Adjusted compensation system for the members of the Executive Board

The compensation system fort he Executive Board Members of FUCHS SE which had been resolved by the Supervisory Board was approved by the Annual General Meeting dated 8 May 2024.

a) General matters and evolution of the compensation system

The current compensation system for FUCHS' Executive Board members was presented to the Annual General Meeting on May 4, 2021 and approved by it by an 88.93 % majority. The Supervisory Board has reviewed the compensation system on a regular basis and carefully developed it, taking into account previous experience, market practices and investor expectations.

The revised compensation system is essentially in line with the previous compensation system. The existing rules on the compensation structure will be simplified and the rules on variable compensation adapted to market practice. The compensation parameters will be adjusted and more closely aligned with sustainability aspects and ESG objectives than was previously the case. In particular, the sustainability factor, which allows the achievement of sustainability and ESG objectives to be rewarded in the measurement of variable compensation, serves this objective. The rules of the compensation system regarding the process for reviewing and amending the compensation system, the compensation structure and the target and maximum compensation will be made more flexible. This will enable the Supervisory Board to react more dynamically to changing circumstances. In this context, in line with market practice, a scheme will be introduced to allow for derogations from the compensation system in exceptional circumstances. The compensation system also reflects changes in the context of long-term succession planning by including arrangements for the position of Deputy Chair of the Executive Board. Finally, based on the results of an updated horizontal and vertical compensation comparison, the amount of Executive Board compensation will be adjusted to the position of FUCHS in the comparator market.

The amended compensation system will be submitted to the Annual General Meeting for approval on May 8, 2024. The Supervisory Board intends to implement it thereafter with effect from January 1, 2024 to all incumbent Executive Board members, as well as all new appointments and reappointments.

The following criteria are relevant for defining the future compensation for members of the Executive Board:

- duties of the individual board member,
- performance of the Executive Board,
- the earnings and outlook of the company,
- the success and sustainable as well as long-term development of the company,
- reasonableness of the compensation, taking into account a horizontal and vertical comparative analysis.

The compensation system for members of the Executive Board thus creates incentives for successfully implementing the corporate strategy and for the company's long-term performance..

aa) Procedure for setting the level of compensation

By law, the Supervisory Board is the body responsible for setting, reviewing and implementing compensation/ the compensation system for members of the Executive Board. The Personnel Committee is responsible for preparing the relevant Supervisory Board decisions.

The Supervisory Board also defines the long-term targets geared toward sustainable company success to determine the sustainability factor in advance for a period of several years. These targets are guided by the strategic guidelines at FUCHS and relate to the Executive Board. Using a horizontal and vertical comparative analysis, the Supervisory Board ensures that Executive Board compensation is appropriate.

In the December of a calendar year, the Supervisory Board's Personnel Committee prepares a recommendation on the Executive Board's target achievement with regard to the sustainability factor. The Supervisory Board then makes a decision at its December meeting based on this recommendation.

The Supervisory Board makes the final decision on the amount of variable compensation for the past financial year at the Supervisory Board meeting in March, which is also when a resolution is passed on the approval of the annual financial statements.

Horizontal comparison:

The level of compensation is set based on a peer group of various MDAX companies selected on the basis of belonging to the chemicals industry, the nature of their business, or their main shareholder (listed companies with one family as majority shareholder). Characteristics such as company size, profitability and compensation structure are also taken into account. Taking these criteria into consideration, the members of the Executive Board are offered compensation that is standard for the market while also being competitive and in line with regulatory requirements. The peer group currently consists of Krones AG, Dürr AG, Knorr-Bremse AG, Lanxess AG and Symrise

AG. The Supervisory Board may, in the event of changes, adjust the peer group to accurately reflect the market environment.

Vertical comparison:

The internal company compensation structure is also applied when setting compensation for Executive Board members. The vertical review is prepared pursuant to the recommendation of the German Corporate Governance Code with two comparison groups. Firstly, the ratio of Executive Board compensation to staff costs for all Group employees is considered. Secondly, compensation for senior executives within the Group is compared. The peer group comprises the members of the Group Management Committee (excluding members of the Executive Board) and the managing partners of the Group companies..

bb) Review of the compensation system

The system of compensation of members of the Executive Board shall be reviewed by the Supervisory Board at least every three years. The first review of the current system is currently scheduled for 2026. The Personnel Committee conducts a horizontal and a vertical analysis. If changes are required, the Personnel Committee prepares a recommended resolution for the Supervisory Board.

