

## Compensation report

This compensation report describes the main features of the system for compensating the members of the Board of Directors and explains the structure as well as the amount of individual member income. Also described are the details of benefits that have been promised to members of the Board of Directors for the event of termination of their mandate as well as the principles for and amounts of compensation for members of the Supervisory Board.

The compensation report follows the recommendations of the German Corporate Governance Code (GCGC or Code) and contains disclosures required by the German Commercial Code (HGB), The German Accounting Standard (DRS) and the International Financial Reporting Standards (IFRS).

### Compensation for the Board of Directors

The Supervisory Board of LEONI AG diligently and regularly considers, pursuant to Section 87 of the German Stock Corporation Act, the appropriateness of the compensation for members of the Board of Directors. This involves discussion and inclusion in the review of the individual components and their effect on future compensation for members of the Board of Directors. This analysis also comprises a comparison with DAX and MDAX companies as well as consideration of the wage and salary structure within the Company. However, it does not consider the ratio of Board of Directors compensation to the compensation for senior management and the workforce as a whole, also over time, as provided for in Section 4.2.2 (2) Sentence 3 of Code. The current Declaration of Conformity explains this deviation in detail.

Declaration of Conformity  
 >> page 30

#### **Basic principles of the compensation system**

The system for compensating the Board of Directors that is valid for the reporting period has been in force since 1 January 2015 and applies until 31 December 2023. It is aimed towards establishing incentives for successful and long-term business growth and increase in enterprise value, in which the members of the Board of Directors are to participate. Exceptional performance is to be rewarded; any failure to meet targets is to result in a considerable reduction of compensation.

In accordance with the Code, we hereinafter explain the principles of the system for compensating the members of LEONI AG's Board of Directors and the specific structure of the individual components. The table below provides an overview of the structure and system:

Component	Measurement basis	Corridor	Precondition for payment	Payment
<b>1. Fixed compensation</b> Fixed salary, Benefits in kind / Fringe benefits	Function, responsibility, duration of Board membership, standard	Firmly agreed for the term of the contract	Contractual stipulation	Monthly
<b>2. Short-term compensation component</b> Annual bonus	Task, performance, consolidated net income + EBIT margin	0 to 110 % [ Target fully met = 100 % ]	1-year planning, target attainment	100 % per annum in the subsequent year
<b>3. Medium-term compensation component</b> Multi-year bonus	Task, performance, consolidated net income	0 to 115 % [ Target fully met = 100 % ]	3-year planning, target attainment on a 3-year average at least 50 %	50 % in the 4 <sup>th</sup> year
<b>4. Long-term compensation component</b> Long-term bonus, bonus account	Task, performance, EVA and share appreciation	0 up to cap; penalty rule	Contractual stipulation	Once a year in the subsequent year; 50 % of which converted into LEONI shares with a 50-month holding period
<b>5. Pension, disability and other benefits</b> Accrued pension rights	Pensionable fixed salary years of service on the Board, defined-contribution plan	Fixed amount	Retirement, disability	—

### Fixed compensation

The fixed component is a firm, annual amount of basic compensation that is paid in equal monthly instalments. As all the other compensation components are variable and can drop to nil, the fixed component is the minimum amount of Board of Directors compensation. It is commensurate with the amounts paid by other MDAX companies.

### Variable components

In addition to the fixed compensation, there are three variable compensation components, each of which have upper limits in absolute terms and can drop to nil. The weighting between the short and medium-term components is approx. 50/50.

**Short-term compensation component – annual bonus:** An annual bonus will be assessed depending on the net income generated, whereas amounts that exceed 110 percent (cap) of the net income budgeted in the planning for the year will be disregarded. The assessed annual bonus can rise by another 10 percent provided the Group generates an EBIT margin of more than 7.5 percent. Assessment of the annual bonus will be discounted by 10 percent for EBIT margins that are less than 4.5 percent but not below 3.5 percent. Should the Group generate an EBIT margin of less than 3.5 percent, the discount on the assessed annual bonus will be 30 percent. In each year of the contract term the annual bonus will have an upper limit in absolute terms; it will be paid in cash and can drop to nil.

