of interest

The plenary session of the Supervisory Board is responsible for setting, implementing and reviewing the remuneration system. The Personnel Committee, which the Supervisory Board has set up, paves the way for the decisions of the plenary session of the Supervisory Board by making appropriate recommendations. Where necessary, the Supervisory Board can call in external consultants – as was the case for the present remuneration system. When choosing external remuneration experts, the Supervisory Board ensures that they are independent. The Supervisory Board also takes care not to continually select the same remuneration experts.

If the Annual General Meeting does not endorse the respective remuneration presented for approval, a revised remuneration system will be presented at the next Annual General Meeting by the latest.

The Personnel Committee prepares the regular review of the remuneration system by the Supervisory Board and recommends changes where necessary. In the event of significant changes, and at least every four years, the remuneration system shall again be submitted to the Annual General Meeting for approval.

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Under special and extraordinary circumstances, the Supervisory Board may, at the suggestion of the Personnel Committee, temporarily deviate from the remuneration system in accordance with section 87a para. 2 sentence 2 AktG if this is necessary for the long-term prosperity of the company. Such deviations may be necessary, for instance, to ensure adequate incentives in the event of a significant change in business strategy, a serious company crisis or severe economic crisis. Unfavourable market developments are not considered special and extraordinary circumstances that justify a deviation from the remuneration system. The extraordinary underlying circumstances requiring a deviation shall be determined by a resolution of the Supervisory Board. The components of the remuneration system from which deviation is possible comprise the procedure, regulations on the remuneration structure and amount, regulations on the financial and non-financial performance criteria and regulations on the individual remuneration components. Even in the event of a deviation from the remuneration system, the remuneration and its structure must continue to be geared to the long-term and sustainable development of the company and be proportionate to the success of the company and the performance of the Board of Management.

The regulations that apply to the handling of conflicts of interest are also observed by the Supervisory Board and the Personnel Committee in the process of determining, implementing and reviewing the remuneration system.

In the case of new contracts to be concluded where the member of the Board of Management joins during the year, the STI and LTI regulations may provide for lump-sum payments in the year of joining.