Pursuant to the provisions of Section 120a of the German Stock Corporation Act (AktG), the compensation system must be submitted to the Annual General Meeting for approval if any material changes are made and at least every four years. If the Annual General Meeting does not approve the compensation system, a revised compensation system must be presented for resolution no later than the subsequent Annual General Meeting.

cc) Deviations from the compensation system

The Supervisory Board may, by a resolution passed by itself, temporarily deviate from the compensation system in response to a proposal from the Personnel Committee, where there is an exceptional case to do so and, as a result, a deviation from the compensation system is necessary in the interest of the long-term welfare of the Company and where the compensation remains geared towards the sustainable development of the Company. An exceptional case is, for example, the occurrence of an unforeseeable major political or financial or economic crisis, a pandemic or other disaster. The list above is not exhaustive; an exceptional case may also be present in circumstances of a different nature that are not comparable to those mentioned above. However, unfavorable general market developments are not deemed an exceptional case as such. The deviation may relate to the compensation determination process, the compensation structure, the components of compensation (including their amount, how they are measured and how they interrelate), the financial and non-financial performance criteria, and the other conditions of compensation provided for in the compensation system. Any discrepancies shall be explained in a transparent manner in the compensation report for the relevant financial year.

dd) Conflicts of interest

Given that the Supervisory Board is responsible for setting, reviewing, and implementing the compensation system for members of the Executive Board, potential conflicts of interest are in principle avoided. In the past, there have been no conflicts of interest on the part of individual members of the Supervisory Board with regard to the compensation system for members of the Executive Board. If conflicts of interest were to occur in the future, FUCHS SE's general regulations for handling conflicts of interest on the Supervisory Board apply. These stipulate that the Supervisory Board member in question must disclose the conflict of interest immediately. The Chairman of the Supervisory Board then decides whether the Supervisory Board member can attend the meeting and receive information. If the conflict of interest is significant and not merely temporary, the Supervisory Board member in question must resign.

b) Compensation components

Compensation for members of the Executive Board comprises non-performance-based and performance-based components. These components are made up of the following elements:

- Non-performance-based compensation:
  - Fixed compensation
  - Additional benefits
  - Pension expenses
- Performance-based-compensation:
  - STI (Short-Term incentive) in the sense of short-term, one-year compensation
  - LTI (Long-Term incentive) in the sense of long-term compensation over several years

Where contracts are concluded or terminated during the year, non-performance-based compensation and performance-based compensation are granted on a pro rata basis.

aa) Non-performance-based compensation

Non-performance-based compensation is fixed compensation based on the full year and is paid in 13 equal installments (two installments are paid in November). The annual fixed compensation shall be determined by the Supervisory Board taking into account the maximum compensation. The annual fixed compensation of the Chairman of the Executive Board shall be 1.6 times the annual fixed compensation of a regular member of the Executive Board. If the Supervisory Board has appointed a Deputy Chair of the Executive Board, this position's annual fixed compensation shall be 1.3 times the fixed compensation of a full member of the Executive Board.

In addition to fixed compensation, contracts also provide for additional benefits. These include the following:

- Cash benefits from the private use of a company car
- Cash benefits from an accident insurance policy

In terms of pension commitments, the following distinctions are made:

- The pension commitments for Executive Board members appointed before January 1, 2016, equal a percentage of the average fixed compensation of the last three years before the termination of the contract of employment. This percentage does not exceed 40 % and increases successively with the duration of service of the Executive Board member. The corresponding pension provision is determined using the projected unit-credit method. Current service expenses, which may be subject to significant variability depending on the market interest rate, are recognized as annual pension expenses. In light of the volatility of the annual actuarial calculation of pension expenses, the maximum amount for the total of individual additional benefits and pension expenses is EUR 600,000 for the Chairman of the Executive Board and EUR 400,000 for the ordinary members of the Executive Board. Executive Board members are entitled to receive a regular pension if their Executive Board contract ends with or after completion of their 65th year of age. If the Executive Board takes up the pension at an earlier date, he or she must accept appropriate deductions on the pension.
- Since January 1, 2016, there have been pension provisions in place for new members of the Executive Board via the Allianz provident fund. There are no additional obligations other than the requirement to pay contributions to assigned pension funds. 40 % of each Executive Board member's annual fixed compensation will be paid as an annual contribution payment. The annual payments are recognized as pension expenses.

Executive Board members usually retire between the ages of 60 and 65. This is to be agreed between the respective member of the Executive Board and the Supervisory Board.

bb) Performance-based compensation

Performance-based compensation is calculated on the same basis for the STI and LTI using the following formula:

FVA × Sustainability factor × Individual share

The individual share of a full Executive Board member is 0.35 %. The CEO receives an individual share of 0.70 %. If the Supervisory Board has appointed a Deputy Chair of the Executive Board, he or she will receive an Individual Share of 0.525 %.