**Medium-term compensation component – multi-year bonus:** The multi-year bonus is geared, depending on the respective year's net income, to the results of a three-year period, while amounts that exceed 115 percent (cap) of the budgeted annual net income amounts will be disregarded. Payment is made in the fourth year after expiry of the three-year period and only if the (arithmetic) average degree of target attainment for the three-year period is at least 50 percent.

50 percent of the annual amount will be paid in the respective subsequent year as an instalment. If the (arithmetic) average degree of target attainment for the three-year period of at least 50 percent is not achieved, the multi-year bonus is forfeited in full, meaning that instalments already paid must be refunded. The multi-year bonus thus conforms to the sustainability requirement set out in both the VorstAG and the Code. In each year of the contract term the multi-year bonus will have an upper limit in absolute terms; it will be paid in cash and can drop to nil.

**Long-term compensation component:** A long-term compensation component that takes adequate account of the economic value added (EVA) and the Company's market capitalisation is intended to further strengthen sustained, positive business performance. It is, for one financial year, paid up to a contractually agreed cap. Any excess is retained in a bonus account and serves as credit for the subsequent period. If the Company's performance is negative in a financial year, this will be charged to any credit in the bonus account, which can drop to nil. If the long-term compensation component for a financial year does not reach the cap, it will be topped up with any credit held in the bonus account. Of the gross amount paid out, 50 percent must be invested in LEONI shares that must be retained for a period of 50 months, thereby conforming to the 48-month minimum holding period prescribed by the VorstAG.

**Absolute upper limit:** The total compensation, which is the sum of the fixed, short-term, medium-term and long-term components, has, as do the short-term, medium-term and long-term components themselves, an absolute upper limit for each member of the Board of Directors in each year of their contract term.

The total compensation is commensurate with that paid by other MDAX companies and other companies of similar size. It takes account of both good and poor performance. Furthermore, the individual components do not tempt the Board of Directors to take inappropriate risk. An internationally recognised compensation expert oversaw the preparation of the compensation structure and confirmed its conformity with the legislation including the Code. The Supervisory Board assured itself of the expert's independence. In summary, it may be concluded that compensation for the members of LEONI's Board of Directors meets the requirements of both the VorstAG and Code and is set up for sustainability.

#### **Pension, disability and other benefits**

In the event of temporary work incapacity due to illness or other reasons, for which the member of the Board of Directors is not responsible, the compensation will, depending on the contractual agreement, continue to be paid for a period of nine months, at most up to termination of the employment contract.

Provided this has been agreed based on an individual contract, there is a pension commitment to the member of the Board of Directors. This commitment encompasses disability, surviving dependents' and retirement benefits. Specifically, this means that:

In the event of permanent work incapacity, the member of the Board of Directors will receive a disability pension. If the member of the Board of Directors dies, the surviving dependents will be paid pensions.

For plans up to the end of 2014 there is, following the end of their 65th (or 63rd with agreed discounts) year of age, an entitlement to payment of retirement benefits, which are computed according to the period of service on the Board of Directors and the pensionable fixed salary. Pensionable is defined as a contractually agreed proportion of the final fixed salary.

An age-related and surviving dependents' defined contribution pension is granted for plans from 1 September 2018. This involves, in the case of first-time plans, there being for each member of the Board of Directors an absolute limit to the benefit to be paid for each year of the contract term. The retirement benefit system is set up in such a way that the standard retirement age is 67 years and at the earliest 63 years subject to accepting discounts on the pension. In the event of being incapacitated, the member of the Board of Directors will receive a disability pension if his/her contract of employment terminates as a consequence of disability after their Board of Directors service contract has come into force and before the end of their 63rd year of age.

The disability and other benefits granted to members of LEONI AG's Board of Directors are also commensurate with those of other MDAX companies.

#### **Miscellaneous**

Severance payments upon premature termination of Board of Directors duties in the absence of a material reason are limited to two years' compensation and shall not be more than the annual compensation for the balance of the employment contract (severance cap pursuant to the Code).

In the event of a change of control, the members of the Board of Directors have, so far as contractually agreed, the right to terminate for material reason and shall be entitled to severance payment. This is limited to a maximum of three years' compensation (150 percent of the severance cap pursuant to the Code) and shall even in this event not exceed the annual compensation for the balance of the employment contract.

