



## Remuneration system for the Managing Board members of Heidelberg Materials AG

### Principles

The following principles apply to Managing Board remuneration:

1. Remuneration and performance are closely linked: The variable performance-related remuneration component should account for a major share of total remuneration.
2. Variable remuneration focuses on sustainable performance and relates to the interests of the shareholders: The majority of variable remuneration should be linked to the long-term development of the company and paid out after an appropriate period of several years. The absolute development of Heidelberg Materials' share price and the direct comparison with relevant benchmark indices should play a major role in this context. The long-term nature of the variable remuneration components is further supported by the fact that even the termination of a Managing Board contract has no influence on the target setting, valuation, and maturity.
3. Key performance indicators are in accordance with the Group strategy: The key performance indicators used to determine variable remuneration should be in line with Heidelberg Materials' business strategy.

The system and amount of the Managing Board remuneration are determined by the Supervisory Board following a recommendation by the Personnel Committee. The external adequacy check is based on the size and international activity of the Group, its economic and financial situation, and its future prospects. In addition, the target and maximum remuneration of the members of the Managing Board are oriented towards the companies in the German DAX index as an external peer group as well as the tasks and performance of the relevant member of the Managing Board and of the entire Managing Board.

The internal comparison takes into account the remuneration of the top and senior management (upper management) and the total workforce of Heidelberg Materials AG, both overall and in terms of development over time. The target entitlements in the employment contracts were taken as a basis in accordance with the German Corporate Governance Code in relation to the fixed remuneration and the annual bonus and – provided that the corresponding employee groups are eligible – also to the long-term bonus.

The remuneration is calculated in such a way that it is competitive on the market for highly qualified senior managers and provides an incentive for successful work in a business culture with a clear focus on performance and results.

## Remuneration elements

The remuneration system applicable since 1 January 2014 and further developed in 2019 comprises:

1. a fixed annual salary,
2. a variable annual bonus,
3. a variable long-term bonus with long-term incentive,
4. fringe benefits, as well as
5. pension promises.

### 1. Fixed annual salary

The fixed annual salary is a set cash payment relating to the financial year, which is based on each Managing Board member's area of responsibility and is paid on a monthly basis over the year. It amounts to around 29% of the target remuneration for the Chairman of the Managing Board and 33% for members of the Managing Board, when 100% of the target is met.

### 2. Annual bonus

The annual bonus is a variable remuneration element, which relates to the financial year and is 100% of the fixed annual salary for the Chairman of the Managing Board and 80% for members of the Managing Board, when 100% of the target is met. It amounts to around 29% of the target remuneration for the Chairman of the Managing Board and 26% for members of the Managing Board. The Group share of profit, adjusted for one-off items, is used as the key performance indicator. In addition, individual targets will be agreed with the Chairman of the Managing Board and the Managing Board members. Through the introduction of a clawback clause in all Managing Board agreements since 2019, reduction, withdrawal, and clawback of the annual bonus are possible in case of breaches of essential duties of diligence. The annual bonus is paid out in cash after the Annual General Meeting in the following year.

At the start of the financial year, the Supervisory Board ensures that the performance targets are demanding and ambitious, and it determines the degree of target achievement after the end of the financial year.

- Target value (value when 100% of the target is met)  
100% of the fixed annual salary for the Chairman of the Managing Board, 80% of the fixed annual salary for the Managing Board members
- Key performance indicators and weighting (value when 100% of the target is met)  
2/3 Group share of profit  
1/3 individual targets

– Target achievement range

0 - 200% (The maximum value of the annual bonus is limited to 200% of the fixed annual salary for the Chairman of the Managing Board and 160% for the Managing Board members. Total loss of the entire annual bonus is possible. The determination of the range refers to each individual key performance indicator.)

### 3. Long-term bonus

The long-term bonus is a variable remuneration element based on the long term, which is to be granted in annual tranches starting in 2011. It amounts to 150% of the fixed annual salary for the Chairman of the Managing Board and 125% for members of the Managing Board, when 100% of the target is met. The long-term bonus amounts to approximately 42% of the target remuneration for the Chairman of the Managing Board and 41% for members of the Managing Board. Through the introduction of a clawback clause in all Managing Board agreements since 2019, reduction, withdrawal, and clawback of the long-term bonus are possible in case of breaches of essential duties of diligence.

The long-term bonus comprises two equally weighted components. The first component (management component with a term of three years) considers the internal added value as measured by earnings before interest and taxes (EBIT) and return on invested capital (ROIC), and is arranged in the form of a bonus with cash payment. The bonus will be paid after the Annual General Meeting in the year following the three-year performance period. The second component (capital market component with a term of four years) considers the external added value as measured by total shareholder return (TSR) – adjusted for the reinvested dividend payments and for changes in the capital – compared with the relevant capital market indices, using performance share units (PSUs). The PSUs are virtual shares used for the calculation of the capital market component.

At the start of every tranche, the Supervisory Board determines the performance targets for the two key performance indicators of the management component. After expiry of the respective performance period, the Supervisory Board will ascertain the extent to which the target has been reached for the management component; for the capital market component it will be ascertained by way of calculation.