The performance-based compensation for the STI and LTI is designed to be reduced to zero on the one hand, and limited to 3 times the fixed compensation for the respective Executive Board member on the other. Performance-based compensation is paid in March after the Supervisory Board meeting to approve the previous financial year's annual financial statements.

<u>FVA (Fuchs Value Added)</u>

The FVA is the key performance indicator of the FUCHS Group. It is based on the variable compensation for local, regional and global management.

As an economic benefit, FVA embodies a holistic approach that looks at both profit and capital employed. It is therefore an expression of the strategic objectives and geared towards the long term:

FVA = EBIT − Capital employed × Weighted average cost of capital (WACC)

EBIT (earnings before interest and tax) is the relevant profit indicator. EBIT illustrates operating performance and is not affected by financing or tax effects.

Capital employed is reflected in the net assets and financial position. Capital expenditure is largely influenced by capital expenditure on property, plant and equipment and on intangible assets, as well as by changes in net operating working capital (NOWC). Property, plant and equipment and acquisitions are monitored on the basis of investment appraisals, while NOWC is monitored through targeted management of its components (inventories as well as accounts receivables and trade payables). The capital employed for a financial year is determined on the basis of the Group's interest-bearing financial resources and is calculated as an average of the parameters of the portfolio at five quarterly figures, starting from December 31 of the previous year.

Capital employed is thus calculated over five reporting dates as followed:

Equity + Pension provisions (net) + Financial liabilities − Cash and cash equivalents + Scheduled amortization of goodwill from previous years (up to 2004: EUR 85 million) = **Capital employed**

To calculate the costs of capital employed, the weighted average cost of capital (WACC), which is determined on the basis of the capital asset pricing model (CAPM), is used. The level of WACC is reviewed annually on the basis of up-to-date capital market data as of the end of the reporting period, and adjusted accordingly. The WACC is included in the FVA as a pretax interest rate as the earnings component is also taken into consideration as a pretax figure (EBIT).

Only when the recorded earnings are higher than the costs of the capital employed is value created and entitlement to variable compensation arises.

The FVA for the financial year in question is determined when the annual financial statements are adopted and the consolidated financial statements approved.

Sustainability factor

The sustainability factor measures the annual attainment of agreed long-term targets. It is the same for all members of the Executive Board and is determined by the Supervisory Board. The sustainability factor ranges from a minimum of 0.75 (corresponding to an achievement of 75 % or less) to a maximum of 1.25 (corresponding to an achievement of 125 % or more). The sustainability factor is based on the FUCHS strategic guidelines and refers to the three categories Ecology, Economics and Social. The Supervisory Board defines several subcategories for each of these categories, and these are valid for several years. These subcategories may include, for example, in the field of Ecology, carbon reduction and circular economy, in Economics, EBIT and cash flow, and for Social, it can be HR work, corporate culture and corporate governance. The Supervisory Board reserves the right to define subcategories other than those mentioned above, if this is warranted in the context of the implementation of the company's strategy and if the subcategories can be classified under the three categories Ecology, Economics and Social. For each subcategory, targets are set by the Supervisory Board, which apply to the overall Executive Board and are assessed uniformly for all Executive Board members. The subcategories and the determination of performance by the Supervisory Board shall be reported transparently in the compensation report.

An overall picture of the level of target attainment and thus the sustainability factor is put together in December of each year, i. e. the different aspects are not assessed individually or weighted. The Supervisory Board makes this decision on the basis of the tar-get attainment proposed by the Personnel Committee.

Variable compensation comprises of the following:

- 45% Short-Term Incentive (STI)
- 55% Long-Term Incentive (LTI)

As both the STI and the LTI are dependent on the FVA and the sustainability factor, both are designed to take account of long-term company success and, thus, on a multi-year assessment basis. The distinction between the two is relevant with regard to the further obligation to use the LTI.

Members of the Executive Board are required to invest the net amount of the LTI remaining after deducting a flat-rate tax rate in FUCHS SE preference shares (ISIN DE000A3E5D64) within two weeks of its disbursement. As recommended by the German Corporate Governance Code, this ensures that variable compensation is predominantly share-based, taking into account the respective tax burden. This means that the preference shares acquired do not represent additional compensation for members of the Executive Board. As required under the German Corporate Governance Code, the preference shares acquired are subject to a four-year freeze on sales. The vesting period begins when they are posted to the individual securities accounts and must be observed in full even if the Executive Board contract is terminated prematurely. During this period, the shares held by members of the Executive Board will be exposed to all the risks and rewards of capital market performance. The preference shares are acquired on a uniform basis for all members of the Executive Board in order to ensure standard acquisition terms..

cc) Target total compensation and maximum compensation

The target total compensation is determined annually by the Supervisory Board for each Executive Board member and is equal to 2.5 times the Executive Board member’s respective fixed compensation for that year, plus estimated individual additional benefits and pension expenses.

