



# WashTec **Management Board** **remuneration system.**

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# Management Board remuneration system

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At its meeting on March 24, 2021, the Supervisory Board, after due deliberation, adopted the system for the remuneration of the members of the Management Board (“Remuneration System”) of WashTec AG (“WashTec” or the “Company”) in accordance with the new requirements of the German Stock Corporation Act as a result of the German Act Implementing the Second Shareholder Rights Directive (ARUG II) and taking into account the revised German Corporate Governance Code dated December 16, 2019 (the “German Corporate Governance Code 2020”).

This remuneration system applies to all Management Board contracts newly entered into or extended after the Annual General Meeting on May 18, 2021 and was submitted to the Annual General Meeting for approval under Section 120a (1) AktG. The Annual General Meeting 2021 approved the remuneration system on May 18, 2021 with a majority of 80.71%.

## A. Basic features of the remuneration system

### 1. Promotion of the corporate strategy and the Company’s long-term development

The Company’s remuneration system is geared to promoting the corporate strategy and the long-term development of the Company and its affiliates. This is achieved among other things by means of a simple and clear incentive structure in Management Board remuneration. The remuneration system and the uniform remuneration structure for all Management Board functions are designed to prevent inappropriate incentives, both from outside and from within the Company. In particular, it aims to prevent Management Board decision-making that is calculated to maximize remuneration in the short term but is not conducive to the long-term success of the business.

For short-term variable remuneration (“annual MBO award”), strategic and/or financial and/or operational targets are selected that are based on corporate or personal performance targets depending on the Management Board position. The Company’s long-term development is promoted in particular by supplementing the annual MBO award with an additional variable remuneration component in the form of long-term variable remuneration granted over a three-year assessment basis (Long Term Incentive Program, or LTIP). With its clear focus on a share price-based performance target – total shareholder return (TSR) – and return on capital employed (ROCE), the LTIP additionally incorporates incentives for long-term decision-making by the Management Board.

Overall, the remuneration system takes into account the challenging responsibilities incumbent on Management Board members for implementing the Group strategy and leading a globally operating company with innovative, digital and flexible solutions in the face of global competition. At the same time, Management Board remuneration is intended to be in line with the market and be competitive so that the Company is able to attract capable and dynamic executive talent. Within specified bounds, the remuneration system is therefore also intended to give the Supervisory Board the latitude to respond flexibly to a changing market and competitive environment. The incentives are intended to be structured in a clear and comprehensible manner, not only for shareholders, but also of course most of all for the members of the Management Board and for employees, whose bonus systems are based on targets that are largely harmonized with Management Board remuneration.

This new remuneration system applies to all Management Board contracts newly entered into or extended after the Annual General Meeting on May 18, 2021. In accordance with the German Corporate Governance Code 2020 and Section 26 of the Introductory Act to the Stock Corporation Act (EgAktG), all current Management Board contracts continue to be subject to the previous remuneration system (see also the Declaration of Conformity of March 24, 2021 submitted in accordance with Section 161 AktG by the Management Board and Supervisory Board). The members of the Management Board are each remunerated in accordance with the remuneration system applicable to them. The new remuneration system complies with the requirements of the German Stock Corporation Act for a clear and understandable remuneration system and, as set out below, follows the recommendations of the German Corporate Governance Code 2020 other than in those cases where an exception has been declared in the Declaration of Conformity in accordance with Section 161 AktG.

In terms of structure, specific implementation and remuneration levels, the new remuneration system meets all of the requirements for modern, competitive remuneration of Management Board members and complies with good corporate governance:

- Highly transparent and easily understood
- Balanced choice of performance indicators
- Clear weighting of individual remuneration components
- Close alignment with business success and corporate performance
- Includes long-term targets
- Incorporates share price performance and growth in shareholder value
- Appropriate and in line with horizontal and vertical benchmarks

## 2. Components of the remuneration system and total target remuneration

The Remuneration for the Management Board of WashTec AG consists of fixed and variable remuneration components. The fixed remuneration components comprise the basic annual salary (fixed remuneration) and incidental benefits. Performance-based variable remuneration consists of short-term variable remuneration – the management-by-objectives award (annual MBO award) and long-term variable remuneration (LTIP). In addition, the decision may be made to award an exceptional performance bonus. No retirement provision is granted to members of the Management Board. The remuneration system also provides for customary benefits on termination of Management Board office.