The target for the management component is based on the Group's relevant three-year operational plan. The share-based capital market component is measured over a four-year period, on the basis of section 193 para. 2 and 4 of the German Stock Corporation Act.

For the capital market component, the number of performance share units (PSUs) initially granted is ascertained in the first instance: the number of PSUs is calculated from 50% of the target value of the long-term bonus divided by the reference price <sup>1)</sup> of the Heidelberg Materials share as at the date of grant. After expiry of the four-year performance period, the PSUs definitively earned are to be calculated in a second step according to the achievement of the target and paid in cash at the reference price of the Heidelberg Materials share valid at that time – adjusted for the reinvested dividend payments and for changes in the capital.

1) The reference price is respectively the average of the daily closing prices of the Heidelberg Materials share on the Frankfurt Stock Exchange Xetra trading system for three months retrospectively from the start/expiration of the performance period.

- Target value (value when 100% of the target is met)  
150% of the fixed annual salary for the Chairman of the Managing Board and 125% of the fixed annual salary for the Managing Board members (of which 50% is the management component and 50% is the capital market component)
- Key performance indicators and weighting (value when 100% of the target is met)  
Management component (three-year performance period):  
1/2 average of EBITs attained during the performance period and 1/2 target ROIC at the end of the performance period.  
Capital market component (four-year performance period):  
1/2 peer TSR – calculation of TSR compared with DAX Index and 1/2 peer TSR – calculation of TSR compared with MSCI World Construction Materials Index.
- Target achievement range  
Management component: target achievement ranges from 0 - 200%, i.e. the maximum value of the management component of the long-term bonus is limited to 150% of the fixed annual salary for the Chairman of the Managing Board and 125% for the Managing Board members and total loss of the management component is possible. The range applies separately for each key performance indicator EBIT and ROIC.  
Capital market component: target achievement ranges from 0 - 200%, i.e. depending on the target achievement, the number of virtual shares (PSUs) can at most double or reduce to zero (total loss).
- Cap of performance of the Heidelberg Materials share before payout  
Maximum of 2.5 times the reference price, which was determined at the start of the performance period.
- Payment under the respective long-term bonus plan is limited to twice the target value, where the amount of the capital market component can offset the management component.

#### 4. Fringe benefits

The taxable fringe benefits of the members of the Managing Board consist especially of the provision of company cars, mobile phone, and communication resources, the reimbursement of expenses, as well as insurance benefits, exchange rate hedging agreed on an individual basis <sup>1)</sup>, and assignment-related benefits, such as coverage of costs for flights home.

1) The amounts of the exchange rate hedging agreed on individual basis is not shown as fringe benefit but included in the total amounts of the respective remuneration elements.

#### 5. Pension promises

The retirement agreements of the members of the Managing Board appointed prior to 2016 contain the promise of an annual retirement pension, in the form of either an absolute amount or a percentage of the pensionable income. The -maximum percentage rate is 4% for each year of service started and may not exceed 60% of the pensionable income. For -retirement agreements since 2016, the maximum percentage rate is also 4% for each year of service started; however, the maximum amount is 40% of the pensionable income. The pensionable income is equivalent to a contractually agreed percentage of the fixed annual salary of the Managing Board member. When the Managing Board member's agreement is terminated and they start receiving the pension benefit, they receive a transitional allowance for six months, equal to the monthly instalments of the fixed annual salary.

In 2019, a defined contribution pension promise was introduced for the newly and reappointed members of the Managing Board. The design and expected pension benefits are based on the customary characteristics of such schemes, and existing contractual obligations are taken into account. When Dr. Dominik von Achten was reappointed in 2020, he received a value-based benefit commitment for the defined benefit obligations he had already earned, in addition to the defined contribution pension promise.

The pension is paid monthly either:

- after leaving the company upon reaching retirement age (pension benefit paid on individual basis between the 62<sup>nd</sup> and 63<sup>th</sup> year of age), or
- in the case of early termination of the agreement for reasons not attributable to the Managing Board member, provided the member has reached 60 years of age at the time the agreement is terminated, or
- due to permanent invalidity as a result of illness.

The retirement agreements include a survivor pension benefit. If a member of the Managing Board dies during the term of his employment contract, or after effectuating the pension benefit, the member's widow and dependent children receive a widow's/orphan's pension. In the case of defined benefit pension promises, the widow's pension is 60% and the orphan's pension 10% of the deceased's pension benefit as long as a widow's pension is being paid at the same time. If a

widow's pension is not being paid at the same time, the orphan's pension is 20% of the deceased's pension benefit. In the case of defined contribution pension promises, the entitlement to the pension credit shall pass to the widow and surviving children.

In the case of contract extensions, the existing defined benefit pension promises are continued with the value of the pension benefit at the changeover date. If the Supervisory Board agrees additional retirement benefit commitments, these are covered by the defined contribution pension promise. The Supervisory Board reserves the right to decide on an adjustment of the retirement benefit, also in the existing system, in the case of contract extensions close to retirement.