#### **Cost of compensation in 2018**

The compensation for members of the Board of Directors is presented in line with the reference tables of the Code. This involves differentiation between the benefits granted to members of the Board of Directors on the one hand and what is paid to them on the other hand.

	€ '000	Aldo Kamper President / CEO (from 1 September 2018)			Dieter Bellé President / CEO (until 31 January 2018)		
		2017	2018		2017	2018	
			min	max		min	max
<b>GRANTED BENEFITS</b>							
<b>1. Total compensation pursuant to GCGC</b>							
<b>Components not performance-related</b>							
Fixed compensation		250	250	250	750	63	63
Fringe benefits		22	22	22	35	3	3
<b>Total</b>		<b>272</b>	<b>272</b>	<b>272</b>	<b>785</b>	<b>66</b>	<b>66</b>
<b>Performance-related components (targets)</b>							
Short-term compensation component (100%)		255	255	309	500	46	46
Medium-term compensation component (100%)		270	270	311	508	48	48
Long-term compensation component (100%)		133	133	133	400	33	33
<b>Total</b>		<b>658</b>	<b>658</b>	<b>753</b>	<b>1,408</b>	<b>127</b>	<b>127</b>
Service costs		125 <sup>1</sup>	125	125	562	107	107
<b>Total compensation pursuant to GCGC</b>		<b>1,055</b>	<b>1,055</b>	<b>1,150</b>	<b>2,755</b>	<b>300</b>	<b>300</b>
<b>2. Reconciliation of the compensation from GCGC to IFRS (Expenses)</b>							
<b>Total compensation pursuant to GCGC</b>		1,055			2,755	300	
Short-term compensation component:							
– Target (100%)		(255)			(500)	(46)	
+ actual compensation		255			550	46	
Medium-term compensation component:							
– Target (100%)		(270)			(508)	(48)	
+ entitlement to compensation based on actual target attainment		255			575	48	
– Income from repayments and reversal of provisions		0			0	0	
Long-term compensation component:							
– Target pursuant to GCGC		(133)			(400)	(33)	
+ actual expenses for the financial year		133			433	33	
– Income from reversal of provisions		0			0	0	
Settlement for premature contract termination		0			1,138	0	
<b>Expenses of the compensation pursuant to IFRS</b>		<b>1,040</b>			<b>4,042</b>	<b>300</b>	
<b>3. Reconciliation of the compensation from GCGC to HGB (Art. 314)</b>							
<b>Total compensation pursuant to GCGC</b>		1,055			2,755	300	
Short-term compensation component:							
– Target (100%)		(255)			(500)	(46)	
+ actual compensation		255			550	46	
Medium-term compensation component:							
– Target (100%)		(270)			(508)	(48)	
+ entitlement to compensation based on actual target attainment		255			575	48	
– compensation components for which the condition precedent has not yet been fulfilled		0			0	0	
+ compensation components for which the condition precedent has been fulfilled		0			0	0	
Long-term compensation component:							
± deviation from the target		0			0	0	
– service costs		(31)			(562)	(107)	
<b>Compensation pursuant to HGB (Art. 314)</b>		<b>1,009</b>			<b>2,310</b>	<b>193</b>	
<b>ALLOCATIONS</b>	€ '000						
<b>Components not performance-related</b>							
Fixed compensation		250			750	63	
Fringe benefits		22			35	3	
<b>Total</b>		<b>272</b>			<b>785</b>	<b>66</b>	
<b>Performance-related components (actual figures)</b>							
Short-term compensation component		255			550	46	
Medium-term compensation component		128			575	48	
Long-term compensation component		133			400	33	
<b>Total</b>		<b>516</b>			<b>1,525</b>	<b>127</b>	
Service costs		125 <sup>1</sup>			562	107	
<b>Total compensation pursuant to GCGC</b>		<b>913</b>			<b>2,872</b>	<b>300</b>	

<sup>1</sup> For the 2018 financial year, the member of the Board of Directors used his right to convert his entitlement to a performance-related bonus payment to enlarge a personal pension by deferring compensation into entitlement to a corporate age-related and surviving dependents' defined benefit pension in the form of a direct commitment. The service costs were therefore increased by this amount.