On the basis of the remuneration system, and within maximum remuneration limits set by the Annual General Meeting, the Supervisory Board determines total target remuneration for each Management Board member, comprising fixed remuneration, incidental benefits and target amounts for the annual MBO award and the LTIP assuming 100% target achievement.

The remuneration system enables the Supervisory Board to take into account the function and responsibilities of each individual Management Board member when setting the total target remuneration. At the Supervisory Board's due discretion, function-specific variation is permissible to take account of criteria such as experience, length of Management Board service and Management Board position. In view of the aforementioned scope for variation, the figures stated for the individual remuneration components as a percentage of total target remuneration are given as a percentage range. The actual percentages therefore vary according to function and as a result of any adjustments made in regular remuneration reviews.

The LTIP provides for a non-personal-investment component and an additional voluntary personal investment component (for details of the LTIP, see under B.2.b.). Excluding the personal investment LTIP component, the fixed remuneration in the new remuneration system accounts for around 40% to 50% and the incidental benefits for up to around 5.0% of the total target remuneration. The short-term variable remuneration component accounts for approximately 25%–30% of the total target remuneration for all members of the Management Board. The long-term variable remuneration component accounts for approximately 25%–30% of the total target remuneration for all members of the Management Board. If a Management Board member participates in the personal investment LTIP component, the LTIP proportion can increase to up to 40%–45% of the total target remuneration. Participation in the personal investment component is optional.



The fact that the long-term, multi-year remuneration (LTIP) is overweighted relative to the short-term annual remuneration (annual MBO award) aligns the remuneration structure with the sustainable development and long-term growth in the value of the company.

Any exceptional performance bonus granted in individual instances is structured in such a way that the long-term variable remuneration continues to exceed the percentage accounted for by the short-term variable remuneration.

### 3. Horizontal and vertical benchmarking of remuneration and employment conditions

The remuneration of Management Board members takes into account the responsibilities of each member of the Management Board, their personal performance and the financial situation, the success and the future prospects of the Company and the Group taking into account peer group entities and the remuneration structure applicable elsewhere in the Company. Within these bounds, the Supervisory Board ensures that the total target remuneration is in line with the market. For this purpose, the Supervisory Board uses both horizontal and vertical benchmarking.

#### a) Horizontal benchmarking

In order to assess whether the specific total remuneration of Management Board members is appropriate and in line with usual levels compared to other enterprises, the Supervisory Board selects a peer group of other third-party entities that is suitable with regard to WashTec's market position (in particular in terms of sector, size and country). The peer group comprises companies that are comparable with WashTec in terms of being listed in the S-DAX index or Frankfurt Stock Exchange Prime Standard, mechanical engineering sector classification, revenue and size of workforce. The benchmarking is applied in relation to both the absolute amount of Management Board remuneration and the development of Management Board remuneration relative to revenue and personnel expenses at peer entities.

#### b) Vertical benchmarking

An in-Company comparison ("**vertical benchmarking**") is also performed. For the purposes of vertical benchmarking, the Supervisory Board looks at the development of Management Board remuneration in a vertical comparison with the remuneration of senior management and of the overall workforce of the WashTec Group in Germany. The Supervisory Board looks here at the relationship of Management Board remuneration to the remuneration of the groups referred to, including over time.

For this purpose, the Supervisory Board defines senior management as all employees who (1) hold a management position in Germany and in that capacity report directly to the Management Board or (2) hold an international management position, have a German employment contract and in the capacity of their position report directly to the Management Board. The overall workforce comprises the entire workforce employed by all German companies of the WashTec Group, including senior management.

The Supervisory Board uses vertical benchmarking to determine whether the remuneration differential relative to the workforce is indicative of inappropriate Management Board remuneration. In addition, the Supervisory Board takes care to ensure that the remuneration system for Management Board members is compatible with the remuneration system for non-pay-scale employees. The structure of short-term variable remuneration for Management Board members therefore essentially corresponds to the structure of the short-term variable remuneration for non-pay-scale employees.

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<sup>1</sup> The percentage stated for incidental benefits is that for incidental benefits granted as a rule on the basis of experience from past years. If additional incidental benefits such as benefits on appointment are granted in an individual case, the incidental benefits percentage may be correspondingly higher for that individual case. Any such additional benefits must be appropriate; they are also included in – and consequently limited in amount by – the specified maximum remuneration.