### **Adjustment of remuneration**

The Supervisory Board has the option of discretionary adjustment (administrative discretion) of the annual and the long-term bonus in order to account for the personal performance of the individual members of the Managing Board and/or for exceptional circumstances. In the case of new appointments or reappointments as of 2019, the discretionary adjustment amounts to +/- 15% of the target value of these variable -remuneration elements; for existing contracts +/- 25%.

Supervisory Board criteria for application of the discretionary adjustment:

- Extraordinary individual management performance: this includes outstanding sustainable personal performance in the business line for which a Managing Board member is responsible, as well as their contribution to the overall success of the company, taking into account specific market circumstances, such as unexpected short-term business developments.
- Extraordinary collective management performance: this includes outstanding economic development of the company – including in direct comparison with competitors – as well as continuous and sustainable development of the company (strategy, customers, products, processes, as well as environmental and employee aspects).

The current economic situation of the company and its short- and long-term prospects form the basic conditions for a potential discretionary adjustment.

### **Maximum remuneration**

The maximum remuneration (excluding fringe benefits and annual pension expenses) results from the fixed annual salary plus the sum of the individual variable remuneration components (annual bonus and long-term bonus), which are limited to twice the target value plus discretionary adjustments. The maximum remuneration corresponds to up to 184% of the target remuneration (if 100% of the target is met). For the current Chairman of the Managing Board, the maximum remuneration is limited to 158% by individual contractual regulations.

Pursuant to section 87 para. 2 of the German Stock Corporation Act, the Supervisory Board's right and obligation to reduce the Managing Board remuneration to an appropriate amount remains

unaffected, if the position of the Group worsens after the fixing to such an extent that it would be unfair for the Group if remuneration of the Managing Board continued to be granted unchanged.

## **Individual investment (share ownership)**

To support the sustainable development of the Group, the Supervisory Board has decided upon a set of guidelines for the shareholdings of members of the Managing Board. Members of the Managing Board are obliged to invest part of their personal wealth to purchase a fixed number of Heidelberg Materials shares and to hold these shares for the term of their membership on the Managing Board. In 2019, for new appointments and reappointments, the number of shares to be held by the Chairman of the Managing Board was set at 30,000 Heidelberg Materials shares, at 20,000 Heidelberg Materials shares for the Deputy Chairman of the Managing Board, and at 15,000 Heidelberg Materials shares for the other members of the Managing Board. Under still existing contracts, ordinary members of the Managing Board are obliged to hold 10,000 Heidelberg Materials shares. In order to comply with the guidelines, half of the amount paid for the long-term bonus, which was earned for Managing Board activities, is to be used to buy shares of the company until the full individual investment is generated. The accumulation of the individual investment can therefore take several years. Heidelberg Materials shares that are already held by Managing Board members are taken into account in the individual investment. The Supervisory Board has received confirmation that the individual investment has already been made or accumulated in accordance with the contract.

## **D&O liability insurance**

The members of the Managing Board are covered in the Group's existing D&O liability insurance. The agreed -deductible corresponds to the minimum deductible pursuant to section 93 para. 2 sentence 3 of the German Stock Corporation Act in the respective version.

## **Commitments in the event of early termination of Managing Board service**

The following guidelines on the redundancy pay cap and change of control clause are part of all Managing Board agreements.

## **Redundancy pay cap**

In accordance with the German Corporate Governance Code, when concluding new Managing Board agreements or extending existing Managing Board agreements, it must be ensured that payments to a member of the Managing Board – in the event of the early termination of a Managing Board membership without serious cause – do not exceed the value of two annual remunerations (including fringe benefits) and do not amount to more than the remaining term of the agreement. The redundancy pay cap is calculated based on the amount of the total remuneration for the past financial year and, if necessary, also on the amount of the anticipated total remuneration for the current financial year.

## **Change of control clause**

The current Managing Board agreements were drawn up before the publication of the new version of the German Corporate Governance Code of 16 December 2019 and are based on the version of 7 February 2017, according to which it must be ensured – in the event of the early termination of a Managing Board membership – that benefits promised as a result of a change of control do not exceed 150% of the redundancy pay cap.

## **Further development of the Managing Board remuneration system from 2021**

Sustainable management is an essential part of Heidelberg Materials and will continue to be a main topic of our corporate strategy in the future. The focus is on climate protection: As an energy-intensive company, we want to make our contribution to the declared goal of the Paris climate agreement to keep the global temperature increase significantly below 2°C. Reducing our carbon footprint and increasing energy efficiency are key tasks for Heidelberg Materials' management teams at all levels. For this reason, a CO<sub>2</sub> component will be introduced in the annual bonus from 2021, which links the reduction of CO<sub>2</sub> emissions to the annual bonus. In order to reflect the balance between economic indicators and sustainability goals, the Group's share of profit for the financial year (adjusted for non-recurrent effects) is multiplied by the factor of target achievement of the CO<sub>2</sub> reduction target. The result makes up 2/3 of the annual bonus if 100% of the target is met. The individual targets (1/3 of the annual bonus if 100% of the target is met) and their weighting remain in place. The maximum target achievement of the total annual bonus is 200% as before plus discretionary adjustment.

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