## Compensation report

Compensation for the Board of Directors

<b>Martin Stüttem</b> Member of the Board of Directors (from 1 April 2017)				<b>Bruno Fankhauser</b> Member of the Board of Directors (from 1 February 2016)				<b>Karl Gadesmann</b> Chief Financial Officer / CFO (from 1 October 2016)				<b>Total</b>	
2017	2018			2017	2018			2017	2018			2017	2018
	min	max			min	max			min	max			
338	475	475	475	450	475	475	475	450	475	475	475	1,988	1,738
23	27	27	27	45	47	47	47	24	25	25	25	127	124
<b>360</b>	<b>502</b>	<b>502</b>	<b>502</b>	<b>495</b>	<b>522</b>	<b>522</b>	<b>522</b>	<b>474</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>2,114</b>	<b>1,862</b>
366	532	0	672	488	532	0	672	488	532	0	672	1,841	1,897
511	552	0	634	521	552	0	634	552	552	0	634	2,092	1,974
113	200	0	200	150	200	0	200	150	200	0	200	813	766
<b>989</b>	<b>1,284</b>	<b>0</b>	<b>1,506</b>	<b>1,159</b>	<b>1,284</b>	<b>0</b>	<b>1,506</b>	<b>1,189</b>	<b>1,284</b>	<b>0</b>	<b>1,506</b>	<b>4,745</b>	<b>4,637</b>
0	0	0	0	0	0	0	0	0	0	0	0	562	232
<b>1,349</b>	<b>1,786</b>	<b>502</b>	<b>2,008</b>	<b>1,654</b>	<b>1,806</b>	<b>522</b>	<b>2,028</b>	<b>1,664</b>	<b>1,784</b>	<b>500</b>	<b>2,006</b>	<b>7,421</b>	<b>6,731</b>
1,349	1,786			1,654	1,806			1,664	1,784			7,421	6,731
(366)	(532)			(488)	(532)			(488)	(532)			(1,841)	(1,897)
402	190			536	190			536	190			2,025	870
(511)	(552)			(521)	(552)			(552)	(552)			(2,092)	(1,974)
420	271			561	271			561	271			2,117	1,116
0	0			0	0			0	0			0	0
(113)	(200)			(150)	(200)			(150)	(200)			(813)	(766)
544	0			350	0			550	0			1,877	166
0	(400)			0	(200)			0	(400)			0	(1,000)
0	0			0	0			0	0			1,138	0
<b>1,727</b>	<b>562</b>			<b>1,942</b>	<b>782</b>			<b>2,121</b>	<b>561</b>			<b>9,832</b>	<b>3,246</b>
1,349	1,786			1,654	1,806			1,664	1,784			7,421	6,731
(366)	(532)			(488)	(532)			(488)	(532)			(1,841)	(1,897)
402	190			536	190			536	190			2,025	870
(511)	(552)			(521)	(552)			(552)	(552)			(2,092)	(1,974)
420	271			561	271			561	271			2,117	1,116
(420)	(271)			(561)	(271)			(561)	(271)			(1,542)	(813)
0	0			0	0			0	0			0	0
0	(200)			0	(200)			0	(200)			0	(600)
0	0			0	0			0	0			(562)	(138)
<b>875</b>	<b>691</b>			<b>1,181</b>	<b>711</b>			<b>1,161</b>	<b>690</b>			<b>5,526</b>	<b>3,295</b>
338	475			450	475			450	475			1,988	1,738
23	27			45	47			24	25			127	124
<b>361</b>	<b>502</b>			<b>495</b>	<b>522</b>			<b>474</b>	<b>500</b>			<b>2,114</b>	<b>1,862</b>
402	190			536	190			536	190			2,025	870
210	135			280	135			280	135			1,346	581
113	0			150	0			150	0			813	166
<b>725</b>	<b>325</b>			<b>967</b>	<b>325</b>			<b>967</b>	<b>325</b>			<b>4,183</b>	<b>1,618</b>
0	0			0	0			0	0			562	232
<b>1,085</b>	<b>827</b>			<b>1,461</b>	<b>847</b>			<b>1,441</b>	<b>825</b>			<b>6,859</b>	<b>3,711</b>