## B. Detailed description of the remuneration system

### 1. Non-performance-based remuneration components (fixed remuneration)

The non-performance-related remuneration consists of fixed remuneration and ancillary benefits.

- **Fixed remuneration:** The **fixed salary** is paid retroactively at the end of each month in twelve equal monthly installments with retention of statutory deductions.
- **Incidental benefits:** Customary incidental benefits may be granted in the scope stated under A.2 above, in particular including insurance premiums, company car with private use and reimbursement of expenses.

### 2. Performance-based variable remuneration components (variable remuneration)

The performance-based variable remuneration components comprise short-term and long-term components tied to the achievement of various targets to be set by the Supervisory Board. The variable remuneration components are calculated in essentially the same way for all members of the Management Board.

#### a. Short-term variable remuneration

The short-term variable annual remuneration is made up on the basis of corporate targets – based on strategic, financial and/or operational targets such as EBIT, free cash flow, Group revenue or another key performance indicator – and individual performance targets for each Management Board position. The individual performance targets for each Management Board position comprise operational or strategic targets, including non-financial targets, primarily from the areas of product innovation, sustainability, process optimization, digitalization and customer benefit. The specific targets and their respective weightings within the annual MBO award are set by the Supervisory Board in the annual target agreement.

For the short-term variable annual remuneration, an amount corresponding to 100% target achievement (target amount) is individually agreed with each Management Board member. The annual bonus may be reduced to as little as 0% of the agreed amount if one or more targets are not met and increased to up to 130% of the agreed target amount if one or more targets are exceeded. The payout amount for short-term variable remuneration is therefore capped at a maximum of 130% of the target amount. If a Management Board member is appointed part-way through the year, the short-term variable annual remuneration may be granted in the first year of service pro rata temporis from the time of appointment.

Target achievement for short-term variable remuneration is determined after approval of the consolidated financial statements for the respective financial year and the short-term variable remuneration then falls due for payment in cash together with the next monthly salary payment.

#### b. Long-term variable remuneration (LTIP)

In addition to the short-term variable remuneration, long-term variable remuneration is provided for in the form of a Long Term Incentive Program (LTIP) with a one-time cash award. The program is structured for a three-year term (incentive period). The incentive period for the current LTIP is from January 1, 2021 to December 31, 2023.

An additional personal investment component provides a Management Board member with the opportunity to increase – up to a maximum of double (bonus multiplier = 2) – their cash award under the non-personal-investment component by personal investment in WashTec AG shares. Doubling the cash award requires a personal investment in the amount of 100% of the short-term variable target annual remuneration in euros by a specified cut-off date. For the current LTIP, the cut-off date is June 30, 2023. If the personal investment is lower, the personal investment component is proportionately smaller (bonus multiplier < 2). Personal investment for the purposes of the LTIP means (euro) amounts invested in shares in the Company held personally by the Management Board member on the cut-off date. This includes shares that the Management Board member acquired under previous LTIP programs and still holds. Management Board members are only entitled to a cash award for the personal investment component if they continue to hold at least the number of shares invested at the cut-off date through to the end of the incentive period.

Performance targets are specified in the LTIP for return on capital employed (ROCE) and total shareholder return (TSR). Both of these performance targets are geared to long-term performance and sustainability under the corporate strategy. Subject to certain requirements and on a case-by-case basis, one-off expense and income items may be neutralized in the calculation of the profit figure relevant to the ROCE target.

The targets must each reach a minimum threshold set by the Supervisory Board in order to count. The Supervisory Board determines the degree of target achievement for each target at the end of the incentive period. If both performance targets are fully met or exceeded, the cash award reaches its maximum amount and 100% is paid out. If target achievement on either target is less than 100% but at least equal to the threshold, proportionately less is paid out for that target for each percentage point below 100%. If target achievement on either target is less than the threshold, there is no payout for the target concerned. If target achievement on both performance targets is not at least equal to the threshold, no bonus is paid.

The ROCE target has a weighting of 70% and the TSR target has a weighting of 30% in determination of the cash award.

Payment of the LTIP cash award falls due on the date on which the Supervisory Board adopts the annual financial statements for the final year of the incentive period (payout date).