The maximum compensation includes the annual fixed compensation, the performance-related compensation (LTI and STI) and individual additional benefits (appropriate company car and accident insurance) and pension expenses. This amounts to EUR 5,300,000 for the Chairman of the Executive EUR 4,300,000 for the Deputy Chairman of the Executive Board (if appointed) and EUR 3,300,000 for ordinary members of the Executive Board.

The shares of fixed compensation and variable compensation (STI and LTI) in the target total compensation are derived from the following table:

in %	Target total compensation
Fixed compensation *	≈ 47
Variable compensation	≈ 53
of which STI	≈24
of which LTI	≈ 29

* In this table, additional benefits and pension commitments are classified as fixed compensation.

The share of target total compensation attributable to fixed compensation and to variable compensation may vary due to annual fluctuations in the additional benefits and pension commitments granted. As a rule, the target amounts of variable compensation exceed the fixed compensation (basic compensation, additional benefits and pension commitments). The compensation system ensures that the LTI always accounts for a higher share than the STI. This way, along with the long-term nature of the FVA model and the sustainability factor, the Supervisory Board gears Executive Board compensation towards the company's long-term development.

c) Contractual agreements

aa) Contractual terms and commitments in the event of premature termination

The basic rules of Executive Board compensation are agreed with the members of the Executive Board in their employment contracts. Additional agreements are concluded with members of the Executive Board regarding variable compensation and the criteria relevant to measuring the sustainability factor. These are valid for multiple years.

Subject to prior mutual agreement, the term of the employment contracts is equal to the period of appointment. The requirements under stock corporation law and the recommendations of the German Corporate Governance Code are observed when appointing and reappointing members of the Executive. Initial appointments are generally not for more than three years. Reappointments are for a maximum of five years.

If Executive Board employment is terminated prematurely without cause, in accordance with the recommendations of the German Corporate Governance Code, the employment contracts provide for a compensation payment that is limited to a maximum of twice the annual compensation (sum of total compensation for last two financial years) and does not recompense more than the remaining term of the contract of employment (cap); whereby no premature payment of performance-related variable compensation is made in the event of premature contract termination. The contracts do not provide for any extraordinary termination rights or redundancy payments in the event of a change in control. If a member of the Executive Board is temporarily unable to work, the member will continue to be paid the contractually agreed compensation for a duration of six months.

bb) Adjustment of variable compensation in the event of exceptional developments

In the event of extraordinary developments, the Supervisory Board can, at its own discretion, adjust the variable compensation calculated in accordance with the specifications above and set it up to 20 % higher or lower. Exceptional developments in this sense may, for example, be particular successes or failures that have not been reflected or have not been sufficiently reflected in the overall achievement of the target.

In addition, the Supervisory Board may adjust variable compensation even in the case of special effects, provided that these effects would affect the level of variable compensation without adjustment, but do not or do not adequately reflect the performance of Executive Board members.

The above adjustments shall not result in an Executive Board member’s performance-based compensation exceeding three times his or her annual fixed compensation. It must also not lead to the maximum provided for in the compensation system being exceeded.

cc) Clawback regulations for variable compensation

FUCHS SE is contractually entitled to recover, in full or in part, variable compensation components already paid to members of the Executive Board. The right of recovery applies if, after payment of the variable compensation, it becomes apparent that the key indicators for this purpose had to be corrected retrospectively due to objective errors in accordance with the rules governing accounting and would have resulted in no or lesser compensation on the basis of the corrected indicators.

dd) Accepting board positions within and outside the Group

If members of the Executive Board accept Supervisory Board or other board positions at companies affiliated with FUCHS SE, they are not compensated for this separately. If, in exceptional cases, com pensation for a position within the Group cannot be excluded, depending on the nature of the compensation, this is offset against the Executive Board member’s other compensation or the Executive Board member assigns it to FUCHS SE.

Supervisory Board or similar positions at external companies must be approved by the Supervisory Board. The Supervisory Board will make a decision on whether to offset the compensation for the individual case in question. It has so far chosen not to do so.

ee) Post-contractual non-compete clause

Members of the Executive Board are subject to a 12-month post-contractual non-compete clause. FUCHS SE can waive this clause before the employment relationship is ended. If it does so, the right to compensation lapses one year after the declaration, regardless of whether the employment relationship remains in effect. They will receive compensation equal to one half of the contractually agreed compensation for the duration of the non-compete clause. For the variable components, this is based on the average for the last three years. Other income is taken into account in compensation. Compensation is deducted from any redundancy payment in accordance with the recommendation of the German Corporate Governance Code.