The 'granted benefits' table presents, in the compensation for members of the Board of Directors pursuant to GCGC, which benefits the members would have been granted for 100 percent target fulfilment and which individually attainable upper and lower limits would have applied. This total compensation (GCGC) would have corresponded to an amount of € 6,731 k in fiscal 2018 (previous year: € 7,421 k). As this involves budgeted figures that would only have been matched in the event of 100 percent target fulfilment, these figures must be reconciled with the business performance that actually occurred and conditions precedent. A distinction must be made here between reconciliation of the compensation (pursuant to GCGC) with IFRS and with Section 314 of the German Commercial Code (HGB). Any corresponding adjustment amounts versus the budgeted figures pertaining to all variable compensation components are reported in these reconciliations. This then results in the actually granted benefits pursuant to IFRS or Section 314 HGB.

The compensation pursuant to IFRS in the financial year amounted to € 3,246 k in 2018 (previous year: € 9,832 k) and pursuant to Section 314 HGB consequently to € 3,295 k (previous year: € 5,526 k).

The change in compensation pursuant to IFRS and HGB is attributable especially to the lower payment of variable compensation components for 2018 in contrast to 2017. The compensation pursuant to IFRS additionally reflects the settlement payment (provision in 2017) made to Dieter Bellé due to the premature termination of his contract and the absence in large part of his compensation in 2018.

The termination agreement reached between LEONI AG and Mr Dieter Bellé provides for a further settlement payment to Mr Bellé after the end of his period of office in the amount of € 3,222.9 k (salary up the regular end of his period of office on 31/12/2019) in the event that no claims are asserted against Mr Bellé or the D&O insurer due to the CEO fraud, or it is established by a judicial decision with the authority of res judicata that there are no claims for compensation to be asserted against Mr Bellé due to the CEO fraud. The further settlement payment will not come to bear in the event of a settlement between the Company and the D&O insurer.

The 'receipts' table shows what cash amounts the members of the Board of Directors received or will receive from the individual compensation components according to the GCGC. In total, the members of the Board of Directors will be paid compensation for their service on the Board of € 3,711 k for the 2018 financial year (previous year: € 6,859 k). Other compensation comprises the non-monetary benefits in the use of company cars and top-ups on insurance policies.

The fiscal 2018 expense for Board of Directors members' disability and other benefits excluding deferred compensation amounted to € 138 k (previous year: € 562 k). The defined benefit obligation came to € 41 k (previous year: € 6,362 k). The individual figures are presented in the table below.

Pension commitments (excl. deferred compensation)	Service costs		Defined benefit obligation	
	2017	2018	2017	2018
€ '000				
Dieter Bellé <sup>1</sup>	562	107	6,362	0
Aldo Kamper <sup>2</sup>		31	0	41
<b>Total</b>	<b>562</b>	<b>138</b>	<b>6,362</b>	<b>41</b>

<sup>1</sup> Commitment to payment of an age-related, disability and surviving dependents' pension, which is computed according to the pensionable fixed salary. From 2018, the defined benefit obligation is presented under the details for former members of the Board of Directors.

<sup>2</sup> Commitment to payment of a disability pension, which is computed according to the fixed salary.

The disability and other benefit expenses in principle comprise service costs and past service costs pursuant to IFRS. The defined benefit obligation (DBO) corresponds to the scope of obligations pursuant to IFRS.

## Supervisory Board compensation

The Articles of Association govern compensation for members of the Supervisory Board. A system of fixed compensation has applied for members of LEONI AG's Supervisory Board since 1 January 2013. It stipulates a fixed amount of € 85 k per ordinary member of the Supervisory Board. The chairperson receives double this amount and the deputy chairpersons receive one and a half times the amount. The compensation for committee work (Personnel, Audit, Strategy and Nomination Committees) comes to € 8 k per ordinary member and to € 16 k per committee chairperson. It is paid only if the committee meets at least once in the year. Attendance of Supervisory Board and Audit Committee meetings will be paid for in the amount of € 1,000 per meeting and Supervisory Board member, with a maximum of ten meetings to be taken into consideration per financial year.