If the Management Board member makes use of the personal investment component, payment is subject to the resolutive condition that one-sixth of the gross cash award under the LTIP with personal investment is reinvested in shares in the Company by the Management Board member within three months of the cash award falling due and that the Management Board member remains invested with that quantity of shares for at least three years after acquiring them. There are exemptions to the reinvestment requirement and the holding period in the event of the Management Board member leaving office.

The current LTIP was adopted by resolution of the Supervisory Board on March 2, 2021 and has a term (incentive period) from January 1, 2021 to December 31, 2023. In future LTIPs, the performance targets may be replaced or supplemented with other targets according to the strategic assessment at the time.

### **3. Maximum remuneration**

In accordance with Section 87a (1) sentence 2 no. 1 AktG, the Supervisory Board has set a maximum amount for the total of all remuneration components for members of the Management Board, including incidental benefits ("maximum remuneration").

The maximum theoretical remuneration achievable for a fiscal year within the meaning of Section 87a (1) sentence 2 no. 1 AktG is €2,000,000.00 for the Chief Executive Officer and €1,500,000.00 for ordinary members of the Management Board. These maximum amounts relate in each case to the total of all payments that could theoretically result from the remuneration arrangements for one fiscal year.

The maximum remuneration as determined for the purposes of the Stock Corporation Act is not the same as the total target remuneration. It merely sets an absolute cap.

### **4. Negative bonus/clawback arrangement**

Negative bonus/clawback arrangements are implemented in the Management Board contracts and the LTIP conditions. Under the negative bonus/clawback arrangement in the LTIP, a serious breach of duty by a Management Board member during the incentive period can result in a total or partial reduction in the LTIP payout amount. Amounts already paid out under the LTIP may be clawed back for up to one year after the end of the incentive period. The Supervisory Board decides on any reduction or clawback at its due discretion. A corresponding stipulation will be included for annual MBO awards in future Management Board contracts.

## 5. Concurrent office

Management Board members do not receive separate remuneration for the assumption of managerial responsibilities at subsidiaries. The assumption of concurrent offices or positions of employment by individual members of the Management Board, including in particular the assumption of Supervisory Board or similar offices, requires the consent of the Supervisory Board. If a member of the Management Board receives remuneration from supervisory board, administrative board, advisory board or similar offices at companies in which the Company holds a direct or indirect interest, that remuneration is deduction from the Management Board member's remuneration entitlement at WashTec AG. Remuneration from supervisory board, administrative board, advisory board or similar offices assumed at other companies is not deducted.

## 6. Exceptional performance bonus

In exceptional cases, the Supervisory Board may at its due discretion decide an exceptional performance bonus for individual or all members of the Management Board. This is decided on a case-by-case basis at the due discretion of the Supervisory Board, in accordance with the arrangements set out under A.2 above.

## 7. Remuneration-related transactions; arrangements for the event of termination of appointment or of Management Board contract

The regular term of appointment of a member of the Management Board and the contract term of each Management Board contract is normally three years. On reappointment, unless otherwise agreed, the Management Board contract extends for the term of the reappointment. Revocation of the appointment of a Management Board member for cause in accordance with Section 84 AktG is deemed to terminate the Management Board contract with a corresponding notice period in accordance with Section 622 of the German Civil Code (Bürgerliches Gesetzbuch/BGB) without requiring separate notice of termination. A Management Board contract may be terminated at any time without notice for cause in accordance with Section 626 BGB. If a member of the Management Board becomes permanently incapacitated for work during the term of the Management Board contract, the contract terminates at the end of the quarter in which the permanent incapacity for work is established.

If a member of the Management Board is appointed or leaves part-way through the year, the fixed salary is granted on a monthly basis pro rata temporis.

If a Management Board contract is terminated early, the short-term variable remuneration is granted pro rata temporis up to the termination date or, if the Management Board member is suspended from office, the commencement date of the suspension. Payment is made – except in the event of termination of contract due to death or invalidity – at the contractually agreed payout date and on the basis of the originally agreed targets, including in the event of termination of appointment or of the Management Board member's contract before the end of a fiscal year. In the event of termination of a Management Board contract by the Company for cause in accordance with section 626 BGB or of unilateral resignation from office in breach of contract, the Management Board member ceases to be entitled to (pro rata) payment of short-term variable remuneration for the then current fiscal year.