The maximum overall compensation possible for Supervisory Board members including committee work and attendance money comes to € 1,534 k.

## Cost of compensation in 2018

€ '000		Fixed compensation (net)	Attendance money	Compensation for committee work	Other	Total
<b>Dr Klaus Probst<sup>1</sup></b>	<b>2018</b>	170	10	32	0	212
	<b>2017</b>	109	8	32	0.2	149
<b>Dr Werner Rupp<sup>2</sup></b>	<b>2018</b>	0	0	0	0	0
	<b>2017</b>	58	5	48	0.1	111
<b>Franz Spieß<sup>3</sup></b>	<b>2018</b>	128	10	16	0.0	154
	<b>2017</b>	128	10	16	0.4	154
<b>Prof. Dr-Ing. Klaus Wucherer<sup>4</sup></b>	<b>2018</b>	0	0	0	0	0
	<b>2017</b>	47	3	32	0	82
<b>Dr Werner Lang<sup>5</sup></b>	<b>2018</b>	128	6	16	0	150
	<b>2017</b>	112	9	21	0.1	142
<b>Gabriele Bauer<sup>6</sup></b>	<b>2018</b>	0	0	0	0	0
	<b>2017</b>	31	4	16	—	51
<b>Dr Elisabetta Castiglioni<sup>7</sup></b>	<b>2018</b>	85	7	8	2.9	103
	<b>2017</b>	54	4	8	2.4	69
<b>Wolfgang Dehen<sup>7</sup></b>	<b>2018</b>	85	7	16	0	108
	<b>2017</b>	54	5	16	0	75
<b>Mark Dischner<sup>7</sup></b>	<b>2018</b>	85	7	8	0.0	100
	<b>2017</b>	54	5	8	0.3	68
<b>Dr Ulrike Friese-Dormann</b>	<b>2018</b>	85	7	0	1.5	93
	<b>2017</b>	85	6	0	1.0	92
<b>Josef Häring<sup>6</sup></b>	<b>2018</b>	0	0	0	0	0
	<b>2017</b>	31	4	0	—	35
<b>Ingrid Hofmann<sup>6</sup></b>	<b>2018</b>	0	0	0	0	0
	<b>2017</b>	31	3	8	—	42
<b>Karl-Heinz Lach</b>	<b>2018</b>	85	7	8	0	100
	<b>2017</b>	85	9	8	0.2	102
<b>Richard Paglia</b>	<b>2018</b>	85	10	16	—	111
	<b>2017</b>	85	10	16	—	111
<b>Prof. Dr Christian Rödl</b>	<b>2018</b>	85	10	16	—	111
	<b>2017</b>	85	10	16	—	111
<b>Carmen Schwarz<sup>7</sup></b>	<b>2018</b>	85	5	8	0.1	98
	<b>2017</b>	54	3	8	0.3	66
<b>Helmut Wirtz<sup>6</sup></b>	<b>2018</b>	0	0	0	0	0
	<b>2017</b>	31	4	8	1.2	44
<b>Inge Zellermaier<sup>7</sup></b>	<b>2018</b>	85	7	0	0	92
	<b>2017</b>	54	5	0	0	59
<b>Total</b>	<b>2018</b>	<b>1,190</b>	<b>93</b>	<b>144</b>	<b>5</b>	<b>1,432</b>
	<b>2017</b>	<b>1,189</b>	<b>107</b>	<b>261</b>	<b>6</b>	<b>1,563</b>

Addition of the individual payments in € thousands may deviate from the reported totals due to rounding.

<sup>1</sup> Chairman of the Supervisory Board from 11/05/2017

<sup>2</sup> Chairman of the Supervisory Board until 03/05/2017

<sup>3</sup> 1<sup>st</sup> Deputy Chairman of the Supervisory Board

<sup>4</sup> 2<sup>nd</sup> Deputy Chairman of the Supervisory Board until 11/05/2017

<sup>5</sup> 2<sup>nd</sup> Deputy Chairman of the Supervisory Board from 11/05/2017

<sup>6</sup> Member of the Supervisory Board until 11/05/2017

<sup>7</sup> Member of the Supervisory Board from 11/05/2017