Any LTIP cash award entitlement lapses if the Management Board contract terminates before regular contractual term. The cash award is paid pro rata temporis in the event that the regular term of appointment or of the Management Board contract is completed but termination takes place before the end of the incentive period or in the event of death or permanent incapacity to work due to invalidity. The LTIP cash award is only paid out – except in the event of contract termination due to death or invalidity – at the stipulated payout date after the end of the incentive period and on the basis of the originally agreed targets and comparison parameters.

Any severance payments agreed on early termination of Management Board office other than for cause warranting termination of the Management Board contract may not exceed the remuneration entitlements for the remaining term of the contract and must be limited to a maximum of two years' remuneration (severance cap). In future Management Board contracts, if a post-contractual non-compete covenant applies, any severance payments will be taken into account in the calculation of the compensation payments.

In the event of death of a married member of the Management Board during the term of their Management Board contract, then their spouse is entitled to receive the fixed annual salary for the month of death and the following six months, or up to the end of the contract term, whichever is earlier. This entitlement is heritable.

A post-contractual non-compete covenant can be agreed with members of the Management Board of WashTec AG for a period of two years after termination of the Management Board contract, with an undertaking not to work for any company that is in direct or indirect competition with the Company or a company affiliated with it. Where members of the Management Board are subject to a post-contractual non-compete covenant, they are entitled to remuneration amounting to 50% of the monthly pro rata portion of their fixed annual salary (compensation) for the duration of the non-compete covenant.

### **C. Process for determination, implementation and review of the Management Board remuneration system**

The Supervisory Board decides upon a clear and understandable system for Management Board remuneration in accordance with Section 87a AktG and determines the remuneration of the Management Board members in accordance with Section 87 (1) AktG. The Supervisory Board is supported in this by its Personnel Committee. Taking into account the recommendations of the German Corporate Governance Code as amended, the Personnel Committee develops recommendations for the system of Management Board remuneration, which are then discussed in detail and adopted by resolution of the Supervisory Board.

The Personnel Committee also prepares the regular review of the remuneration system by the Supervisory Board. It will regularly review the appropriateness and structure of the remuneration system. Where necessary, the Personnel Committee will submit to the Supervisory Board proposals for modifications, on which the Supervisory Board may then proceed to pass a resolution.

The Supervisory Board may avail itself of the assistance of an outside remuneration consultant. If it does so, care is taken to ensure that the consultant is independent of the Management Board and the Company.

Any conflicts of interest arising for members of the Supervisory Board in connection with the process of determining, implementing and reviewing the remuneration system must be disclosed to the Supervisory Board. How any conflict of interest is dealt with is decided on a case-by-case basis; in particular, it may be decided that the member with a conflict of interest does not participate in related consultations and voting by the Supervisory Board or of the Personnel Committee. The Supervisory Board provides information in its report to the Annual General Meeting about any conflicts of interest that have arisen and how they were addressed.

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, a revised remuneration system must be submitted at the next Annual General Meeting at the latest. The remuneration system is re-submitted to the Annual General Meeting for approval at every material change and at least every four years.



#### **D. Authority to temporarily derogate from the remuneration system**

The Supervisory Board may temporarily derogate from the remuneration system if this is necessary to serve the long-term interests of the Company. Examples include alignment of the remuneration system in order to ensure that incentives remain adequate in the event of a significant change in corporate strategy or in the event of a severe economic crisis. Procedurally, any such derogation requires an explicit resolution of the Supervisory Board describing in suitable form the precise duration of the derogation, the derogation as such and the reason for it (meaning why the long-term interests of the Company make the derogation necessary). Substantively, the Supervisory Board may derogate from the relative percentage shares accounted for by the individual remuneration components and their respective preconditions and may also temporarily set the fixed salary at a different level in individual cases if this is in the long-term interest of the Company, although it may not exceed the maximum remuneration specified by the Annual General Meeting. The components of the remuneration system that may be derogated from are the procedure, the stipulations on the remuneration structure and amount, and the individual remuneration components. The Supervisory Board may also, at its due discretion, temporarily reimburse exceptional amounts as incidental benefits (such as for security measures) in the event of an established significant change in requirements. In addition, the Supervisory Board has the right to grant special payments to newly appointed members of the Management Board in order to compensate for salary losses from previous employment or to cover relocation costs.

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